(working title) Control mechanisms for working with consultants

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Abstract

Keywords:

1 Introduction

2 Relevancy (TODO)

1. Trend: external > internal
2. Price of consultants
3. Hot topic: *when* to rely on consultants?
4. Productivity: is it worth it? If so, under what circumstances?
5. Job market & macro-economic aspects
6. Recent news in BE/NL

3 Defining "Digital Consultancy"

"Digital consultancy" is defined as consultancy in (either or both) technological and organizational aspects of digital transformation. The following two sections substantiate this definition by elaborating on the two concepts that comprise this definition. First, six properties that define "consultancy" are discussed, followed by an elaboration on "digital transformation."

3.1 Consultancy

Consultants, or management consultants, have been described through a multitude of metaphors and nicknames: "capitalism's commissars" (Thrift 2005, 93), "shadowy figures operating in the background but exercising considerable influence" (Kipping & Clark 2012, 31), "agents of a modern rationalistic and universalistic culture" (Kipping & Clark 2012, 190), "institutionally approved agents" (Kipping & Clark 2012, 193), "marketized experts" (Furusten 2013, 265), "magical figures, shamans or witch doctors" (Fincham 2002, 68), "puppet masters" (Fincham 2002, 69), "knowledge entrepreneurs that promote emotionally charged, enthusiastic, and unreasoned discourse" (Leicht & Lyman 2006, 37), "supra-experts" (Groß & Kieser 2006, 94), "improvising experts" (Furusten 2009, 272), "brochuremanship" (Levine 1982, 75) and simply "The Big Con" (Mazzucato & Collington 2023).

Their work makes use of a vague body of knowledge described as "elusive", "fuzzy", "perishable", "indeterminate", "esoteric", "fluid" and "changeable" (Muzio et al. 2011). Consequently, for buyers it is hard to know what they need and what they get, and for sellers of consultancy it is hard to know what to offer (Furusten 2013, 266). Furthermore, consultancy is marked by very low professionalization since occupational entry is unprotected, the supply of labor is unregulated and there is no formal accreditation. (Fincham 2006, 20) Practicing "consultancy" is the main criterion of membership with competences and "time spent in the industry" as the main differentiators.

These remarks are prima facie evidence that no consensus around the definition exists, and what they do is extremely hard to describe. Kipping & Clark (2012, 24) states that "definitions of management consultancy are problematic because the permeable boundaries of the industry have resulted in significant shifts over time in the composition of the industry. This means that what comprises consulting work is dynamic, ever shifting, and contested as new firms enter the industry and techniques deemed formerly appropriate, change. Although the industry is characterized by periodic structural shifts, at its heart it is an advisory activity built on the client–consultant relationship. [...] it is perhaps this chimeral ability to avoid precise definition and to be able to constantly reinvent its core services to meet ever changing understandings of the problems that beset contemporary organizations, which partly underpins its growing economic importance."

The following definition of "consultancy" is used throughout this paper.

> *Consultancy is a service offered by an external service provider. Although the responsibilities of a consultant are highly contingent on the client organization and consultancy can take many forms and require a variety of expertise, its goal is to establish change in the procedures, organizational structure or tools of a client organization. Finally, the success of a consultancy engagement is often determined by the interactivity between a consultancy firm and the client organization.*

The sections below unpack this definition and elaborate on the six properties that it comprises.

3.1.1 External

Chowdhury (2021, 138) describes consultants as "external advisors to corporations, non-profits, governments, and any other forms of organizations."

3.1.2 Change

Clearly, the construct of a "consultant" cannot be described by the topic that they work on, nor their academic and professional background, accreditation or membership. Instead, we should look at their goal(s): Werr et al. (1986, 1) implies that there is always a change process between clients and consultants. This is confirmed by Matthias Kipping (2000, 12) who states that "management consultancies earn money through changing current procedures in client organizations." Although this change is often described by consultants as a 'tailored solution', consultants provide a service, which is inherently intangible (compared to the 'solid' nature of products) and hard to evaluate (Fincham 1999, 348), especially because an evaluation should not only account for the content of the changes, but also in terms of the competence development of the client, as a result of the change process (Werr et al. 1986, 17).

Although consultants' goal is to establish change in an organization, their role is often symbolic. As external consultants, associated with their "quest for knowledge" and their "quest for excellence", they are (Pellegrin-Boucher 2006, 9-13) well-equipped for legitimizing hard decisions, signaling importance and providing meaning.

Establishing change is what sets consultancy apart from temporary staffing. "A temp is generally not supposed to change the work practices at the client organization. A consultant is often expected to do just that, or at least to provide an alternative point of view." (Furusten & Garsten 2000, 5)

The aspect of change is also important for drawing boundaries between consultancy and outsourcing. Consultants are often hired for defining a problem and presenting a solution at the same time (Furusten 2009, 272), while outsourcing simply delivers the solution. In that sense, outsourcing is the practice of obtaining goods or services from an external provider, as a substitute for sourcing it internally (Lacity & Willcocks 2012, 2), for a contractually agreed monetary fee and period of time (Leimeister 2010, 20-21). Or in the

words of Zhu et al. (2001, 374): "the process of transferring the responsibility for a specific business function from an employee group to a non-employee group." While early IT outsourcing initiatives were rather "total" Willcocks & Choi (1995) in nature, outsourcing individual business functions is now a more common activity (Zhu et al. 2001, 377), and focus has shifted from cost saving to quality, productivity, flexibility and technological diversity (Kirilov 2012, 185). This implies that outsourcing, unlike consultancy, is not about changing a procedure or service, but rather ensuring continuation, or implementation, by a third-party provider[1].

Finally, Furusten (2009, 272-273) argues that consultants not only act as agents of change, but often as agents of stability. Consultants are often perceived as "relatively stable by [...] employees, stakeholders and other external counterparts", this "builds confidence for the organization. The more stable an organization is experienced as being, the greater its ability to concentrate on its core activities."

3.1.3 Contingent

Being a consultant implies taking on a variety of responsibilities throughout a certain time span. Although many consultants have structured methodologies, which are converging across the industry (Werr et al. 1986, 17), "[c]onsultants operate in an intense environment that regularly entails new challenges." (Chowdhury 2021, 138) What entails consultancy work is dynamic, ever shifting and contested with every new firm entering the industry and new methodologies claiming the spotlight (Kipping & Clark 2012, 24).

This is what sets external consultancy apart from internal consultancy.

[1] *Prima facie*, this could be interpreted as a departure from the work by *Diffusion of Information Technology Outsourcing: Influence Sources and the Kodak Effect* (1992) and *The Adoption of Corporate Governance Mechanisms: A Test of Competing Diffusion Models* (1994), who claim that IT outsourcing is an "administrative innovation, [...] involving significant changes in the routines used by the organization to deal with its tasks of internal arrangements and external alignments." However, while there is indeed a firm-level change (Nelson & Winter 1985, 14), in the sense of who is responsible for a specific (part of a) procedure, the procedure or service involved does not change *an sich.*

3.1.4 Relational

The nature of consultancy is often relational. First of all, a consultant's work is embedded in an organization's web of interpersonal relations. "[T]he context, terms of reference, and ensueing recommendations pertaining to a consultancy engagement may represent a continuation, by other means, of ongoing processes of co-operation, struggle and conflict between organizational groups." (Bloomfield & Danieli 1995)

Furthermore, a consultant's deliverable is often co-created with the client. Nikolova et al. (2009, 290-297) describes the client-consultant relationship within a 'social learning model'. It starts from the belief that there is no "knowledge out there", and client and consultant need to work closely together to develop problem solutions. The role of the consultant is that of a "facilitator of diagnosis and problem-solving" and coach, while the client is the actual problem solver. Clark & Salaman (1998, 22) even goes so far as to claim that "Like a bottle of wine, a restaurant meal, or a book, the quality of a management consultancy service is determined during enactment/consumption. This indicates that the outcome of a consultancy service is highly dependent upon the quality of the interaction between the client and the consultant."

A consultant needs to develop skills in order to fit in and adapt their skill set to the needs of a client. When a relationship does not succeed, no authority is placed on the skills of the service provider (Furusten & Garsten 2000, 10) and the assignment might turnout to be unsuccessful. In other words, a consultant is good at improvising: "when they do not really know what problem the client has or how to solve it, to improvise and act in a manner they believe the other party expects of them in a particular situation is a convenient way for both parties to muddle through." (Furusten 2009, 270)

The importance of the relational aspect again sets consultancy apart from outsourcing (Kipping & Clark 2012, 171-173). The outcome of a consultancy assignment often depends heavily on the interaction between the client and the service provider. On the other hand, outsourcing focuses more on technical capabilities and implies an integral handover of a (set of) service(s) to an external provider that becomes the sole responsible for delivering them. Nevertheless, one could argue that the implementation phase of a consultancy engagement offers the same benefits as outsourcing certain IT functions. For this

reason, where appropriate, this study also uses insights from literature that focuses on IT outsourcing.

Finally, the relational aspects also sets consultancy apart from auditing, for which "[i]ndependence is necessary to prevent auditors from biasing their opinions in favor of their clients." (Bazerman & Moore 2011, 310) In other words, to prevent client pressure leading to client pleasing by the auditor (Koch & Salterio 2017), audit engagements shouldn't be relational, on the contrary.

3.1.5 Two-sided

Besides their tasks at the client, consultants also face internal pressures from their employers in terms of optimized resource utilization (billabillity), using proprietary knowledge and "proximity that they can develop with the client." Chowdhury (2021, 138) In other words, a consultant serves two masters: the client organization, and the organization that pays their wage. While the former expects an adequate service, the latter has a commercial motive. (Furusten 2013, 270)

Two-sidedness is what sets external consultants apart from internal consultants, but also from temporary staff. If a worker or contractor is under the direct supervision of the organization it is working for, it is seen as temporary staffing or "staff augmentation." (Hodosi & Rusu 2019, 1)

3.1.6 Diverse

Within this group, however, we can identify consultancy types: strategy consulting, tax consulting, HR consulting, risk & regulatory consulting, etc. However, Armbrüster (2006, 71-72) argues that the boundaries between consultancy service types are blurred. A single project often requires multiple types of services, but the distinction is often artificial. Especially the boundary between strategy and IT consultancy is opaque due to the fact that the big accounting & strategy firms entered the IT consultancy market to conduct all-encompassing projects where strategy and IT meet.

3.2 Digital Transformation

Bloomfield & Danieli (1995, 28) describes IT consultants as intermediaries: "they interpose themselves between IT and clients, or between IT suppliers and clients, in effect seeking to speak for technology. Put another way, they seek to portray them selves as obligatory passage points. [...] the problem of choosing a particular functional system is translated into a problem of choosing the best expert advice."

However, the offering by many different types of organizations of some kind of IT consultancy for selecting, implementing, configuring and preaching IT solutions has led to a blurring of consultancy work (Bloomfield & Danieli 1995, 31; Kipping & Clark 2012, 162). While consultants working for hardware and software vendors are claimed to be motivated by the sale of their own products, consultancy firms aim to equal themselves as suppliers of objective business advice.

These blurring lines are the result of the fact that there is more than a technical dimension to IT solutions. Consequently, consultants frame IT solutions not just from their technical dimension, but from their organizational dimension, as well (Bloomfield & Danieli 1995, 24-25). Like strategy, technology, often depicted as neutral and separate from social or political matters, can be wielded for political purposes. However, the boundary between the merely technological and political is flexible: a social or political problem can be translated as a technical one.

In accordance with this interpretation, the services of multinational consultancy firms are defined or classified as consultancy in digital operations (PwC); digital commerce & engineering (Accenture); digital transformation (EY, Bain, Deloitte, Tata); digital (McKinsey, KPMG); digital, technology & data (BCG); digitalization (Capgemini), digital solutions (BoozAllenHamilton) and digital experience (Cognizant). Ergo, it is remarkable that many research describes this group of consultants as "IT consultants" (Nevo et al. 2007, *Diffusion of Information Technology Outsourcing: Influence Sources and the Kodak Effect* 1992, Fincham 2006, Armbrüster 2006, Bloomfield & Danieli 1995, Schwarz & Watson 2005), while none of the big consultancy firms offer "IT consultancy". Czerniawska (1999, 96) abandons the term and trades it in for "IT-related consultancy".

Mindful of these findings, this paper trades in the concept of "IT consultancy" for

"digital consultancy", and defines it as follows.

> *Digital consultancy is consultancy in (either or both) technological and organizational aspects of digital transformation.*

In this definition "digital transformation" refers to the expectation that the use of digital technology will lead to favorable business outcomes (Wessel et al. 2020, 104-118), by redefining or supporting the value proposition of an organization and imposing changes on the work practices of its organizational members. Proceeding forward, this interpretation rolls up the dichotomy between the concepts of "digital transformation" and "IT-enabled organizational transformation" into a single term.

4 The Emergence of Digital Consultancy

Some more papers to explore:

- (Van Den Bosch et al. 2003)
- (Kipping & Clark 2012)
- (Fincham 1999, 336)
- (McKenna 2006)

According to Mazzucato & Collington (2023, 46) historians puth the birth of modern consulting in one of the three following periods.

- The late 19th century, with the appearance of "consultant engineers" in Europe and the United States.
- The increasing popularity of Frederick Taylor's ideas of "scientific management" and in the early 20th century.
- The development of cost accounting methods in the 1920s and the rise of McKinsey.

However, it was the deregulation of the 1980s that acted as a catalysator for the consultancy sector's growth. According to Mazzucato & Collington (2023, 61) "neoliberalism

created fresh possibilities for expansion across business and government. In the private sector, the emergence of unprecedentedly huge companies that resulted from the mergers, acquisitions and easier access to credit led management consultancies to develop advisory arms specializing in multinational strategy. Because consultancies had established offices around the world, many leaders took their claims to local expertise at face value."

Furusten & Garsten (2000, 3) is less pejorative: the post-bureaucratic organization simply "invites market dynamics into what used to be intra-organizational matters and seeks to rid the organization of activities that are not directly linked to its focal service or product."

Besides private companies, consultancy firms also found their way into the government. Ylönen & Kuusela (2019, 242) use the term 'consultocracy'; the "phenomenon in which often short-term, outsourced expert knowledge production is increasingly replacing the long-term work of civil servants and even politicians. This results in an increased power of consultants over politics, public governance, and public sector practices. The calculations in Saint-Martin (2017), suggest that smaller public sectors consume more management consulting services than in countries where the state plays a larger role in the economy and society.

On a micro-scale, laissez-faire polices, deregulation and globalization increased "insecurity regarding the basic assumptions, discourse and practices used in describing reality." (Pollner 1991, 370) While markets are supposed to be the guiding signal, they "do not speak very clearly nor do they provide elite managers with clear guidance regarding the directions markets are heading in specific contexts." Seen in that perspective, consulting is the profession that "interprets markets for you". (Leicht & Lyman 2006, 37)

In that same period, managers began to employ IT to align internal processes with their organizations' business objectives, clearly pointing to an alignment of IT and strategy. However, it were audit and accounting firms that succeeded in occupying the space. First, an audit allowed it to enter a client's business, and when they detected aspects of their systems that could be improved, there would be an opportunity for selling IT services to fix the client's problems. (Mazzucato & Collington 2023, 73) Next, they had accounting-related experience with large-scale data processing (Armbrüster 2006, 121).

Third, auditing requirements had consultants validate the functioning of the software, providing them the necessary experience. Fourth, they were more used to a hands-on role while management consultancy firms "are constantly exposed over their perceived reluctance to be involved in the implementation of their recommendations." (Czerniawska 1999, 168) Finally, due to antitrust regulation in mature markets such as the UK and the US, big IT firms were initially barred from offering consultancy services. However, a more laissez-faire approach to antitrust by the American government, allowed large IT providers such as IBM, HP and Siemens to also expanded into consulting, as this market offered higher margins than their original hardware and software businesses. Compared to audit and accounting firms, however, they were rather late to the table.

The demand for consultants familiar with IT was amplified as new applications such as ERPs, CRMs, and accounting software hit the market. IT became recognized as a facilitator of change and IT consultants were working on client's operations and often served as change managers. "Where once a company would have spent considerable in-house time on developing their own tailor-made software, most accept that they can buy a ready-made package from a professional software house [and] accept that it is probably quicker, cheaper, and ultimately more effective to adapt [their] processes to a given package." (Czerniawska 1999, 23)

More recently, the introduction of network computing and the internet fundamentally transformed the nature of commercial transactions. At this point in time, IT consulting becomes digital consulting, as IT is no longer exclusively used for increasing efficiency in internal operations, but transforming "all sectors of the economy [as] computers and the internet are producing rapid changes in how goods and services are produced, the nature of the goods and services being offered, and the means by which goods and services are brought to the market." (Erik Brynjolfsson 2000, 2-14)

This sparked the rise of a host of 'dot.com consultancies' that provides advice on how to exploit these new opportunities. It is in this phase that many digital consulting & outsourcing services became standardized, leading to rapid commoditization and lower prices. Think of the development of APIs, websites or mobile applications, using well-documented open-source frameworks or proprietary technologies. New companies began

to offer these services on a global scale, often driven by a relatively cheap labor force in emerging economies.

Concluding this section, the following three phases can be identified: (1) IT consultancy by accounting firms between the 50s and 70s, (2) huge software projects such as ERPs fuelling the spectacular rise in demand for IT consultants, offered by both accounting forms and IT firms and (3) the internet offering opportunities for global expansion to all types and sizes of consultancy firms.

5 Why digital consultancy: Practical perspectives

An end-to-end consultancy assignment involves many steps. The following overview by Turner (1982) involves eight steps and demonstrates how consultancy is external, contingent, relational and involves change.

1. Provide requested information.
2. Provide solution to given problem.
3. Conduct diagnosis that may redefine problem.
4. Provide recommendations.
5. Assist with implementation.
6. Build consensus and commitment.
7. Facilitate client-learning.
8. Improve organizational effectiveness.

The fifth goal (implementation) is not without controversy as traditionally, some argued that "one who helps put recommendations into effect takes on the role of manager and thus exceeds consulting's legitimate bounds." (Turner 1982) Also, "a frequent dilemma for experienced consultants is whether they should recommend what they know is right or what they know will be accepted." Finally, the author notes that the last three steps are seen as by-products, and often not as explicit goals.

If we go from consultancy, in general, to digital consultancy, it is essential to keep the scope of the definition in mind. Digital consultancy has a much broader scope than

merely technological advice and implementation. Swanson (2010) [20-25][2] has described five different ways how consultants can contribute to an organization's innovation process through information technology:

- *Business strategy*: IT consultancy can lead the organization to new pursuits and technologies they wouldn't have discovered themselves. Second, IT consultancy can frame the need for innovation in strategic terms, and they prepare and legitimize the need for change.
- *Technology assessment*: IT consultancy can facilitate the comprehension of IT technologies and its alternatives.
- *Business process improvement*: Innovations that involve IT usually come to fruition only after business processes have been revamped. Business process changes usually require an outside-in view and offer rich opportunities for consulting.
- *Systems integration*: In many cases, introducing a new technology requires that it needs to be integrated with existing systems and users need to be onboarded. This type of IT consultancy usually requires coding skills, hands-on design and implementation expertise
- *Business support services*: Finally, once the implementation is completed, it can take a while before the solution is entirely assimilated. IT consultants can provide complementary IT services such as support and maintenance until the technology is entirely embedded in the organization.

See also (Bessant & Rush 1995).

In their 1994 study, for which they interviewed over 100 decision, Lacity et al. (1994, 10-17) group expectations with regards to outsourcing into four categories: financial, business, technical and political expectations.

Wood (1996, 656) discovered that "consultancies tend to reinforce the strategic strengths of experienced companies rather than compensate for the weaknesses of the inexperienced."

The following sections follow an amended classification by Lacity et al. (1994) and rely on research both in (IT) outsourcing and consulting, since many conclusions apply to

[2]Swanson (2010) utilizes the term "IT consultancy." However, by ascribing it to both IT-technical and organizational aspects of IT, it inherently refers to "digital consultancy."

both. In these situations, it is referred to as working with a "third party." Nevertheless, distinctions are mentioned wherever extrapolating conclusions from the former to the latter is inadequate.

5.1 Financial Expectations

Financial expectations regarding digital consultancy and IT outsourcing are twofold: reducing costs and improving financial control.

5.1.1 Cost Reduction

The expectation of cost reduction comes from the ability to save on human resources, the ability to eliminate them in times of recession, and not having to pay dues when a new technology needs to be explored and adopted. Lacity et al. (1994, 10) found that managers expect that "unit costs are less expensive because of mass production efficiencies and labor specialization." The former applies to outsourcing, but the latter apply to both. For IT outsourcing, it also involves the elimination of large fixed costs during recession and transferring adjustment cost to a third-party (Aubert et al. 1996, 52).

5.1.2 Cost Control

The second financial expectation is not necessary about reducing costs, but about controlling them. Sturdy (1998, 233) describes how "executives wanting to exercise control over the management and investment of IT, but lacking the expertise." Lacity et al. (1994, 10) states that "[i]n most organizations [...] IT costs are controlled through general allocation systems that motivate users to excessively demand and consume resources." No surprise that involving third parties is seen "as a way to contain costs because vendors implement cost controls that more directly tie usage to costs. In addition, users can no longer call their favorite analysts to request frivolous changes but instead must submit requests through a formal cost control process."

Ketler & Walstrom (1993, 454) found that some managers see outsourcing as a means of sharing (financial) risks, reducing potential weaknesses in a department. Problems (and associated costs) with staffing, technology and selection are transferred to, or shared with

the partner. However, the author also states that other managers rather fear the risk of quality loss, which hints at some kind of trade-off.

Finally, Lacity et al. (1994) describes how some managers "wanted to use outsourcing to restructure their IT budgets from lumbering capital budgets to more flexible operating budgets."

5.2 Business Expectations

5.2.1 Developing Strategy

See Sturdy (1998)

5.2.2 Focusing on Core Activities

Furusten (2009, 272-273) argues that consultants are often perceived as "relatively stable by [...] employees, stakeholders and other external counterparts", this "builds confidence for the organization. The more stable an organization is experienced as being, the greater its ability to concentrate on its core activities."

5.2.3 Facilitating Mergers & Acquisitions

Oftentimes, "[m]ergers and acquisitions create many nightmares for IT managers, who are required to absorb acquired companies into existing systems." (Lacity et al. 1994, 12) Although managers expect that involving third parties for merging IT functions could solve technical incompatibilities and absorb additional employees, the authors found that this was rarely successful.

5.3 Technical Expectations

5.3.1 Hiring Skilled Individuals

Lacity et al. (1994, 12) describes that in many organizations, there is dissatisfaction with in-house IT departments delivering systems late and over budget. In that context, involving third parties is seen as a way to improve technical service. Sturdy (1998, 233) agrees and

states that managers rely on consultants when their departments are "lacking the skills for a project" or they want to have them "compete with each other."

Aubert et al. (1996, 52) found that as specialized firms have digital services as their core business, which is a source of increased efficiency and productivity. E.g. specialized firms can attract highly skilled professionals which are in short supply in the market as a whole. Mazzucato & Collington (2023, 28) describes how the British National Health Service (NHS) heavily relied on data, digital and project management consultants, because these "were in short supply in the civil service."

The sought-after skills are not always technical in nature. More often, it's about being up to date, and spotting emerging trends. Werr & Styhre (2002, 53) found that many organizations expect consultants "to interpret the meaning of technological developments, industry changes and emerging management concepts [...] to the client organization."

Ketler & Walstrom (1993, 452) offers another interesting perspective: as the scope of digital services expand, it is difficult or unnecessary for small firms to have a (full-time) expert in each area. Specialized third-party firms, on the other hand, offer a variety of skills and technical knowledge to their clients.

5.3.2 Knowledge Transfer & Diffusion

In Werr & Styhre (2002, 53), a manager describes how they are often caught up in day-to-day activities, and consultants can help them take a loot at the "big picture", from a strategic perspective: they make sense of the manager's organization in relation to its environment, such as its competitors.

Return to Turner (1982).

Something about knowledge transfer here (Sturdy et al. 2009).

Nevertheless, there are constraints to knowledge transfer. According to Cohen & Levinthal (1990, 128-129), "the ability to evaluate and utilize outside knowledge is largely a function of the level of prior related knowledge [such as] basic skills, or even a shared language but may also include knowledge of the most recent scientific or technological developments in a given field. [...] These abilities collectively constitute what we call a firm's *absorptive capacity*."

Fincham (2002, 84) made an interesting observation: organization-specific knowledge and expert knowledge are very complexly related, and knowledge transfer can only happen into a "well-prepared ground." Nooteboom (2000, 922) describes this from a transaction cost economics perspective: "[O]ne needs to make investments that are 'specific' to the relation, [...] and a certain durability of the relation is required to set up and recoup the investment." Especially tacit knowledge (impossible to codify or document) suffers from this problem, as it can only be transferred through direct interaction and with hands-on participation by the intended recipient.

"Managers thus viewed consultants as a way of bypassing the knowledge filters created by the organizational hierarchy, as well as the effects of organizational politicals, which became salient in times of reorganization and change. Management consultants were seen as a way for managers to gain a 'true' picture of what was going on in their organizations." (Werr & Styhre 2002, 54)

"House consultants also had accumulated a unique understanding of the client company's historical legacies, having a much longer time perspective than individual managers who frequently changed jobs. The consultants were thus described as the 'organizational memory' of the organization."

One of the possible roles of (management) consultants described by Furusten (2009, 269) is that of the "carrier": "Carriers of experience, expertise, knowledge, information and data about leadership, management, organization, top-down strategies and holistic perspectives."

Brunsson (1993, 41-42) is very critical of learning and knowledge transfer through consultants: "There may even be cynics in the organization who have experienced so many reforms that they have become sceptical about the very idea of reform itself as a means of solving problems or improving performance. So reforms are facilited not by learning, but by forgetfulness, by mechanisms that cause the organization to forget previous reforms or at least those of a similar content." Three mechanisms promote forgetfulness:

- a high turnover of personnel;
- a high turnover of top management;

- dependence on consultants: fresh to the organization, repeating previous mistakes and rarely involved in the implementation, let alone evaluating them.

5.4 Political Expectations

Finally, there are also reasons that are beyond the business-economical sphere. Oftentimes, individuals want to, or need to, pursue their personal goals within an organization. They might have ideas or plans, and use "the 'objectivity' and/or status of consultants to legitimate or influence a course of action." (Sturdy 1998, 233)

McFarlan & Nolan (1995, 14) agree, and point to "corporate culture" and "internal irritants". When an IT department can't pull of its planned centralization strategy in a decentralized organization, outsourcing the endeavor to a third-party could provide the fulcrum to overcome this impasse, since it's not associated with a specific department. The notion of a remote, efficient, experienced outsourcing partner is very compelling in that sense.

Political expectations can also come from outside an organization. The use of consultants can instill trust in shareholders and other stakeholders. As Groß & Kieser (2006, 70) noted: "Companies that are held internally and externally accountable for how they 'handle' uncertainty will contract consultants as a sign of good management. Even patients who principally distrust physicians cannot avoid consulting them."

Lacity & Hirschheim (1993, 258) also identify a number of political motives, in which managers simply hired consultants to jump on the bandwagon: to react to the efficiency imperative, justify additional resources, react to positive outsourcing media reports or enhance credibility.

Werr & Styhre (2002, 54) describes how consultants can be used as a leading example. They are "valued for energizing the change efforts and pushing the change projects forward. [...] In supporting the realization of change projects, consultants provided methodology as well as an 'energizing example' with their own style of working."

Ylönen & Kuusela (2019, 250) argues that the increasing reliance on consultants in the public sector results in the loss of tacit knowledge in that sector: "The old bureaucratic virtues erode as informal trust and information lose their organizational structures and

channels." The culprit is usually found in cost-cutting programs that generate pressure to eliminate permanent work hours. However, it "can also be advanced as a hidden or explicit political agenda. [...] major organizational overhauls were often motivated by the desire to destruct existing organizational structures. Constant change was desirable precisely because it helped to shatter old ways of working."

6 Why digital Consultancy: Theoretical perspectives

According to Armbrüster (2006, 3-6), the theoretical perspectives on consultancy can be broken down into two main categories and corresponding streams of literature. The first one is the functionalist view, which sees consultants as "carriers and transmitters of management knowledge." The second perspective argues that the functionalist perspective is to narrow in scope to grasp consulting projects: client-consultants interactions are open to distortions, and understanding them requires research. This is known as the critical view.

6.1 Transaction Cost Economics

Transaction costs economics sees economic organization as a problem of contracting, i.e. organizing economic activity. The starting point is that every transaction comes with certain costs, both ex ante and ex post.

Dahlman (1979, 147-148) obtains a classification of transaction costs by going through the different phases of the transaction process.

- Search & information costs (ex ante): "Two parties [...] search each other out, which is costly in terms of time and resources. If the search is successful [they] must inform each other of the exchange opportunity [...] and the conveying of such information will again require resources."

- Bargaining & decision costs (ex ante): "Often [...] agreeable terms can only be determined after costly bargaining between the parties involved."

- Policing & enforcement costs (ex post): "After the trade has been decided on, there will be the costs of policing and monitoring the other party to see that his obligations

are carried out as determined by the terms of the contract, and of enforcing the agreement reached."

The last type of transaction costs arises from bounded rationality: it is impossible to estimate both the costs and risks of complete contracts, or even enacting and enforcing them. (Aubert et al. 1996, 53) The result is that the contractual partners often decide to leave room for adaptation and interpretation, which, in turn, increases the risk of opportunistic behavior (infra).

What follows is that the decision whether a service should be purchased in the market is the result of a comparison of the resulting costs (including transaction costs) with the costs of producing within a "hierarchy". While hierarchies coordinate the flow of materials through sequential steps by controlling it on a higher level in the managerial hierarchy, markets coordinate them through the supply and demand forces between firms (Malone et al. 1987, 485).

Typically, as they acquire new resources, hierarchies can specialize, resulting in a higher productivity. However, "[a]s a firm gets larger, there may be decreasing returns to the entrepreneur function, that is, the costs of organi[z]ing additional transactions within the firm may rise. [For example, because] the entrepreneur fails to place the factors of production in the uses where their value is greatest." (Coase 1937, 394-395) The result is that firms increasingly are exposed to costs of internal coordination: "[E]very time that a job which was previously done by one man or one group of men is divided into two or more parts, the problem of coordinating the work of the now separated groups or individuals begins to arise." (Robinson 1958, 40)

In other words, as companies aim to reduce production costs, by increasing scale, they specialize, albeit increasing coordination costs. If coordination costs would not exist, organizations would grow indefinitely. The result is that blue-collar jobs disappear as production costs are reduced, while white-collar jobs, aimed at coordination, do not. (Canback 1998, 31-32) Mindful of this evolution, the assumption is that there is a high demand for advice and (IT) solutions that improve coordination within and between firms. These are services in which consultants are particularly well-versed. The question to ask here is: are the transaction costs for working with external consultants lower than internal coordination

costs when it comes to improvement of internal coordination and knowledge production?

Canback (1998, 37-44) argues it does, and starts from the three critical dimensions of transactions, a popular research topic within transaction cost economics.

Asset specificity describes the degree to which physical, human or site assets have a specific usage and can not be put to use for another purpose. With highly idiosyncratic transactions, market forces fail as no vendor is willing to tailor his product or service to one client, and face downward price pressure, since the latter acts as a monopsonist (Robinson 1969, 218-228), and no buyer is willing to put its faith in the hand of a third party at the risk of being blackmailed. The result is a bilateral monopoly. (Williamson 1985, 63)

That's why, according to Williamson (1979, 250-253) higher asset specificity leads either to one of two forms of "relational contracting". The first form is bilateral governance in which there are "admissible dimensions for adjustment such that flexibility is provided under terms in which both parties have confidence." The second form is unified governance (i.e. internalization or vertical integration), in which "adaptations can be made in a sequential way without the need to consult, complete, or revise inter-firm agreements. Where a single ownership entity spans both sides of the transactions, a presumption of joint profit maximization is warranted."

Initially, Williamson (1985, 95-96) identifies 4 sources of asset specificity, but two other sources have been added:

1. *site specificity*, or the degree to which the successive stages of production are in close proximity to each other;
2. *physical asset specificity*[3], or the degree to which the physical properties of the product are unique;
3. *human asset specificity*, or the degree to which the skills, or configuration of skills within a team, are unique to an organization's production process;
4. *dedicated assets*, or general investments by the seller which are made with the expectation of a considerable amount of trade with one particular buyer;

[3]The service sector equivalent is also known as *procedural asset specificity*, or specific routines and workflows tailored to a particular transactional relationship, which are hard to modify or redeploy without value reduction. (Zaheer & Venkatraman 1995)

5. *brand capital specificity* (Vita et al. 2011, 335), or investment in reputation that could be harmed by a vendor delivering bad quality;
6. *temporal specificity* (Malone et al. 1987, 486), or the degree to which an asset's value is dependent on it reaching the user within a certain time limit such as shipbuilding or hotel linen delivery.

The second transaction dimension is its *frequency*. A one-time transaction with high asset specificity does not require a different contracting approach, because there is no subsequent phase in which the buyer/vendor can leverage his monopsony/monopoly power and stray from the initial contract. However, when the frequency goes beyond a single transaction "idiosyncratic transactions are ones for which the relationship between buyer and supplier is quickly thereafter transformed into one of bilateral monopoly." (Williamson 1985, 241)

Uncertainty. Within the context of transaction cost economics, Shin (2003, 38) states that "many empirical studies show mixed and contradictory results against what transaction cost economics predicts, especially for the concept of uncertainty." As a solution, he reduces the concept to "behavioral uncertainty", ignoring environmental uncertainty (Watjatrakul 2005, 391-392). This is in line with the original interpretation by Williamson (1985, 79): "The proposed match of governance structures with transactions considers only two of the three dimensions for describing transactions: asset specificity and frequency." Uncertainty arises from these two, and together with bounded rationality and opportunism, gives rise to exchange difficulties (Williamson 1975, 7), making it "more imperative to organize transactions within governance structures that have the capacity to 'work things out.'" (Williamson 1985, 79) In this context, behavioral uncertainty can't be disentangled from asset specificity. Williamson (1985, 78) is fully aware that this is a departure from Coase's transaction cost rationale.

To drive back the theory to the subject of consulting, Canback (1998, 37) argues that it's low mainly human asset specificity that favors the use of consultants, referring to their solutions and advice that can easily be reproduced at many organizations.[4] Watjatrakul

[4]Furthermore, Canback claims that transaction frequency and uncertainty are less of an influence. By referring to market uncertainty, not only does he obscure the fact that consultants rather thrive in a

(2005, 408) put the theory to the test and compared the transaction cost view with the resource-based view (infra) for describing the sourcing decisions in three cases and comes to the following conclusion: "a high-specificity asset has a major impact on sourcing decisions. It overpowers the effect of uncertainty."

Focusing on low-specificity assets allows consultancy firms to achieve economies of scale. That's why they rather shun highly idiosyncratic assignments. Rather, they'll focus on (often high-level) organizational advice and IT architectures, since these have the biggest adaptive properties.

Borrowing rhetoric from the resource-based view (infra), Mata et al. (1995, 498) applies Canback's conclusion on technical IT skills: "While technical skills are essential in the use and application of IT, they are usually not sources of sustained competitive advantage. [...] they are usually not heterogeneously distributed across firms. Moreover, even when they are heterogeneously distributed across firms, they are typically highly mobile. [...] firms without the required analysis, design, and programming skills required to make an IT investment can hire technical consultants and contractors." Ergo, digital capabilities are very likely to be outsourced.

Nevo et al. (2007, 16-17) also concludes that his research supports the transaction cost hypothesis: "when the internal IT capability is weak, developing and implementing an IT solution is likely to cost more compared with hiring external IT consultants to do the same job."[5]

6.2 Agency Theory

At the center of agency theory is the observation that the firm is not an individual. *Au contraire,* "the *behavior* of the firm is like the behavior of a market; i.e., the outcome of a

context with high complexity and uncertainty, he also misrepresents the uncertainty dimension that is central in transaction cost economics. This is a prime example of the vagueness surrounding the concept of uncertainty in transaction cost economics (supra).

[5]The reverse situation also supports the identification theory: "IT consultants will not receive the legitimacy they require [...] if their knowledge and expertise do not differ from that possessed by the in-house IT team. Under these circumstances, external IT consultants' impact on IT productivity is expected to be lower." (Nevo et al. 2007, 17)

complex equilibrium process." (Jensen & Meckling 1976, 311) When (the owners of) an organization ask(s) its employees to deliver a service, or buys a service in the market, it encounters the two-pronged principal-agent problem[6]. By delegating work to an agent, the principal has to account for the fact that "(a) the desires or goals of the principal and the agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is doing." (Eisenhardt 1989, 58) These phenomena are known as goal incompatibility and information asymmetry.

- *Goal incompatibility*: The organization is interested in a timely roll-out of a quality solution for a problem they have. The consultancy firm, on the other hand, is driven by profit maximization.
- *Information asymmetry*: consultants wield enormous power over the knowledge that they possess and use. Their clients depend on this knowledge, making them vulnerable, and putting them at mercy of the consultant. (Brien 1998) For example, Ylönen & Kuusela (2019, 248-249) found that payments from the Finnish Ministry of Finance to a particular consultancy company drastically increased year-over-year, because the consultancy firm had a quasi-monopoly in the knowledge regarding particular remuneration practices. Furthermore, when a particular individual sells his services to another one, it may be difficult to asses its true value (Ouchi 1980, 134-135). This is especially the case when interdependent technologies are involved, as their implementation and maintenance requires teamwork. On that account, disentangling individual contribution from the team's joint efforts are particularly hard. Aubert et al. (1996, 59) also points to a problem of measurement within IT outsourcing. Contracts often specify all kinds of measures: response time, uptime, error logs, etc. Although they are linked to explicit provisions (such as fines, penalties and contract termination), there are two conditions for them to be effective: (1) observability and (2) verifiability. The former implies that the client can observe the actual performance of the agent, while the latter is about verifying observations and providing evidence. This situation invites opportunism such as slacking off.

[6]Agency theory is also concerned with the problem of risk sharing that arises when principal and agent each prefer different courses of action due to differing attitudes towards risk. (Eisenhardt 1989, 58) However, this is not within scope of this paper.

These phenomena could lead to opportunism such as *adverse selection* on the one hand and *moral hazard* on the other hand. (Rousseau & Parks 1993, 14) The former refers to the contracting of agents "unqualified to fulfill their end of the bargain due to active misrepresentation of the agent's competence and expertise." The latter occurs when "the agent shirks and reduces his or her efforts."

To prevent adverse selection and/or moral hazard, control mechanisms could be put into place, resulting in agency costs. These include the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests, plus the residual loss incurred because the cost of full enforcement of contracts exceeds the benefits." (Fama & Jensen 1983, 327) The following expenditures sum up to the total amount of agency costs (Jensen & Meckling 1976, 308):

1. monitoring expenditures;
2. bonding expenditures to achieve incentive alignment;
3. residual loss: the remaining "loss of welfare" of the principal in those situations where the agent makes divergent decisions because it was to expensive to offset it through bonding or monitoring.

Circling back to the this paper's subject of digital consulting, we can summarize the interplay of transaction cost economics and agency theory as follows. Low asset specificity of knowledge production and the improvement of internal coordination mechanisms through IT leads firms to order these services in the market. However, human bounded rationality does not allow for detailed consultancy contracts, since it is impossible for humans to predict the future. Payment for consulting engagements are typically recurring (high frequency), which leads to behavioral uncertainty, since the incentives of the consulting firm and the client do not align (goal incompatibility), their complex interdependent services are hard to evaluate and their contributions are hard to measure (information asymmetry). This could lead to adverse selection and moral hazard, and asks for control mechanisms to economize on agency costs.

Finally, an extra remark is in place. One should not forget that managers are also agents themselves. As Tosi et al. (1997, 584) describes: "the reality [is] that in large organizations, owners may be separated from the managers who make decisions in forms, and that the

two may have different interests." In that sense, Fincham (2002) claims that a consultant can be described as "an agent's agent", extending the management's own agency function. In other words, consultants operate at the "outer reaches of corporate power", stretching corporate authority to its limits. Consequently, their legitimacy is often problematic within the corporation that engages with them.

6.3 Resource-based View

The resource-based view rejects the traditional micro-economic assumptions that resources are homogeneously distributed across firms (Barney 1991, 99-103). Instead, it argues that they are heterogeneously distributed, which could allow a firm not only to establish a competitive advantage[7], but also a sustained competitive advantage when these resources are not perfectly transferable, for example because of resource immobility. These resources come in the form of assets, capabilities or organizational processes. Firms can obtain above-normal results if they can establish a competitive advantage by making their resources exploit opportunities in the market, or neutralize those established by competitors. To be strategic, resources should be valuable, rare, inimitable and non-substitutable.

Mata et al. (1995, 495-500) identifies five attributes of information technology as possible sources of sustained competitive advantage for a firm.

1. Access to capital: IT (or digital) investments can be very expensive and risky. Only a couple of firms might be able to acquire the capital to make these investments, making it a source of sustained competitive advantage.
2. Proprietary technology: when technology can be kept proprietary, it can be a source of sustained competitive advantage. However, the author states that one the one hand, it's very hard to prevent proprietary IT knowledge from leaking, and on the other hand, IT has become generic more generic. We'd like to add that many organizations' digital ecosystems are peppered with open-source technologies[8], which is

[7] "A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors." (Barney 1991, 102)

[8] For example, a survey by the European Commission found that around 40% of respondents stated that open-source is the most important source of software development in their organization (Commission et al. 2021, 191).

freely available. In other words, for most non-software firms, a sustained competitive advantage through proprietary software is unattainable.

3. Technical IT skills: the ability to attract and keep technical IT skills that is required to built IT applications. However, these skills are rarely immobile, nor are they really heterogeneously distributed, according to the author.
4. Managerial IT skills: management's ability to conceive of, develop and exploit IT applications to support and enhance other business functions can enable a firm to manage market risks associated with IT investments. Given the entanglement of business and IT skills, one could say that managerial IT skills are heterogeneously distributed, and that they are immobile.
5. Customer switching costs: the ability to create a lock-in effect for one's customers through the use of IT. The author states that switching costs, in many situations, are not a source of sustained competitive advantage, as customers will anticipate it, lock-ins create reputation damage and there are many digital alternatives available. However, there are various value-creating attributes that can be achieved through a lock-in. For example, Amit & Zott (2001, 505-507) describe how customization, two-sided markets, trust-establishing rating systems or virtual communities are features that generated customer switching costs yet are also value generators deemed legitimate.

Willcocks & Plant (2003, 188-189) describes how sourcing decision related to technical IT skills depends on both the market for IT consultancy skills and the type of business activity.

- By market comparison: A high-cost, low-quality market leads to in-house development, while a high-cost, high-quality market should lead to insourcing. A low-cost, low-quality market leads to cheap-sourcing[9] and a low-cost, high-quality market is perfect for outsourcing.
- By business activity: non-critical, commoditized applications should be out-sourced.

[9]Cheap-sourcing involves low investments and effort, but also comes with no internal learning. For example: development of a new promotional website by a digital agency.

Critical, commoditized applications should be insourced or built in-house, and differentiating, critical applications should be built in-house or acquired.

By referring to commoditization, one could say that Willcocks & Plant (2003) implicitly refers to asset specificity, blending elements of transaction cost economics in the resource based view. Watjatrakul (2005, 405-407) makes this explicit by juxtaposing the resource-based view with the transaction cost view. Four types of assets result from this exercise:

1. Low specificity, non-strategic such as generic managerial capabilities.
2. Low specificity, strategic such as a configuration of capabilities that result in certain strategic decisions.
3. High specificity, non-strategic such as an consumer tracking technology that provides valuable insights into the organization's processes.
4. High specificity, strategic such as company experts that are responsible for developing a organization's differentiating features.

6.4 Social Identity Theory

The research by Schwarz & Watson (2005, 311-313) claims that it matters *who* implements an IT project. Given the interdependent nature of consulting, social dynamics are relevant when teams need to cooperate closely with consultants: "technology-enabled inertia can be explained through understanding an employee's social identifications and his or her associated cognitions, where inertia exists on a sliding scale of change." By defending their self-image, low-status groups can hinder the implementation of an application. For example, early studies on social identity theory already showed that "subjects do sacrifice absolute levels of group and personal gain to achieve intergroup differences in outcomes favouring the ingroup." (Turner et al. 1979, 200)

This theory amends transaction costs economics and the resource-based view by pointing to possible sub-optimal outcomes due to conflicts between in-house personal and consultants. For example, doubling a team's capacity by adding consultants doesn't necessarily produce double the output. Sourcing decisions should account for this non-linearity.

Furthermore, interdependency of consultants with the rest of the team complicate assessing individual contributions. Using social identity theory insights, one could even argue

that the in-group's striving for intergroup differences further impedes the control and evaluation of individual consultants.

6.5 Embeddedness Theory

Embeddedness theorists distance themselves from transaction costs economics (Armbrüster 2006, 14-16). They argue that outsourcing decisions are the byproduct of the relationships between the decision-makers across different companies. Although transaction cost economists stress the importance of trust within relational contracting, it is "undersocialized" (Granovetter 1985) according to embeddedness theorists. "As a result, transactions may be inefficient without the participants either noticing or calculating it as such. A transaction cost analysis of such processes may then represent an ex post rationalization of an otherwise inefficient solution." (Armbrüster 2006, 15)

Nooteboom (1996, 992) states that typically, economists tend to neglect intrinsic utility and that it doesn't matter who the transaction partner is. Embeddedness theory rejects this, as personality and social embeddedness enter the picture. The exchange process an sich matters as people may prefer to "transact on the basis of trust and its concomitants of ethics, kinship, friendship or empathy."

In the language of transaction cost economics and signaling theory: embeddedness would be a tool for preventing adverse selection as "[p]rincipals frequently know their agent's type because of personal familiarity with potential agents or through members of trusted social networks in which both principal and agent are embedded." (Shapiro 2005, 277) Furthermore, it also prevents moral hazard as "[n]orms and values of conduct may mitigate inclinations towards opportunism; they may cause people to forego opportunities for opportunism, at least within reasonable bounds." (Nooteboom 1996, 990)

Several empirical findings support embeddedness theory. For example, Kitay & Wright (2004, 15) found that "in many instances consultants and clients develop closer, on-going relations in which the organisational boundaries between the parties become blurred (an 'insider' role)." However, this is not always the case. The authors note that there are "relationship firms" and "transactional firms." According to them, "criticism directed at management consultants could simply be instances where client and consultant perceptions

diverge in terms of the type of relationship that each party is seeking."

6.6 Sociological Neoinstitutionalism

A theory that is systematically drawn upon (Armbrüster 2006, 6-8) is sociological neoinstitutionalism. It is very critical of transaction cost economics, and further complicates the issue of adverse selection. Its central argument is that the belief in efficiency of certain practices or solutions drives economic actions, rather than the proven efficiency.

Jayatilaka (2006, 120) argue that "[i]nitiatives to follow other companies in IS sourcing arrangements could originate from IS and managerial professionals working in the companies and consultants who are aware of successful outsourcing arrangements. Mimetic isomorphism occurs when companies follow the lead of other companies that have successfully outsourced IT."

For example, *Diffusion of Information Technology Outsourcing: Influence Sources and the Kodak Effect* (1992, 350) argues that the decision to outsource their entire IT department to IBM by Eastman Kodak in the late 1980s had a tremendous impact on other companies' outsourcing decisions.

Mimetic isomorphism is driven by three mechanisms (DiMaggio & Powell 1983, 150-154):

1. A coercive authority formally or informally exerts pressure on organizations to collude or fall in line. This authority can be governmental (through laws & regulation) and non-governmental (through standard operating procedures established at the conglomerate-level).
2. Uncertainty regarding technology or organizational processes could drive organizations to "model themselves after similar organizations in their field that they perceive to be more legitimate or successful. The ubiquity of certain kinds of structural arrangements can more likely be credited to the universality of mimetic processes than to any concrete evidence that the adopted models enhance efficiency."
3. Normative pressures mainly stem from professionalization (infra), as the members of an occupation try to establish a "cognitive base and legitimation for their occupational autonomy."

The result is that large consultancies have been described as carriers, not only of knowledge, but of legitimacy too. After all, it's their analyses that validate management decisions. Mazzucato & Collington (2023, 16) describes consultancy as confidence tricks "in contracts with hollowed-out and timid governments and shareholder value-maximizing forms."

Mazzucato & Collington (2023, 21) states that "[t]he consulting industry often provides legitimacy for controversial decisions. When a corporate senior manager wishes to convince their board of something, or when a government minister wants to win over others to their vision or stall meaningful action, a supportive report from a Big Three or Big Four firm can go a long way at the expense of other objectives–or even labor agreements.

Groß & Kieser (2006, 69) agrees: "Companies that are held internally and externally accountable for how they 'handle' uncertainty will contract consultants as a sign of good management."

Zucker (1985, 20-21) argues that this is the result of trust-building signals (infra) growing beyond their initial goal of delineating specific expectations. Trust-producing firms (such as consultancy firms) an sich assume a high status, with the business world protecting them against failure. This entrenchment acts as a flywheel for the growth of the consultancy market as a whole.

To a large degree, the critical work by Mazzucato & Collington (2023, 120) is inspired by sociological neoinstitutionalism: "The Big Con does not just describe discursive tricks, but also how the practices of the consulting industry–what we call"consultology"--combine with the broader structures of our political economy to extract rents from clients, often by enabling those clients to extract rents themselves. Ultimately, this entrenches businesses' and governments' reliance on consultancies."

6.7 Signaling Theory

Another theory that falls in the camp of the critical view is that of economic signaling theory (Armbrüster 2006, 8-10). Unlike sociological institutionalism, it treats the economic actors as experienced and knowledgeable, and not as part of an institution. Signaling theory focuses on the deliberativeness of individual consultants and firms by investing in features that signal status, quality and reliability. This is one of the main reasons why

top consultancy firms invest so much in attracting top students from renowned educational institutions: "in a market of experience and credence goods, the quality of human resources signals consulting quality." (Armbrüster 2006, 178)

Especially in a situation where past transactions are absent, "management consultancies must convey in some way to their clients that they have something valuable to offer. [...] consultants are able to take control of the process by which impressions and perceptions of their service are created. By managing the creation of these images, consultants are able to persuade clients of their value and quality. Management consultancies are therefore 'systems of persuasion' *par excellence* and impression management is not external to the core of their work but is at its core." (Clark & Salaman 1998, 35)

Although Leicht & Lyman (2006, 35) do not deny a changing economical and institutional context, they also observe the opportunism of consultancy firms. "Management consulting is the new and relatively recent attempt to take advantage of the destructured business environment of corporate clients that purchase business services. They represent a semi-institutionalized attempt to advance the professional aspirations of managers themselves, especially in light of the well-publicized attacks on middle management infrastructure that has accompanied the latest corporate downsizing waves."

Gill & Whittle (1993, 290) notes that for managers, "[t]erms such as 'growth' and 'effectiveness' have mythical qualities. They are condensation symbols collapsing a managerial world view into a single word. So, too, [...] consultancy packages [make] use of condensation symbols thereby creating affective bonds to the symbol's object, tying managers into the package at an emotional level and creating a shared managerial language." Zucker (1985, 15-16) agrees on the role of similarity. While nationality, ethnicity and sex can indicate a common cultural system, or a "world held in common", more superficial (bought or acquired) features can delineate specific expectations in specific situations. In consulting this translates into degrees, certificates, using the adequate buzzwords, wearing a suit and driving a quality car. These indicators signal adherence to the "rules of the game."

Sociological neoinstitutionalism argues that legitimacy-seeking behavior leads to inefficient market outcomes, while signaling theory argues the opposite.

7 Problem statement

7.1 Types of Opportunism

Organizations employing the services of a contingent workforce, like digital consultants, should always be aware of opportunism arising from information asymmetries and goal incompatibilities, as outlined in agency theory. Two types of opportunism can be identified Clark (1993, 242):

1. Ex ante: Pre-contractual opportunism or adverse selection
2. Ex post: Post-contractual opportunism or moral hazard

7.1.1 Ex Ante Opportunism: Adverse Selection

Adverse selection is associated with the client's inability to determine the client's capabilities with regards to the assignment. This analogous to Akerlof's "Lemons problem" (1970): due to the information asymmetry, clients don't want to pay more than the average price for consultants within a certain niche. While consultants of below-average quality ("lemons") benefit from this average price, above-average consultants will not want to compete, and are crowded out. Furthermore, the economic barriers to entry (Fee et al. 2004, 463) in IT consultancy (and consultancy in general) are few to none. Anyone with experience in a specific field, sector or technology can wrap it as advice and sell it to whoever wants to hear it.

Typically, in this situation, a sector tends to professionalize, or become regulated. However, in (digital) consultancy, this is not the case.

No Professionalization Professionalization is a mechanism that typically protects clients against self-proclaimed experts but who are unqualified and expose their clients to even greater risks than the ones they are supposed to advice on. (Groß & Kieser 2006, 71) Furthermore, they also protect experts against colleagues that could ruin the reputation of the whole industry. Finally, professionalization typically results in the establishment of an

ethos, which fosters[10] trust between a profession and the public at large (Sokolowski 1991) Through these mechanisms, "professions are social devices to limit agency costs." (Shapiro 2005, 276)

Certain countries, like Germany, have made attempts to professionalize the sector through the establishment of specialized university programs to make the use of the title "consultant" dependent on the attainment of specific qualifications. These attempts haven't turned out to be successful: today, consultancy is not yet a profession, not in the classical sense. (Groß & Kieser 2006, 73).

According to a popular functionalist view (Goode 1972), which identifies criteria that distinguish professions from occupations: (1) members share a common identity, (2) it's a life-long calling, (3) share common ideals, (4) have a shared self-conception, (5) behave distinctly towards non-members, (6) use specific language, (7) easy to recognize and (8) follow an ethical code by a powerful association.

The power approach, on the other hand, is much different from the functionalist approach. It argues that professions are a group of people that wants to achieve expert status within society, attaining certain privileges. (Groß & Kieser 2006, 75)

Both are potent frameworks for providing arguments why the practice of consultancy is not likely to professionalize. From the functionalist perspective, we identify the following:

- Consultants do not seek to differentiate themselves from their clients, *au contraire*, they seek partnership, as to truly understand the problems and opportunities a client faces. (Fincham 2006)

- A large part of the *raison d'être* of consultants relates to their capability of transferring expertise to the clients. This differs from professionals, who are approached by clients to solve a problem, without the expectation of knowledge transfer. (Oakley 1993)

- Consulting organizations are extremely diverse, both in terms of subfields (IT, HR, strategy, ...) and in terms of organization size, structure and business models. (Groß & Kieser 2006, 79, 89)

[10] A professional ethos is "a set of written and unwritten rules that guide professional practice." (Enstad 2017)

The arguments of the power approach are the following:

- On the one hand, there are the small consultancies which could try to establish associations to build up their reputation. On the other hand, there are the big consultancies, with a high reputation, that only stand to lose because of increased competition with (a priori) lower reputation organizations. For this reason, the probability of establishing all-encompassing associations is rather low (Groß & Kieser 2006, 77).
- Many employees of large consultancy firms see their tenure as a platform to self-employed consultant or partnership at a smaller consultant. A title, or membership of an association would facilitate further split-offs at large consultancies (Groß & Kieser 2006, 80).

One could even argue that professionalization is not even relevant in today's capitalism. The "individual given class status, autonomy, social elevation, in return for safeguarding our well-being and applying their professional judgement on the basis of a benign moral or cultural code [...] no longer exists." (Dent & Whitehead 2013, 1-2) Trust and respect in today's professional is "earned through their ability to perform to an externally given set of performance indicators." In that sense, "consultants are the real champions of creating a new professional *appearance*." (Groß & Kieser 2006, 95) By combining a promise of market success and professionalism they are "market professionals".

No Regulation (TODO)

- Three sources of regulation can be identified (Clark (1993) 246-247).
- See Muzio et al. (2011, 813-817).

While in some countries, like Austria, there is a registration system for consultants, governments have been ambivalent towards professional regulation of the consulting sector (Muzio et al. 2011, 814). According to Leicht & Lyman (2006), this is the result of (Western) governments embrace of market logic and their reluctance to intervene with "additional coercive pressures in the wake of questionable professional conduct."

One important antecedent for regulation is professionalization of the sector, which is highly unlikely in the current institutional environment. Although "expertise is increasingly

more important in differentiating societies, it is difficult to defend the status of professions, to say nothing of establishing new ones. The trend is towards deregulation and deprofessionalization of existing professions, rather than towards establishing new ones." (Groß & Kieser 2006, 90)

Finally, governments are often large consumers of consultancy services, making them wary of supporting regulation of the sector, as it could drive up prices and reduce their autonomy in hiring them (Muzio et al. 2011, 815).

In the existing literature, these remarks are part of a critical paradigm regarding consultants (Armbrüster 2006, 4-5). Authors point to the contestable nature of consulting, the self-interest of consultancy firms, and the stretching of consultancy advice.

See also:

- (Wright & Kitay 2002)
- (David et al. 2013)
- (O'Mahoney & Sturdy 2016)

See Sturdy (2021, 3-4)

See Sturdy (2021, 4)

7.1.2 Ex Post Opportunism: Moral Hazard

Moral hazard is the result of two elements at the core of transaction cost economics and agency theory: the ambiguity of the measurement of individual performance and the goal incompatibility between principal and agent during the cooperation. Ergo, when something goes awry, it is challenging for the client to convincingly pinpoint the blame on the consultant, due to their interactive nature and embeddedness in the organization.

McFarlan & Nolan (1995, 9) also points to a relevant aspect. Because the target state of a project might change, most engagements are embedded in a flexible contract, exacerbating the difficulty of blaming the consultant: "[I]n each subsequent year, the contract payment stream becomes less and less tied to the initial set of planned outputs (as the world changes) and, thus, more subject to negotiation and misunderstanding." Nooteboom (1996, 924) agrees, stating that "detailed contracts can shroud a contract in an atmosphere of mistrust,

derailing the relation before it has even started."[11]

For Mazzucato & Collington (2023, 145), the resulting skewed risk-reward relationship is at the heart of the consulting industry's business model: "The rewards reaped–the rents–usually far exceed the financial risks of taking on the contract or the costs of creating an impression of value [because] large consultancies today can survive knocks to their reputations in the wake of public scandals with the help of their extensive resources, employing savvy legal and PR teams to respond to newspaper exposés and government inquiries."

The ways that moral hazard can occur between a client and its consultants are plenty.

- Shirking due to individual consultants slacking off or shifting attention to other clients.
- Locking in a client by using proprietary tools, frameworks and technologies that are not widely supported.
- Selling the initial contract cheap, but the services that follow come with a premium. This practice of "making an offer more than possible to deliver and revoking a central part of the offer after the target subject accepts" (Motes & Woodside 1979, 219) is known as "lowballing".
- Mishandling of confidential information, which not only includes straightforward transfer of information to competitors. Information may also be benchmarked with data from other firms without a principal's knowing. Furthermore, project reports, presentations, and analyses are saved in internal knowledge databases and may be used when similar projects come up. (Armbrüster 2006, 72-73)

It's clear that contractual flexibility is a double-edged sword. On the one hand, it positively impacts the diversity of tasks in which managers can employ consultants, en-

[11] At first sight, the work by Lacity & Willcocks (2012, 4) seems contradictory to these findings, as it describes that there is substantial evidence that positive outsourcing outcomes are associated with *more detailed contracts*, shorter-term contracts and high-value contracts. However, these details relate to scope, service levels, responsibilities and adaption to change, but not necessarily to the individual tasks that comprise the assignment.

abling them to respond quickly to threats or opportunities. On the other hand, it decreases consultants' formal accountability.

7.2 Opportunism in Digital Consultancy

There are three main reasons why "digital consultancy" deserves a dedicated scope

Information technology evolves rapidly. Consequently, organizations risk a high degree of both ex ante and ex post uncertainty. Will consultancy firms be able to deliver in n years from now? Will they customize the solution to such a degree that only they can deliver support, and lock in their client? Especially organizations with a low technological maturity have the highest risk encountering opportunism when working with third-party service provides.

Ambiguity of measuring individual performance. When a particular individual sells his services to another one, it may be difficult to asses its true value (Ouchi 1980, 134-135). This is especially the case when interdependent technologies are involved, as their implementation and maintenance requires teamwork. On that account, disentangling individual contribution from the team's joint efforts are particularly hard. This situation invites moral hazard, such as consultants slacking off, inflating their time sheets or unnecessarily widening the scope.

Finally, there is often a degree of lock-in involved as some firms have exclusivity for implementing or personalizing a certain solution. as the costs of switching providers are often significant, it is not straightforward to switch vendors when ex post opportunism is detected.

7.3 Preventing Opportunism

In the existing literature, several governance mechanisms for preventing opportunism have been proposed. In the governance literature, there is a strong focus on control, however, several of these mechanisms aren't meant to exert control, but rely on, or foster trust.

A "control" is defined as "an action to ascertain whether another action has been successfully executed, or if a certain state has been achieved or maintained, in order to deal with possible deviations and unforeseen events in order to positively cope with them."

(Castelfranchi & Falcone 2000, 809)

On the other hand, the following definition of trust is adhered to: "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party." (Kee & Knox 1970)

By relying on these definitions, the explicit choice is made that "trust in [the agent] and control of [the agent] are antagonistic: where there is trust there is no control, and vice versa; the larger the trust the less room for control, and vice versa. But they are also supplementary: one remedies to the lack of the other; they are parts of one and the same entity." (Castelfranchi & Falcone 2000, 813)

The concepts of trust or control (or both) have a significant role in three of the earlier discussed theories. From a transaction cost economics perspective, trust makes transactions cheaper and allows for greater flexibility, as it requires less incentivization, and specification and monitoring of contracts (Nooteboom 1996, 989). It also ties into embeddedness theory which claims that strong relational ties between the agent and the principal are what drive decisions to outsource to (and to which) consultants. Finally, signaling theory is about trust-building systems of persuasion.

Liberatore & Luo (2010, 265) confirms that building trust drives the consultancy firm's motivation for short-term profits towards long-term business and reputation.

However, trust is not static. Kirilov (2012, 193-194) breaks trust factors down in trust-building and trust-sustaining factors. The former is about signaling ability through references, experience and reputation. The latter is about signaling integrity: effective and transparent communication, proactivity, monitoring and consistently meeting contractual obligations. In that sense, trust can be describe as a "Bayesian-like decision process" in which all trust-relevant information is carefully scrutinized over time to assess the proportion of "cooperative choices or long-term behavioral patterns." (Lewicki et al. 2006, 995)

Shapiro et al. (1992, 366-374) identified three bases of trust. Investing in either of these can be matched to the level and benefits of the trust desired, and the costs and risks associated with it. The three bases of trust are the following.

1. Deterrence-based trust – or "calculus-based trust" (Lewicki & Bunker 1996, 119) – results in predictive behavior of the agent because there are measures in place to prevent hostile actions. These measures generate a potential cost for acting in a distrustful way, outweighing the advantages of doing so.
2. Knowledge-based trust emerges from prior contacts based on the premise that through ongoing interaction, partners get to know each other better and develop trust around norms of equity (Gulati 1995, 92). People act cooperatively when they expect their partner to behave in the same way and reciprocate. Each has something to give the other. Small gestures, such as a consultant providing market insights, a client inviting consultants to team buildings or company events, pressure each other into conformity (Macaulay 1963, 63).
3. Identification-based trust rests on the premise that when both parties share the same preferences they tend to behave in a more trustworthy manner towards each other (Shapiro et al. 1992, 371). Several conditions can build trust based on identification, of which joint products or goals, a common team name, proximity and shared values are mentioned explicitly in the research. An interesting finding by Schoenherr et al. (2015, 408) is that process integration not only serves as a mechanism for information exchange, but also for engendering reciprocity, yielding greater levels of trust.

Like Kirilov (2012), Lewicki et al. (2006, 1011) describes that the bases for trust change over time. For example, as parties get to know each other, their trust evolves from deterrence-based to knowledge-based. However, rarely does a transition occur from knowledge-based trust to identification-based trust, as it requires identification with each other and the development of strong affect between two parties.

To conclude this section, we note that control and trust are antagonistic, but are both tools for managing agency phenomena, resulting in confidence[12] that the agent is competent, and willing to do what the principal delegates to them (Castelfranchi & Falcone 2000, 802-813).

Below, a fairly exhaustive list of proposed governance measures is outlined and grouped

[12]The concept of "confidence" is defined as "the degree of belief in a given hypothesis." (Griffin & Tversky 1992, 412)

by their corresponding trust antecedent.

Control Mechanism	Description	Opportunism	Agency phenomenon
Public Reputation		Adverse Selection	Goal Incompatibility
Experience-based Trust		Adverse Selection	Goal Incompatibility
Networked Reputation		Adverse Selection	Goal Incompatibility
Procurement		Adverse Selection	Goal Incompatibility
Third-party Assessment		Adverse Selection	Goal Incompatibility
Consulting Database		Adverse Selection	Goal Incompatibility
Monitoring		Moral Hazard	Information Asymmetry
Whistleblowing		Moral Hazard	Information Asymmetry
Incentivization		Moral Hazard	Goal Incompatibility
Third-Party Moderation		Moral Hazard	Goal Incompatibility
First-Party Assessment		Moral Hazard	Goal Incompatibility
Relational Mechanisms		Moral Hazard	Goal Incompatibility

7.3.1 Preventing Adverse Selection

Reputation Kirilov (2012, 193) describes reputation as "a mixture of the brand name of the enterprise, executive management background, maturity level, customer references, and independent quality assessments."

Armbrüster (2006, 75-76) distinguishes three types of reputation:

1. Public reputation is the perception of a consulting firm's (or individual consultant) past performance or potential. For this reason, large consultancies make it known

that they spend a lot of resources on the search and selection of recruits. (Groß & Kieser 2006, 91) While there are few to no barriers to enter the market as a whole with a newly-found consulting firm, public reputation is a huge barrier to reaching its upper end. Public reputation is like a public good ; the information is non-excludable and non-rivalrous.

2. Experience-based trust relates to personal experience with a specific partner. A positive relation drives future action because a partner is less likely to act distrustfully in one transaction if future benefits are jeopardized. (Shapiro et al. 1992, 367) However, trust evolves slowly, and maintaining it requires commitment. That's why it is often constrained to a small group of business partners.
3. Networked reputation is a firm or consultant's reputation within a network of business relations (Glückler & Armbrüster 2003, 271). For example, "if a trusted party cannot provide the resources that are needed, their relations can be used in order to obtain trustworthy information about parties one is not connected to." (Glückler & Armbrüster 2003, 280) Not only consulting partners can make recommendations; Höner & Mohe (2009, 308) proposes building informal networks that would allow managers to communicate their experience in consulting to each other.

Public reputation has a high market scope, as all potential partners are active in a specific market, but it generally results in less certainty, since public reputation is easily manipulated. Experience-based trust produces high certainty, but a low market scope, since rarely, one has had interpersonal experience with all potential partners. Finally, networked reputation sits somewhere in between: via a social network, one can estimate the reputation of various consulting partners and it also produces high certainty, since relations are at stake.

Clark (1993, 243-244) asked 55 respondents about the factors that are important when choosing an executive search & selection consultancy. "Reputation of individual consultants" and "reputation of the consultancy" are in the top three factors. This reputation often arises from "a history of past transactions with individual consultants. Frequent transactions between consultants and clients leads to familiarity which underpins the latters' assessment of the former." In other words, because finding a new consultants implies

a search cost (Wilson 2012, 1072), incumbent consultants are expected to receive new contracts as long as the cost incurred from a potential sub-optimal performance is lower than the search cost of finding a new consultant.

The findings in Clark (1993) are confirmed by Richter & Niewiem (2009, 285) who found, with regards to projects that involve client-specific information, that "clients are willing to involve external consultants with whom they have established a relationship of trust in the execution of such projects. [...] intermediate forms of governance between the extremes of market procurement from an anonymous provider and fully-fledged integration, are not only viable, but an effective option for clients to procure managerial services." Organizations are more inclined to work with consultants with whom they have no experience when no client-specific information or industry expertise is required. A prior client/supplier working relationship is also listed as an important determinant in the meta-analysis by Lacity et al. (2011, 235).

According to Nayyar (1990, 516) "reputation performs as an implicit contract. It is enforced by the seller's concerns about future demand for the service provided. [...] reputation is likely to exhibit characteristics of a public good. Once acquired, it can be user over and over again in the context of other services or markets."

According to a survey with 150 German companies (Groß & Kieser 2006, 91), for 73% of respondents, reputation is a deciding factor. Furthermore, 50% of respondents indicated that recommendations from managers of other companies is a deciding factor.

Procurement "Management consulting is a highly interactive service in which interpersonal trust and 'liking' play a central role. [It is often described] as very similar to recruiting an employee." (Furusten & Werr 2005, 185) Experienced managers buy the services of individuals in whom they have confidence, not from consulting companies. The role if interpersonal is motivated by the argument that the need for consultants is often not driven by the organization, but by the manager's personal needs and insecurities. What is results is the assumption that managers do not always behave in the company's interest when dealing with consultants, and governance measures are required (Höner & Mohe 2009, 300). This ties in to the "agent's agent" argument in Fincham (2002), discussed earlier.

Höner & Mohe (2009, 307) describes how a central purchasing/project office which selects consultants on behalf of the managers could streamline the hiring process of consultants. Furthermore, this office could be tasks with control and coordination of all consulting projects, going beyond mere selection. Nevertheless, this could be incongruent with company culture and managerial budget responsibility.

Typically, the involvement of procurement intermediaries commodify[13] management knowledge (OMahoney et al. 2013, 205-206). However, commodification is often resisted on two fronts, both representing a power struggle.

- On the one hand, the "producers" of management knowledge, (i.e. the consultancy firms) are well aware that commodification could potentially neglect their competitive advantages, having a deleterious effect on their profit margins.
- On the other hand, as procurers define the problem of management, the come in direct competition with the managers they represent.

Höner & Mohe (2009, 305-306) found that friction between managers and procurement can result in three behavioral patterns:

- departmentalism: managers claiming that their department, contrary to the company as a whole, is very transparent regarding their use of consultants.
- authority protection: managers claiming that intervention ins their authority is neither necessary, nor desired and that they have authority to how their department's problems are solves.
- laziness: managers do not recognize that using consultants effectively is a significant managerial task, and underreport unsuccessful projects.

Purchasing Regulation (˜procurement, TODO) See Sturdy (2021, 4-5)

[13] Commodification is "the process whereby an object (in the widest sense of the term, meaning a thing, an idea, a creature, etc.) comes to be provided through, and/or represented in terms of, a market transaction", crystalizing their value into a price. (Carvalho & Rodrigues 2008)]

Höner & Mohe (2009, 307) proposes setting op standardized processes for dealing with consultants. These would give managers "clear instructions for dealing with consultancy and enhance the principal's control." However, the author highlights that this might impact a manager's perception of their autonomy and they might act in ways to ignore or bypass these rules.

Third-Party Assessment (TODO) Zucker (1985, 57-62) describes the rise of the "social overhead sector" in the 20th century. This sector acts as an "intermediary" in a variety of situations: stock brokers, real estate agents, banks, etc. The same principle can be applied to consultants: assessment by a third-party agency can prevent adverse selection.

See (Armbrüster 2006, 76-77).

According to some, assessing the quality of consultants is impossible. For example, according do Bloomfield & Danieli (1995, 40), "there can be no presumed separation between technical skills and political skills, and no ranking between the two in terms of their importance for consultancy practice and the development of IT in user organizations." Furthermore, Bettencourt et al. (2002, 101-102) states that for knowledge-intensive business services (KIBS) to succeed, a lot depends on the client. "Client co-production roles [...] are emergent, multi-faceted, and highly collaborative because clients themselves possess much of the knowledge and competence that a KIBS firm needs to successfully deliver its service solution."

For evaluating (future) performance of consultants, one has to rely on informal and relational criteria (Wright & Kitay 2002, 277). According to Clark (1993, 250), "the main trust-producing mechanism [...] is the 'closed' social structure; a form of individual trust. The formal, institutional-based, trust-producing mechanisms are weak. It is the contractual guarantees, and the history of past transactions underlying reputation, which overcome the potential effects of adverse selection and moral hazard."

Another valid point is raised by Basu & Lederer (2011, 23) , who discovered that prequalification efforts displayed little effect on adverse selection because the consultant might present an excellent reputation, but individual consultants assigned to a project might lack the required skills.

Consulting Database Sturdy (2021, 5) proposes internalization of supplier information. For example, Mohe et al. (2006) set up an *infobase* in DaimlerChrysler that can be used by internal managers for managing consultants and consulting projects. It contains news and trends regarding consulting, process guidelines, consultant profiles, past projects and management info (such as price).

Höner & Mohe (2009, 308) proposes an institution within an organization that has the staff and capabilities to support managers in dealing with consultancy. This institution would hold data on previous consultancy engagements, assisting managers in choosing the adequate consultancy partner. Their service is entirely voluntary and secures discrete conduct and sensitivity when dealing with confidential information.

7.3.2 Preventing Moral Hazard

Monitoring (TODO) "At the post-contractual stage, agency theory asserts that monitoring the agent gathers information about the agent and helps reduce opportunism. Monitoring places an uncomfortable social pressure on the agent that increases compliance. It also increases the principal's ability to detect the agent's opportunism and thus to appropriately reward or sanction agent behavior. It reduces the agent's motivation to justify a failed strategy, and promotes actions consistent with shareholder goals." (Basu & Lederer 2011, 13)

Researchers have emphasized three broad ways in which consultants should be monitored (Basu & Lederer 2011, 15):

1. When the consultancy firm gives their agreement to the specified deliverables and accompanying deadlines.
2. During the implementation of a project, the client verifies that the deliverables are being produces according to the original plan by thoroughly and regularly assessing reviews and written and oral progress reports. Meeting with consultants is essential to ensure that consultants share all relevant information in a timely manner.
3. During the implementation of a project, the client checks that the consultants do not sacrifice quality nor scope to meet deadlines. Furthermore, the originally committed staff should not be changed without approval.

Nevertheless, since monitoring often rely on surrogate measures, consultants can displace their behavior toward these surrogates in order to appear to be behaving well. (Shapiro 2005, 281)

See also @nooteboom2000.

Whistleblowing (TODO) Also media.

Incentivization (TODO) Contrary to the design and enforcement of contractual obligations, management by self-interest (i.e. incentivization) "has the advantage that it is cheaper than contracts, is more flexible, and it is in the players' own interest to be seen to comply with agreements." (Nooteboom 2000, 924) However, it's not a silver bullet as it requires a need for observation, measurement and monitoring. Yet, "How does one measure and monitor degree of dependence, spillovers, and specificity of investments?" It's hard to quantify compensation for such intangible risks. Furthermore, it is hard to maintain, since competences and external conditions are constantly changing.

"Basing the agent's rewards and incentives on imperfect surrogates of performance leads to moral hazard, but aligning the preferences of the agent and the principal through an appropriate reward structure helps curb the agent's opportunistic behavior." (Basu & Lederer 2011, 13-15) Several actions are proposed to align incentives: link payment to completion of the promised deliverables, sharing of cost savings or overruns with the consultancy firm, incentives and penalties related to timely completion of a project.

Liberatore & Luo (2010, 264-266) finds that a higher goal congruence between the consultancy firm and the client is an enabler of project performance.

A particular form of incentivization is "hostage-taking": "one-sided ownership of specific assets may be balanced by one-sided hostages going the other way, or by a rigorous reputation mechanism." (Nooteboom 2000, 924) When there are no trust-related nor legal enforcement mechanisms, parties can be discouraged from forming long-term relationships. According to Werner & Keren (1993, 47-48), "hostages" are used in situations where rational behavior would lead to sub-optimal outcome, in the Paretoian sense. In game theoretical terms, hostage-taking is used to prevent defecting behavior.

In terms of the subject of this paper, "hostages" could come in the form of contingent

fees. See (Clark 1993, 243)

See Tosi et al. (1997).

Reputation could also be taken hostage. (Shapiro et al. 1992, 368)

Third-Party Moderation (TODO) Babin et al. (2017, 6-7) describes a single case study in which trust in an outsourcing relationship had eroded over time. Instead of parting ways, it was clear that both parties needed each other. A proactive approach in the form of a third-party facilitated workshop successfully addressed the trust problem. "When both sides feel hurt, and do not trust the other side, it can be difficult to take preliminary steps to begin to repair inter-organizational trust. An objective outsider using a formal approach proved useful to initiating the trust repair activities.

First-Party Assessment (TODO) As Mayo (1945, 111) describes: "the belief that the behavior of an individual within the factory can be predicted before employment upon the basis of a laborious and minute examination by tests of his technical and other capacities is mainly, if not wholly, mistaken. Examination of his developed social skills and his general adaptability might give better results."

"A second vehicle for improving understanding and predictability between partners is to conduct very good research on the potential partner before a relationship is engaged. This research is directed at assessing the real compatibility, or"interpersonal fit," between partners, as well as assessing the degree to which a potential partner engages in predictable behavior." (Shapiro et al. 1992, 370)

Relational Mechanisms According to the research by Lacity & Willcocks (2012, 4-5) relational governance is operationalised most frequently as "effective knowledge sharing, communication, trust, and viewing the provider as a partner." Nevertheless, "contractual governance and relational governance are not substitutes in that a poorly crafted contract cannot be overcome with friendly, communicative, and trusting account managers. Poor contracts, we have found, can make for poor relationships."

Clans Ouchi (1980) proposes to provent opportunism through the establishment of a "clan"[14], which involves commitment from all parties and eliminates short-term inequities over time. Clans achieve the "union of objectives between individuals which stems from their necessary dependence upon one another. [...] [c]lans display a high degree of discipline [...] achieved through an extreme form of the belief that individual interests are best served by a complete immersion of each individual in the interests of the whole."

Clans differ from bureaucracies and markets in that they don't require auditing or evaluation as it takes place "through the kind of subtle reading of signals that is possible among intimate coworkers but which cannot be translated into explicit, verifiable measures." (Ouchi 1980, 137) For clans to succeed, the following conditions are required: reciprocity, legitimate authority, common values/beliefs and traditions. The former three are normative, while the latter is informal. When these conditions are not met, clans are merely ceremonial and ritualistic.

Within the context of digital consultancy, reciprocity is important in the sense that everybody within a team, both employees and consultants needs to have the freedom to call each other out. Furthermore, managers, product owners and lead developers can assume the role of legitimate authority.

However, both the conditions of traditions and common values/beliefs are the hard to achieve. Mayo already construed in 1945 that "by reason of external circumstance [...] groups [that] have little opportunity to form, the immediate symptom is labor turnover, absenteeism, and the like." (Mayo 1945, 111) A partial socialization may be accompanied by market or bureaucratic mechanisms (Ouchi 1980, 138), such as the participation in company meetings, to achieve common values and beliefs.

[14]Ouchi (1980) borrows the concept of a clan from Durkheim & Halls (1997, 127) who gives the term 'clan' to "a horde that has ceased to be independent and has become an element in a more extensive group [...] It is a family in the sense that all the members who go to make it up consider themselves kin to one another [...] The affinities produced by sharing a blood kinship are mainly what keeps them united. What is more, they sustain mutual relationships that might be termed domestic, since these are to be found elsewhere in societies whose family character is undisputed: I mean collective revenge, collective responsibility and, as soon as individual property makes an appearance, mutual heredity."

Psychological Contract Obligations According to Ang et al. (2004, 357), the legal interpretation of an IT outsourcing contract is too limited. Instead, they claim that the construct of a *psychological contract* is more appropriate for analyzing the relationship between an IT service supplier and customer. The concept of a psychological contract states that contracts are "idiosyncratically perceived and understood by individuals [and] [s]ubjectivity in the contract leads to disagreement between parties." (Rousseau & Parks 1993, 21)

Consequently, the psychological contract not only comprises the legal contract, but also the unwritten promises, interpersonal relations, and the individual interpretations and perceptions. Since consultancy contracts can become extremely complex (with project descriptions going into the ten thousands of words), and the involved parties entangled in multiple ways, these intangible aspects can gain prominence. The research in Ang et al. (2004, 369-70) outlines several psychological contract obligations that positively impact the success of an outsourced IT project.

- On the supplier side: (1) clear authority structures, (2) knowledge transfer by educating the customer, (3) building inter-organizational teams.
- On the customer side: (1) clear specification of requirements, (2) prompt payment, and (3) project ownership and monitoring.

The strength of psychological contract theory is threefold:

1. it focuses on mutual obligations;
2. the emphasis is on psychological obligations;
3. the emphasis is on the individual level–not on the organizations as parties of the contract.

Cooperative-level Contracts Closely related is the work by Willcocks & Kern (1997, 9-13) that makes a distinction between the contractual level and the cooperative level. The contractual level is about payment for the exchange of services and the transfer of assets, information & consultants. The cooperative level involves formal communication mechanisms; personal investments in time, resources & knowledge; mutual goals &

objectives and social bonds. The atmosphere surrounding the former is heavily impacted by developments at the latter. A respondent in Willcocks & Kern (1997, 9) states that "the contract is a bit like a nuclear deterrent. You need one and you have got to have a framework, but if you've got to use it you are probably in trouble."

Relational Contracts Rousseau & Parks (1993, 10-12) describes a continuum between transactional contracts and relational contracts. On one end of the continuum, the former is based on "short-term monetizable agreements with limited involvement of each party in the lives and activities of the other." On the other end, the latter describes "agreements based upon exchanges of both socioeconomical and monetizable elements, duration which is open-ended and often long term, and a high degree of flexibility."

8 Research Design

Abstractie maken van zaken zoals cultuur, bedrijfsgrootte, etc. Link met HR & internaliseren van externen, externe kennis.

1. Why do Belgian organizations rely on digital consultants? (b) What are inhibitors & enablers for the success of working with digital consultants? (c) How is success defined?

2. Do Belgian organizations experience principal-agent problems regarding the digital consultants?

3. Which control mechanisms do Belgium organizations have in place with regards to adverse selection and moral hazard of digital consultants?

4. Which control mechanisms positively impact success of engaging with digital consultants?

Research questions for side projects:

1. Why do people join a consultancy firm or become an independent consultant?
2. Do reputational effects exist on the individual consultant level or on the firm level?

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