(working title) Control mechanisms for working with consultants

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Abstract

Keywords:

1 Introduction

2 Relevancy

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 State of the literature

3.1 What is digital consultancy?

3.1.1 Definitions

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), "magical figures, shamans or witch doctors" (Fincham 2002, 68) 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 by Muzio et al. (2011). Furthermore, consultancy is marked by very low professionalization as occupational entry is unprotected, the supply of labor is unregulated and there is no formal accreditation. (Fincham 2006, 20) Practicising "consultancy" is the main criterion of membership with competences and 'time spent in the industry' as the main differentiators.

One could say that who they are, 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."

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 *raison d'être*. 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."

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.

Despite these blurred lines, this paper focuses on consultants that aim to accomplish change through information technology. Although many papers describe this group as "IT consultants" (Nevo et al. 2007, Loh & Venkatraman 1992, Fincham 2006, Armbrüster 2006, Bloomfield & Danieli 1995, Schwarz & Watson 2005), none of the big consultancies offer "IT consultancy". Instead, they offer consultancy in digital operations (PwC); digital commerce & engineering (Accenture); digital transformation (EY, Bain, Deloitte); digital (McKinsey, KPMG); digital, technology & data (BCG).

Digital Consultancy

Contingent Workforce

Freelancer / Independent Consultant

Temporary Staffing

Outsourcing Outsourcing is the practice of obtaining goods or services from an external provider, as a substitute for sourcing it internally (Lacity & Willcocks 2012, 2). Although Willcocks & Choi (1995, 68-69) focuses specifically on IT outsourcing (infra), most outsourcing arrangements can be located on four spectra: * Focus: control through contract vis-à-vis results through trust and partnership * Time-scale: short-term vis-à-vis long-term * Criticality of the relationship: low vis-à-vis high * Mindset: contract out vis-à-vis strategic alliance

According to Liberatore & Luo (2010, 255) consulting differs from outsourcing with respect to two dimensions: (1) the client and the consulting organization may have conflicting goals and incompatible work practices. Despite these differences (2) client and consultant need to collaborate throughout the project.

IT Outsourcing

Business Process Outsourcing

Total Outsourcing Definition at Willcocks & Choi (1995, 67).

According to Willcocks & Choi (1995, 70-71), "the difference in mind-set that is often thought to be required as IT outsourcing decisions become more 'total' in their coverage, has many similarities to the espoused need for mind-set changes for managers working in long-term strategic alliances."

Furthermore, since working with consultants holds a risk of moral hazard (infra), maintenance and enforcement are aspects that need to be taken into account. Typically, total outsourcing relations don't rely on trust mechanisms solely and are accompanied by contractual governance measures.

Total outsourcing entails some risks (Willcocks & Choi (1995) 77). Organizations need to be wary of the balance shifting in favor of the vendor, unless clients maintain some countervailing leverages to support the basis of their partnership.

Knowledge-intensive business service

3.1.2 Emergence

Some papers to explore:

- (Armbrüster 2006, 120-130).
- (Van Den Bosch et al. 2003)
- (Fincham 1999, 336)
- (McKenna 2006)

3.1.3 Why digital consultancy? A practical perspective

Turner (1982) provides a hierarchy of consulting purposes. The first five are traditionally associated with consultancy, while the last three are seen as by-products, and often not as explicit goals.

1. Provide requested information
2. Provide solution to given problem
3. Conduct diagnosis that may redefine problem
4. Provide recommendations
5. Assist implementation. This 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." Also, "a frequent dilemma for experienced consultants is whether they should recommend what they know is right or what they know will be accepted."
6. Build consensus and commitment
7. Facilitate client learning
8. Improve organizational effectiveness

If we go from consultancy, in general, to IT consultancy, it is essential to understand that over the past decades, their possible roles and variety of responsibilities have expanded drastically. Swanson (2010, 20-25) has described five different ways how consultants can contribute to an organization's innovation process through IT.

- *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.

Financial expectations

- Reducing costs:
- "executives wanting to exercise control over the management and investment of IT, but lacking the expertise." (Sturdy 1998, 233)

- Improving cost controls
- Restructuring IT budgets

Business expectations

- Focusing on core activities
- Facilitating mergers & acquisitions
- Starting-up a company

Technical expectations

- Improving technical service
- Accessing talent & technologies

Political expectations "... using the 'objectivity' and/or status of consultants to legitimate or influence a course of action." (Sturdy 1998, 233)

Knowledge transfer & diffusion 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*."

There is substantial research on knowledge management (as a multidisciplinary discipline within the field of information science) and knowledge transfer (as a broad topic within the discipline). Furthermore, there seems to be some academic interest in knowledge transfer in a principal-agent context (Nan 2008, Haines & Goodhue 2003), as is the case with between an organization and their contingent workforce. This research could be key in steering and narrowing the scope of the research.

Attracting capabilities

- "Attracting capabilities that are in short supply." Aubert et al. (1996, 52) "... lacking the skills for a project or, less explicitly, to compete with each other." (Sturdy 1998, 233)

3.2 Why digital Consultancy: a theoretical perspective

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.

3.2.1 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. Ex ante transaction costs come in the form of drafting and negotiating an agreement, which can become extremely complex when lots of contingencies are present. Ex post transaction costs, on the other hand, include maladaptation costs, when the delivery of a good or service drifts from its initial conceptualization, the haggling costs for adapting the contract, the setup and running of governance structures to handle disputes and finally and recurring bonding costs to secure commitments.

Their bounded rationality makes it impossible for humans 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).

According to transaction cost economics, the decision whether a service should be conducted in-house or purchased in the market is based on the comparison of the sum of production and transaction costs (Armbrüster 2006, 12).

Canback (1998, 31) does a solid job explaining the role of transaction costs in explaining the raison d'être of consultants. "As companies strive to reduce the production costs by exploiting scale and scope economies, they must specialise – which in turn leads to a need for internal coordination. If transaction costs did not exist, then the largest company in each market would also be the most profitable company, since coordination between functions could be achieved without effort. But because of transaction costs, this does not happen." The result is that blue-collar jobs disappear as production costs are reduced, while white-collar jobs, aimed at coordination, do not.

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 for working with internal consultants when it comes to knowledge production?

Canback (1998, 37-44) argues it does, and arguments 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 they not be put to use for another purpose. With highly idiosyncratic transactions, 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).

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 interfirm agreements. Where a single ownership entity spans both sides of the transactions, a presumption of joint profit maximization is waranted."

Williamson (1985, 95-96) identifies 4 types of asset specificity:

1. Site specificity: the degree to which the successive stages of production are in close proximity to each other.

2. Physical asset specificity: the degree to which the physical properties of the product are unique.
3. Human asset specificity: the degree to which the skills, or configuration of skills within a team, are unique to an organization's production process.
4. Dedicated assets: ???

The second dimension is the *frequency* of transactions on the buyer side. A transaction with high asset specificity does not require a different contracting approach, because there is no subsequent phase in which the buyer can leverage his monopsony 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." and as a solution, reduces the concept to "behavioral uncertainty", hereby ignoring environmental uncertainty (Watjatrakul 2005, 391-392) This is in line with Williamson (1985, 79) who claims that "The proposed match of governance structures with transactions considers only two of the three dimensions for describing transactions: asset specificity and frequency. The third dimension, uncertainty, is assumed to be present in sufficient degree to pose an adaptive, sequential decision problem. [...] Since continuity now matters, [...] uncertainty makes it more imperative to organize transactions within governance structures that have the capacity to 'work things out.'"

When we bring these three dimensions together, we conclude that behavioral uncertainty arises from asset specificity because it may lead to opportunism, but only in recurrent transactions. In this context, behavioral uncertainty and 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 mainly human asset specificity that favor using consultants, since their assignments typically have a low human asset specificity so that the solution or advice can be reproduced

at many organizations.[1] Watjatrakul (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, IT 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."[2]

[1]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 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).

[2]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."

3.2.2 Agency Theory

Agency theory is very compatible with transaction cost economics. When an organization decides to not develop a specific service in-house, and instead, buys it in the market, it encounters agency issues: information asymmetries and goal incompatibility. See Shapiro (2005). 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.

3.2.3 Resource-based View

The resource-based view rejects the traditional microeconomic assumptions that goods or services are homogeneous. Instead, it argues that they are heterogeneously distributed across firms, and not perfectly transferable Watjatrakul (2005, 392). 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 to exploit opportunities in the market, or neutralize those established by competitors. To be strategic, resources should be valuable, rare, inimitable and non-substitutable.

In Willcocks & Plant (2003, 177-180), four types of sourcing options for developing IT projects are outlined, of which three involve consultants.

1. Internal development: has the the advantage of internalization of the learning outcomes, but comes with high costs related to mistakes and being the first mover.
2. Outsourcing: has the advantage of tapping into existing knowledge and experience, and the ability to get quickly up to speed. However, internalization of learning outcomes is not guaranteed, and consultants may not be familiar with existing organizational processes. For example, the development of an internal application by an external party.
3. Insourcing/partnering: has the same advantages as outsourcing, with the added bonus of facilitating the internalization of the learning outcomes. The disadvantage is mostly related to a more complex project management, with a variety of parties involved. For example: long-term contracts with IT consultants who operate side-by-side with an organization's own staff.

4. Cheap-sourcing: when IT projects are low risk, and far from the core business, and organization should consider cheap-sourcing. This option involves low investments and effort, but also comes with no internal learning. For example: development of a new promotional website by a digital agency.

In the same research paper, Willcocks & Plant (2003, 188-189) identify two congruent four-quadrant matrices to assess sourcing options.

- By business activity: non-critical, commoditized applications should be out-sourced. Critical, commoditized applications should be insourced or built in-house, and differentiating, critical applications should be built in-house or acquired.
- 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 and a low-cost, high-quality market is perfect for outsourcing.

By referring to commoditization, Willcocks & Plant (2003) implicitly refers to asset specificity, blending elements of transaction cost economics in the resource based view. Watjatrakul (2005) does this explicitly 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.

3.2.4 Identification Theory

The research by Schwarz & Watson (2005, 311-313) claims that it matters *who* implements an IT project: "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. The sourcing assessment needs to incorporate this finding.

"... competitive pressures, on both clients and consultants, combined with a US culture of anti-intellectualism and 'macho' (grand and unreflective) visions lead to the marketing and adoption of simplistic and necessarily flawed techniques." (Sturdy 1998, 34)

"Terms 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." (Gill & Whittle 1993, 290)

3.2.5 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 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)

Several empirical findings support embeddedness theory.

3.2.6 Sociological neoinstitutionalism

A theory that is systematically drawn upon (Armbrüster 2006, 6-8) is sociological neoinstitutionalism. It is based on the argument that the belief in efficiency of certain practices or solutions drives economic actions, rather than the proven efficiency. 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.

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.

Clearly, this view is mainly appropriated by the critical view since it raises doubts about the efficient outcomes on the practice of consultancy.

3.2.7 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 argues that in uncertain markets, suppliers invest in features that signal status, quality and reliability.

Zucker (1985, 15-16) argues that these features can also be used to signal 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.

4 Problem statement

Organizations employing the services of a contingent workforce, like digital consultants, should always be aware of principal-agent problems arising from information asymmetries. This is caused by the fact that a transaction between a vendor and a buying organization involves the delivery of services in the future. As a result, opportunism is always lurking around the corner.

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

Hiring consultants for digital services deserves a dedicated scope, because of the following five properties that make it very prone to opportunism (Leslie & Mary 1995, 207).

1. Information technology evolves rapidly. Consequently, it involves a high degree of uncertainty. (ex ante)
2. The underlying economics of IT changes rapidly, making it hard to evaluate the consultant's contribution. (ex post)
3. IT has penetrated all business functions. It is hard to isolate it from organizational functions. The question is rarely about "outsourcing or not", but more often about "what tasks will be outsourced, and how". The result is that the responsibilities of in-house staff and consultants is very intertwined. (ex post)
4. The cost of switching providers are often significant. For example: some consultants have exclusivity for implementing a certain solution. (ex post)
5. Clients might be very inexperienced with regards to IT (and outsourcing it). This puts them at a disadvantage for selecting and evaluating a consultant (ex ante, ex post).

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.

4.1 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.

(Armbrüster 2006, 69-75) outlines various reasons for quality uncertainty and groups them in two categories.

Category 1: Formal institutional uncertainty

- Consulting is an unbounded profession.
- Consulting is an unbounded industry.
- Consulting has unbounded service lines and product standards.

Category 2: Transactional Uncertainty

- Confidentiality
- Product intangibility
- Interdependent cooperation

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. Furthermore, the author of this paper is unaware of legal barriers to entry.

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."

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)

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)

Why does digital consultancy require a separate study? - Due to long-term involvement in huge projects, can take long for reputational info to spread and kick in - Vendor is tech-savvy & can manipulate online reputation

4.2 Moral Hazard

See (Armbrüster 2006, 72-73).

Why does digital consultancy require a separate study? - Work from home - Complexity lends itself to hiding fuckups. - Digital evolves quickly

- Vergelijking maken met andere soorten consultancies.

4.3 Governance Measures

Several mechanisms have already been proposed. What they all share is that they should result in a higher degree of trust[3] between the business partners. More specific, trust from the principal towards the agent. Liberatore & Luo (2010, 265) found that building trust, and goal congruence, can help solve the agency problem because it drives the consultancy firm's motivation for short-term profits towards long-term business and reputation.

See Lewicki et al. (2006).

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4.3.1 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 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.

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.

[3]Trust is defined in the broad sense: "a set of expectations shared by all those involved in the an exchange." (Zucker 1985, 2)

- On the customer side: (1) clear specification of requirements, (2) prompt payment, and (3) project ownership and monitoring.

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."

4.3.2 Reputation

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. 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. 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 the result of word-of-mouth recommendations

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.

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."

4.3.3 Regulation

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

Government Initiated Codes See Sturdy (2021, 3-4)

Self-imposed Sectoral Codes See Sturdy (2021, 4)

Contractual Obligations *How to manage an IT outsourcing alliance: McFarlan, F. W. and Nolan, R. L. Sloan Management Review 36 (2), 9–23 (Winter 1995)* (1995) claim that it is important to have flexibility in an outsourcing contract, because the target state of a project might change due to evolving technology and business environment. Nevertheless...

Lacity & Willcocks (2012, 4) describes that there is substantial evidence that positive outsourcing outcomes are associated with:

- more detailed contracts with regards to scope, service levels, responsibilities and adaption to change;
- shorter-term contracts;
- high-value contracts.

More detailed contracts, when resulting in requirements uncertainty, is an enabler of goal congruence and trust between the consultancy firm and the client, which is found to result in a better project performance (**?**).

4.3.4 Formalised Transactional Contracting (Purchasing Regulation)

See Sturdy (2021, 4-5)

4.3.5 Third-party Assessors

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),

4.3.6 Whistleblowing

Also media.

4.3.7 Incentivization

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

4.3.8 Specific Commitment

See Sturdy (2021, 12)

4.3.9 Hostage-taking and contingent fees

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)

4.3.10 Infobase

4.3.11 Clan mechanisms

See Aubert et al. (1996, 62) and

4.3.12 Outcome-driven contracts

See Tosi et al. (1997).

5 Research Questions

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

1a. Why do Belgian firms rely on digital consultants? 1b. What are inhibitors & enablers for success of digital consultants? 1c. Definition of success

2. Do Belgian firms see PA problems with digital consultants?
3. Which control mechanisms do Belgium firms have in place with regards to adverse selection and moral hazard of digital consultants?
4. Which control mechanisms positively impact success of engaging with a consultancy firm?

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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