How knowledge accumulation has changed strategy consulting: strategic options for established strategy consulting firms

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- *There is considerable research evidence to confirm that the accumulation of knowledge contributes to the competitive advantage of firms. However, in strategy consulting, one of the most knowledge-intensive professional services, established firms that exploited their knowledge accumulation by adding exploitative consulting practices have found their performance has deteriorated.*
- *The increasing share of exploitative practices in the strategy consulting industry has attracted both established ICT-related consulting firms and new entrants. Moreover, it has enabled clients to expand their problem-solving abilities. These developments, in terms of competitiveness and client competencies, have reduced the attractiveness of exploitative practices for established strategy consulting firms.*
- *To analyse this development and to provide strategic options for the established firms, a conceptual framework is proposed. Based on this framework three strategic options are identified: 'follow the herd', 'become ambidextrous' and 'back to the original focus'. In summarizing our argument, we highlight the pros and cons of these options and the implications for senior management.*
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Introduction

There is considerable evidence to suggest that the accumulation of knowledge contributes to the success of firms (Grant, 1996; Van den Bosch *et al.*, 2003). Paradoxically, in strategy consulting, which is one of the most knowl-edge-intensive professional services, accumulating knowledge has reduced the attractiveness of the industry. Although established strategy consulting firms were successful for a long time, they now face serious problems. Previous research by Wright and Kitay (2002) in this journal found that the performance and legitimacy of management consultants had come under some pressure. The established strategy consulting firms are also threatened by changing client demand and new competi-tors. According to *Fortune Magazine* (2003: 50) '*the pure-play strategy guys*' are in trouble.

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Similarly, *The Economist* (2002: 61) concluded that, '*the strategy consulting industry is wasting away*'.

What then has caused this parlous situation for the established strategy consulting firms? This question is not only relevant to the consultancies concerned, but also for their clients and for the practitioners and scholars engaged in the strategy field. As the core product of strategy consulting is knowledge, we use a *knowledge-perspective* in investigating this question. By doing so, we hope to contribute to previous research on management consulting (e.g. Perren and Atkin, 2000; Kipping and Engwall, 2002; Armbrüster and Kipping, 2003). We focus on the impact of knowledge accumulation on the strategy consulting industry in general and on the position of established strategy consulting firms in particular. We also discuss briefly the strategic renewal options of these firms (Volberda *et al.*, 2001a). Our analysis is based on both public and company data. Interviews were also conducted with partners in strategy consulting firms during the period 2003–2004.

The paper is structured as follows. First, we describe how knowledge accumulation by established strategy consulting firms has induced exploitative and hybrid consulting practices and we suggest a conceptual framework to investigate this development. Second, in illustrating the framework we show how these exploitative and hybrid consulting practices attracted both established IT-related consulting firms and new entrants to strategy consulting. Third, we examine how clients benefited from knowledge accumulation by strategy consulting firms and subsequently, increased their ability (Sanchez *et al.*, 1996) to solve their own problems. Finally, in terms of strategic change, we discuss the options for the established strategy consulting firms and the implications for top management.

Distinguishing between explorative, exploitative and hybrid consulting practices

In strategy consulting, as in any professional service, a spectrum of key benefits that clients seek can be identified. This spectrum ranges from creativity to improving efficiency, depending on the particular type of problem experienced by the client (e.g. Maister, 1993). Clients' problems range from those that are new to the strategy consulting firm, to problems that are familiar to them. This distinction is relevant because different client problems require different consulting practices. From a knowledge-perspective, we can distinguish a spectrum of consulting practices related to different kinds of clients' problems.

Following March (1991), who introduced the distinction between exploration and exploitation activities in organizational learning, *exploration* includes activities such as search, experimentation, discovery and innovation, while *exploitation* involves imitating, refining and adapting existing knowledge. Applied to consultancy practices, *explorative consulting practices* are about creating knowledge that is new for the consulting firm. *Exploitative consulting practices* are associated with leveraging existing knowledge known to the consulting firm. Exploitative practices focus on efficiency in knowledge processes and may utilize 'routine recipes' as opposed to 'deep strategic thinking' in explorative practices (Franklin, 2001). Explorative and exploitative consulting practices, therefore, require different resources such as using senior consultants, a different number of (junior) consultants per partner (leverage), different organizational structures and different leadership styles. These differences are in line with the literature on the organizational and managerial implications of performing explorative and exploitative knowledge activities in firms (Benner and Tushman, 2003). During

one of our interviews, a partner in an explorative practice pointed out the difference in leverage between both practices:

> *We do not have any juniors working around here. We have principals and directors. The experience base of a principal would be around ten years . . . and for partners let us say five years plus. There are no juniors. There are no graduates. So the bottom large two layers of the pyramid structure of the exploitative practice are not present in our company.*

Figure 1 provides an overview of the spectrum of consulting practices that range from explorative to exploitative types including the associated main characteristics of the practice and managerial and organizational requirements. The requirements to deliver explorative versus exploitative consulting practices are quite different. Hybrid practices consist of a mixture of both explorative and exploitative practices. To simplify Figure 1, these practices are not included.

The impact of knowledge accumulation on the strategy consulting industry and established strategy consulting firms

In emerging professional service industries, most projects will be new for the service firms as well as for their clients. This results in a substantial demand for explorative practices. However, when the professional service firms gain experience and accumulate knowledge, client problems will become increasingly familiar. Client problems that previously required an explorative approach can now be solved through a hybrid or exploitative one. The accumulation of knowledge by the professional service firms through learning from client projects expands the range of problems familiar to these firms at the expense of problems that are new to them. This development corresponds with Maister's (1993: 28) observation:

> *In every profession, one can point to practice areas that in only a few short years, have moved rapidly from being frontier activities handled by only a handful of innovative firms to high-volume practices*

Requirements:	Spectrum of strategy consulting practices:		
	Explorative practice		**Exploitative practice**
Type of client problem	New for consulting firm		Familiar to consulting firm
Approach of consulting practice	Creating new knowledge		Leveraging the existing knowledge base of the consulting practice
Key benefits for clients	Creativity, "deep strategic thinking"		Efficiency
Key resource of consulting practice	Senior consultants		Collective base of commodified knowledge
Size of typical consulting practice	Small		Large
Structure of consulting practice	Informal, collegial partnership of peers, low leverage		Formal, mechanistic, high leverage
Leadership of consulting practice	Informal, inspirational		Formal, authoritative

Figure 1. The spectrum of strategy consulting practices and the conflicting requirements.
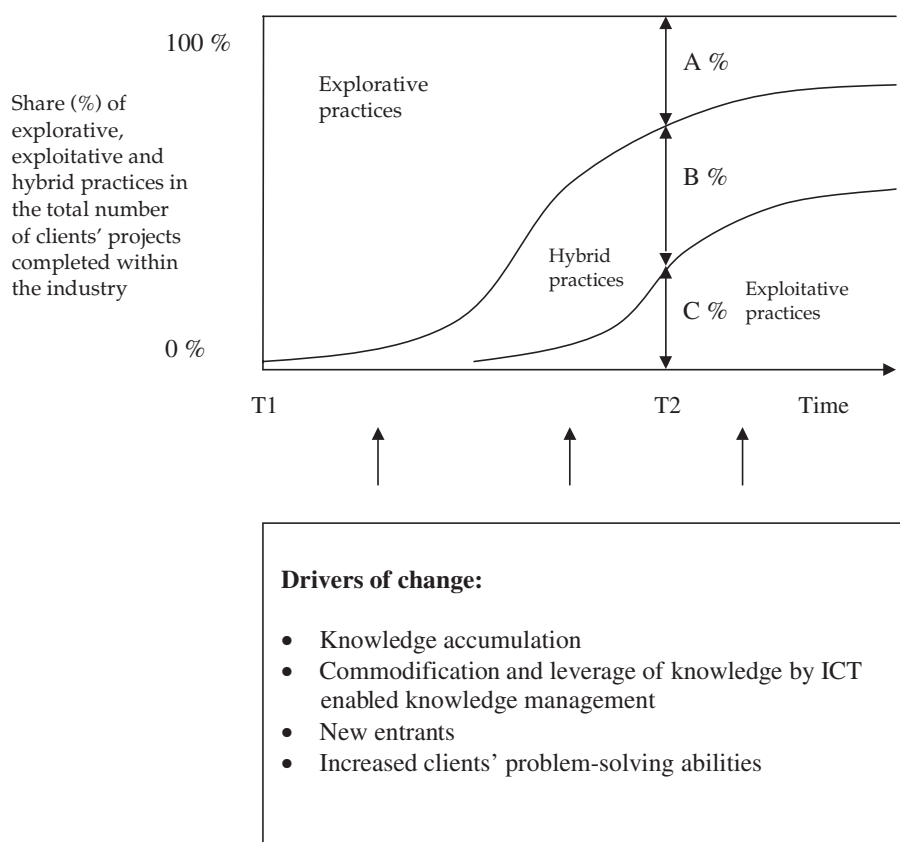
Figure 2. A conceptual framework to investigate the impact of knowledge accumulation and related drivers of change on the share of explorative, exploitative and hybrid practices of strategy consulting as a knowledge-intensive professional service industry.

offered by increasingly large numbers of competent firms.

To illustrate the main argument of the paper, we introduce a conceptual framework inspired by Maister (1993). The framework (see **Figure 2**) depicts the development of the share of explorative, exploitative and hybrid practices in the total number of client projects completed within the industry. Due to the ongoing process of knowledge accumulation and other related drivers of change to be discussed below, this development results in a declining share of explorative practices and a rise in the share of exploitative and hybrid practices. At the start (T1 in Figure 2) of a professional service industry such as strategy consultancy, almost all problems will be new to the professional service firm. At time period T1, therefore, the share of explorative prac-

tices will be around 100%. However, due to accumulation of knowledge by the consulting firms, the share of problems that are new to them and hence the share of the explorative practices will decline. At time period T2 the share of the explorative practice has declined from about 100% to A%, while the share of the exploitative practice has risen from about 0% to C%. The hybrid practice has increased to B%.

As the range of client problems familiar to established strategy consulting firms increased over time, the shares of exploitative and hybrid practices increased accordingly (see Figure 2). In this connection a partner with one of the established strategy consulting firms pointed out in an interview:

For each client assignment we have analogies at our disposal ... I'll search our

firm's database and look up who has carried out a similar assignment before.

A partner with another consulting firm referred to explorative practices when he told us:

Where-ever you look for inspiration, you have to go beyond the normal bounds of what everybody is studying normally in your industry and you have to combine that information to stimulate thinking about what happens.

These two quotations illustrate the principal difference between both practices as depicted in Figure 1. Exploitative practices use, to a large extent, 'commodified' knowledge bases while explorative practices are conducted by senior consultants that do not rely extensively on these knowledge bases.

Entering the growing market segment of exploitative practices was attractive for the established strategy consulting firms as it allowed these firms to leverage their knowledge bases accumulated during past projects. These consulting firms responded to the transformation of their industry by adopting a strategy of broadening their scope of practices. However, not all established firms adopted this approach. Some established top tier strategy consulting firms retained a focus on their traditional explorative practices.

To illustrate the conceptual framework (see Figure 2) regarding knowledge accumulation by the established strategy consulting firms of a particular business problem, we use the example of business process re-engineering (BPR). In the first half of the 1990s, the importance of BPR was recognized and the required new knowledge was created to address the associated problems for clients. In that period BPR was to a large extent an explorative practice. By the turn of the millennium, BPR became a familiar issue for strategy consulting firms and hence evolved into a hybrid or exploitative practice. This development is supported by a study regarding established strategy consulting firms indicating the use

of 'strikingly similar' methods and tools for business process re-engineering (Werr *et al.*, 1997). ICT-based knowledge management has enabled the development of exploitative consulting practices, the commodification of knowledge and attracted new entrants.

The increasing use of exploitative and hybrid practices by established strategy consulting firms required Information and Communication Technologies (ICT)-based knowledge management. To benefit from the accumulated knowledge, ICT increasingly provides the 'production technology' that strategy consulting firms rely upon for exploitative practices (Sarvary, 1999). Consulting firms have been among the first businesses during the 1990s to make heavy investments in ICT-based knowledge management (Hansen *et al.*, 1999). These technologies facilitate the codification, storage, access and dissemination of *explicit* knowledge within the consulting firm. Explicit knowledge relates to knowledge that can be easily codified, i.e. written down in documents and placed into databases. Contrary to explicit knowledge, *tacit* knowledge resides in the heads of individual consultants and cannot be easily codified. Using this type of knowledge for explorative practices, networks of professionals who can be approached for their tacit knowledge are required (Hansen *et al.*, 1999).

In a further attempt to capture and leverage the accumulated explicit knowledge, some strategy consulting firms attempted '*commodification*' of this knowledge. 'Commodification' is the term used to describe the transformation of unstructured problems and solutions into standardized problems and solutions (e.g., Elkjaer *et al.*, 1991). These firms have 'programmed' knowledge in procedures, methods and tools that could be stored in their ICT-based knowledge management systems. The 'commodified', or 'packaged', approach is typical of the exploitative practice (see Figure 1).

Robust and easy to handle procedures, methods and tools increase the efficiency of the consulting practice and can be administered by junior (less expensive) consultants (Ernst and Kieser, 2002). Commodification

therefore enables the increase of leverage. Moreover, the commodified approach to strategy consulting knowledge offers the strategy consulting firms advantages in the marketing of their services (Ernst and Kieser, 2002). With regard to Figure 2, commodification induces the growth of the exploitative practices segment at the expense of the hybrid practices one. The increasing importance of ICT-based knowledge management in strategy consulting, however, has changed the trend of competition within the industry. As Sarvary (1999: 97) has observed:

> *Originally, the consulting firm's proposition was to provide a resource: smart people to solve the client's problem . . . It is no longer enough . . . The firm must demonstrate the power of its collective knowledge base.*

The growth of exploitative consulting practices and in particular the emergence of commodification of strategy consulting knowledge, has lowered entry barriers and made the strategy consulting industry increasingly attractive to new exploitative players. Typically, these entrants used a strategy of commodifying knowledge to 'colonize' strategy consulting (Suddaby and Greenwood, 2001). In terms of Figure 1, these firms entered at the right side of the spectrum which corresponds to the exploitative practices segment in Figure 2. Both focused specialists and large (ICT-related) consulting firms have entered strategy consulting during the past decade. Compared to the established strategy consulting firms, the large ICT-related consulting firms have a number of competitive advantages in the exploitative practice segment: (1) their larger scale, (2) their ability to combine strategy and ICT, and (3) their ability to implement solutions.

Knowledge accumulation of strategy consulting firms has increased clients' problem-solving abilities

Knowledge accumulation and commodification on the part of the established strategy consulting firms has influenced the ability of their clients to improve problem-solving by themselves (Sanchez *et al.*, 1996). Instead of hiring strategy consulting firms as was customary in the past, clients increasingly conduct their own consulting activities. To investigate which consulting practices were affected, we have identified two approaches of clients to absorb part of the accumulated knowledge from established strategy consulting firms. In this connection, we propose to distinguish two basic strategies of clients: (1) those attempting to learn from previous consulting projects and (2) those hiring ex-consultants. Using the first approach, clients use the consulting firms' solutions, procedures, methods and tools to address repeated or similar problems. This client strategy negatively affects the demand for exploitative practices of consulting firms.

Using the second approach, large client firms hire ex-consultants or alumni from the same strategy consulting firms they used to hire for solving problems. Clients use the knowledge and problem-solving skills of the alumni to solve their problems instead of hiring the consulting firms. The level of seniority of the alumni influences which consulting practices will be affected. Due to the pyramidal structure and the 'up or out' career policy of most established strategy consulting firms, we may expect most alumni to be juniors. The hiring of junior alumni by clients will therefore mostly affect the exploitative practices of strategy consulting firms. Regarding this second client strategy, a partner in a strategy consulting firm pointed out in an interview:

> *There are far more alumni consultants [from the established strategy consulting firms] working at customers' firms than there are working at the consulting firms . . . There are so many ex-consultants with clients that they can do that [the relatively low value-added consulting work] themselves.*

Overall we expect that exploitative practices of consulting firms will be most vulnera-

ble to the spillover of accumulated knowledge from strategy consulting firms to clients. In relation to Figure 2, we expect that the knowledge spillover to clients inhibits the growth of the industry segment, particularly in respect of exploitative practices.

Strategic options for established strategy consulting firms

Established strategy consulting firms that broadened the scope of their practice by adding exploitative and hybrid practices now face a potentially threatening situation. These firms have moved from a traditional focus on the segment of explorative practices to a broader scope that includes all three segments (see Figure 2). By expanding beyond their traditional scope of explorative practices, they have entered into consulting practice segments that have become less attractive.

Established strategy consulting firms now face a potentially threatening situation

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Besides competing in increasingly less attractive practice segments, the competitiveness of established strategy consulting firms is hindered by the issue of managing multiple consulting practices within one firm with conflicting requirements (see Figure 1). The conflicting requirements of explorative and exploitative practices in terms of resources, organizational structures, incentives and leadership, frequently create severe internal tensions (Maister, 1993; Benner and Tushman, 2003). Broadening their scope, these firms are neither focused explorative nor exploitative players, but become 'stuck in the middle'. The challenge of these firms is to try to combine both practices in a way to improve their competitive advantage, that is by adapting an ambidextrous organizational form. Ambidex-

trous firms try to reconcile the tension between the conflicting managerial and organizational requirements of performing both exploitation and exploration activities (Birkinshaw and Gibson, 2004). The 'stuck in the middle' firms are therefore threatened by the existence of focused competitors. In the explorative segment they face established strategy consulting firms that restrict themselves to the original focus (that is explorative practice), and in the exploitative segment they are confronted by ICT-related consulting firms and other new entrants that focus on exploitative practices.

These competitive threats suggest various options. Based on Figures 1 and 2, we identify *three strategic options* for established strategy consulting firms: (1) the 'follow the herd' option; (2) the 'become ambidextrous' option, and (3) the 'back to the original focus' option.

In the 'follow the herd' option, the established strategy consulting firms continue to follow the industry through its life cycle by adding exploitative practices to an increasing extent. This option implies that established firms participate in each of the three practice segments. 'Following the herd' behaviour by large established firms can be observed in other industries as well (e.g., Volberda *et al.*, 2001b; Stienstra *et al.*, 2004). This option, however, does not seem to be viable in the long run. Competing successfully in the exploitative and hybrid practice segments will be especially difficult because of the developments in terms of client self-consulting capabilities and new entrants. If the established firms want to compete in the exploitative segment with these newcomers, they need to overcome their competitive disadvantages. Developing scale and building the capabilities for implementation and for combining strategy and ICT will require major investments by the established firms, and this takes time. Furthermore, the conflicting organizational requirements of the three practices will undermine the competitive advantage of the established strategy consulting firms in all segments.

The 'become ambidextrous' option means the established strategy consulting firms combine both explorative and exploitative practices to enhance their competitive advantage and performance. To this end, top management has to create the right framework for resolving issues of conflicting organizational and managerial requirements (Volberda, 1998). Birkinshaw and Gibson (2004) have identified two distinct, but complementary, organizational forms of ambidextrous organizations. First there is structural ambidexterity, which is the creation of separate organizational structures within a firm. For example, a business unit focusing on exploratory and another business unit on exploitative practices. Top management decides about the necessary organizational structure and the relative importance of both practices and defines the management roles. This form of ambidexterity is characterized by top-down decision-making.

The second is contextual ambidexterity, which allows systems and organizational structures to be more flexible and is characterized by less top-down and more decentralized decision-making. Such an organizational context allows knowledge workers 'to use their own judgement as to how they divide their time' between exploratory and exploitative practices (Birkinshaw and Gibson, 2004: 49). According to these authors, contextual ambidexterity requires knowledge workers that are multi-taskers, brokers of information and knowledge, and have a cooperative attitude. Creating an organizational context enabling contextual ambidexterity is difficult and therefore hard to imitate. **Table 1** illustrates both forms of ambidexterity. In examining both forms of ambidexterity from the knowledge perspective outlined in this paper, we believe the contextual ambidexterity form appears to be the most promising in terms of creating and sustaining a competitive advantage for strategy consulting firms.

The 'back to the original focus' option implies that established strategy consulting firms with a broad scope attempt to reduce their activities to their original focus on explorative practices. With reference to Figure 2, this option implies that these firms withdraw from the exploitative practice segments in particular. This option will result in a significant downsizing of current businesses of the established strategy consulting firms and in a reduction of their leverage. Such a reduction often has a substantial impact on both the firm's revenue as well as income per partner.

We have so far assumed that established strategy consulting firms remain independent. If this is the case, the first strategic option in particular will require substantial investments and time consideration to match the scale and abilities for implementation, and also for com-

Table 1. Exploitation, exploration and ambidextrous organizations

- To survive in dynamic and competitive environments, ambidextrous organizations need to reconcile exploitation and exploration activities as two contradictory organizational processes by implementing particular managerial and organizational requirements (March, 1991; Adler *et al.*, 1999; O'Reilly and Tushman, 2004).
- Two complementary forms of ambidexterity:

	Structural ambidexterity:	Contextual ambidexterity:
How achieved?	By separating exploration and exploitation in different units	Individual employees divide their time between exploration and exploitation activities
Locus of decision about exploitation/exploration	At the top of the organization	At front-line level
Role of top-management	Define structure, roles, responsibilities	Developing organizational context that enables employees to exhibit initiatives, cooperation, brokering skills and multi-tasking abilities
Skills of employees	More specialists	More generalists

Source: Adapted from Benner and Tushman (2003) and Birkinshaw and Gibson (2004).

bining strategy and ICT advice. However, established strategy consulting firms may also consider alliances and mergers with new entrants that already possess such abilities.

Conclusion

Considerable evidence suggests that knowledge accumulation contributes to the competitive advantage of firms. However, in strategy consulting, established firms that exploited their accumulated knowledge now face some major challenges. An explanation for this paradox is that many strategy consulting firms have adopted a strategy of adding exploitative and hybrid consulting practices to their traditional scope of explorative practices. By broadening their scope these firms have become 'stuck in the middle' as they have failed to address the conflicting requirements of explorative and exploitative practices. Furthermore, the exploitative practices sector appears to have lost its potential attractiveness because both clients and new competitors have exploited the results of knowledge accumulation by strategy consultancy firms.

As the conceptual framework depicted in Figure 2 shows, knowledge accumulation, the emergence of ICT-based knowledge management and the commodification of knowledge, the increasing tendency of clients to solve their own problems and the arrival of new entrants, constitute major drivers of change. Confronted with such changes, top management of those firms that are 'stuck in the middle' face the choice of at least three strategic options: (1) 'follow the herd', (2) 'become ambidextrous', and (3) 'back to the original focus'.

From the knowledge perspective taken in this paper, we suggest that firms seeking to become ambidextrous offer the best hope of attaining sustainable competitive advantage. This is the most demanding, difficult to imitate and therefore potentially the most rewarding of the three options. This option enables the established strategy consulting firm that are currently 'stuck in the middle' to reconcile the conflicting requirements of explorative and exploitative practices and develop the potential synergy between these two practices. It is also an option that offers opportunities to create new knowledge and services.

Biographical notes

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