The Economics and Sociology of Management Consulting

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Management consultancy is a key sector in the economic change toward a service and knowledge economy. This book explains the mechanisms of the management consulting market and the management of consulting firms from both economic and sociological perspectives. It also examines the strategies, marketing approaches, knowledge management, and human resource management techniques of consulting firms. After outlining the relationships between transaction cost economics, signaling theory, embeddedness theory, and sociological neoinstitutionalism, Thomas Armbrüster applies these theories to some central questions. Why does the consulting sector exist and grow? Which institutions connect supply and demand? And which factors influence the relationship between clients and consultants? By applying both economic and sociological approaches, the book explains the general economic changes of the past thirty years and sharpens the relationship between the academic disciplines.

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CAMBRIDGE
UNIVERSITY PRESS

CAMBRIDGE UNIVERSITY PRESS
Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press
The Edinburgh Building, Cambridge CB2 8RU, UK
Published in the United States of America by Cambridge University Press, New York

www.cambridge.org
Information on this title: www.cambridge.org/9780521857154

First published in print format 2006

ISBN-13 978-0-511-29209-5 eBook (Adobe Reader)
ISBN-10 0-511-29209-0 eBook (Adobe Reader)

ISBN-13 978-0-521-85715-4 hardback
ISBN-10 0-521-85715-5 hardback

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Preface and acknowledgments

THIS BOOK on management consulting is based on several sources of inspiration, and it is hard to say which the most important one has been. A first source was my own employment as a management consultant, first at a medium-sized information technology (IT) and organizational consultancy in Berlin, then at a small mergers and acquisitions (M&A) consulting firm in London, and eventually as a summer associate at a large strategy consultancy. The vicissitudes of these firms inspired my interest in management consulting as an academic topic, and after completing my PhD thesis on a different subject I started doing research on the advice sector. Without personal involvement in the consulting sphere and the insights gained there, I would have been unable to write the book.

A second source was my journey between academic disciplines and exposure to the ongoing discussion between economics and sociology. As an undergraduate and graduate student in management and industrial engineering, I attended lectures and tutorials in micro- and macroeconomics. I was disappointed by them and felt that daily newspapers and weekly magazines taught me more about the economy than the models I learned at university. I felt that these models, and thus economics as an academic discipline, were mere skeletons that contributed little to the explanation of ongoing events in the real world. Courses such as organizational behavior provided much more stimulation for me, and I finished my first degree by focusing on behavioral aspects without economic modeling.

In the course of my PhD thesis I came to be familiar with sociology in general, and with the British, critical tradition of economic sociology in particular. At the time, I perceived sociology as a relief. After all, academics were able to see the world as it is rather than as some models assumed it would be, and the application of sociology to management consultancy matched some of my experiences as a consultant. During and shortly after finishing my PhD thesis I was interested in the critical tradition of sociology and applied these ways of thinking to management consultancy.

At some point, however, I felt that many approaches to consultancy in the critical tradition of sociology overdid it. The denial of prudent and informed calculation on the clients' side, and the preoccupation with what I came to consider oversocialized views, drove me back to look at market mechanisms and cost considerations as outlined in institutional economics and US-based economic sociology. Books such as Swedberg's (1990) interviews with economists and sociologists, and the tension between these two disciplines, became my fascination and motivated me to look at consultancy along this line. I relearned institutional economics autodidactically as far as possible and enjoyed comparing it to economic sociology.

The list of sources of inspiration would be incomplete if I did not mention the people with whom I had many discussions about consultancy and who influenced my thinking. In the earliest stage of my research I benefitted from many conversations and a first joint conference paper with Raimund Schmolze, a friend for many years. Later on, Johannes Glückler and Matthias Kipping became the most important colleagues on the consultancy topic. Matthias was the head of a research team with the EU-funded project 'The Creation of European Management Practices' (CEMP). When I joined the team, Matthias had already published widely on the history of management consultancy. He introduced me to the literature and we started publishing together. A revised version of a common article by us has become chapter 6 of the present book.

Johannes drew my attention to embeddedness theory, and after this discovery we dived into US-based economic sociology and published a paper together, which I have shortened and revised to become chapter 3 of this book. In the meantime, he has published subsequent research on consultancy based on embeddedness theory (Glückler 2004, 2005, 2006), in which he has extended the notion of reputation networks to a geography of reputation. I am grateful to both Johannes and Matthias for our frequent discussions on consultancy, for the time we spent together writing papers, and for their permission to use revised versions of co-authored articles as chapters of this book.

In the organizational behavior section at the University of Mannheim I could develop many ideas, and did most of the writing. Its director, Alfred Kieser, gave me the freedom to co-assign topics

for diploma theses, and I had the pleasure of supervising highly talented graduate students, some of whose results have been integrated in this book. Christoph Barchewitz wrote an excellent piece on the marketing of consulting services, which we published as a German-language paperback and on which chapter 7 of this book draws. Judith Eichner wrote on careers and women in consultancy, and her interviews with female consultants nurtured a section of chapter 9. Sebastian Wind wrote a fine piece on internal versus external consultancy and his interviews informed chapter 5. I am thankful for and proud of having cooperated with them.

I also benefitted a great deal from visiting stays at the Scandinavian Consortium for Organization Research at Stanford University, and at the Department of Economics and Business of the University Pompeu Fabra, Barcelona. In these institutions I presented papers, discussed ideas, and learned a lot from colleagues and their comments. At Stanford I could also conduct interviews with clients and consultants in the Silicon Valley and San Francisco. A grant from the Stiegler Foundation in Mannheim enabled my visiting stay at Stanford; the MBA program at Pompeu Fabra hosted my stay in Barcelona. The support of these institutions is gratefully acknowledged.

A previous version of the manuscript was accepted at the Department of Economics and Management of the Technical University of Berlin as a formal qualification for full professorships at German-language universities (*habilitation*). I am grateful to the dean and faculty members for the uncomplicated procedure, especially to Diether Gebert and Hans Gemünden, who were important advisors. Diether Gebert was my most important mentor over many years; his support involved many more issues than just research.

As the final manuscript was taking shape, Henning Piezunka, Johannes Glückler, Achim Oberg, Christoph Barchewitz, and Sebastian Wind read it, or large parts of it. They provided additional ideas and literature sources, and they helped to clarify and sharpen my arguments. Katharina Mol edited the manuscript patiently and accurately. Chris Harrison, Katy Plowright, Lynn Dunlop and Paula Parish of Cambridge University Press steered the work through the review and production processes. I am grateful to all of them, as much as to the fifty consultants and clients in Germany and the United States who were interviewed in the context of this book.

Regarding the use of revised versions of articles as chapters in this book, my thanks go not only to the above-mentioned co-authors but also to the publishers for their permissions. Chapter 3 is a shortened and revised version of 'Bridging uncertainty in management consulting', by Johannes Glückler and Thomas Armbrüster, *Organization Studies*, 24/2, pp. 269–97, by permission of Sage Publications Ltd. Chapter 6 is a revised version of 'Strategy consulting at the crossroads', by Thomas Armbrüster and Matthias Kipping, *International Studies of Management and Organization*, 32/4, pp. 19–42, by permission of M. E. Sharpe, Inc. Chapter 7 draws on 'Marketing instruments of management-consulting firms: an empirical study', by Thomas Armbrüster and Christoph Barchewitz, *Academy of Management Best Paper Proceedings* 2004, Management Consulting Division, pp. E1–E6. Chapter 9 is a revised and expanded version of 'Rationality and its symbols: signaling effects and subjectification in management consulting', by Thomas Armbrüster, *Journal of Management Studies*, 41/8, pp. 1247–69, by permission of Blackwell Publishing Ltd. Figures 2.1 and 4.1 are reprinted with permission of Kennedy Information, Inc., Peterborough, NH 03458, United States.

A few more words on the relationship between economics and sociology in connection with this book are in order. To take up Akerlof's (interview with Akerlof in Swedberg 1990: 70) notion of the interplay between economics and sociology, A + B does not always equal C but often just remains A + B. That is, trying to use both economics and sociology on the same topic does not always lead to an integrated perspective, but often simply remains economics plus sociology or sociology plus economics. The perspectives may complement each other and add up to a more comprehensive view, but they do not always amalgamate. I think this is true, but it is not a tragedy. The results of using both economics and sociology come in different shades of integration, and can in any case be used to cross-check each other. For example, regarding the question of why the consulting sector has grown so rapidly over the past three decades, economic and sociological explanations complement each other but do not necessarily merge (see chapter 2). There are several reasons why the consulting market has grown, some of which can be best described in economic terms and others in sociological terms, and there is no need to marry them at gunpoint. Discussing both economic and sociological mechanisms leads to a more comprehensive view than just discussing one viewpoint. In other words, A + B is more than A or B alone, even if they do not merge to C.

As regards other topics of consultancy, such as the mechanisms that connect supply and demand, or human resource management (chapters 3 and 9), there is more room for interweaving the two disciplines. With regard to market mechanisms, chapter 3 discusses the role of trust between consultants and long-term clients, and it is a matter of terminology and empirical research, rather than academic discipline, how much calculativeness such a relationship entails and to what extent the term "trust" applies. Moreover, sociological insights often shed light on the limits of economic efficiency, and are thus indispensable for a full understanding of market mechanisms. With regard to human resource management, I aim to demonstrate that an interweaving of economic and sociological insights leads to a better account of personnel selection and career discrimination. My intention is to show that we can learn most about an industry or market if we do not tie ourselves to a single discipline but use insights from other disciplines to question, check, or test our assumptions, methods, and results. I consider this, rather than a merger of disciplines, as the essence of scientific progress, and outline this in chapters 1 and 10 from the viewpoint of critical rationalism.

I limit the scope to two theories of each discipline: transaction cost theory and signaling theory represent the economic approach, and sociological neoinstitutionalism and embeddedness theory the sociological one. These are four central theories to deal with the increased role of knowledge and uncertainty in the economy, of which management consultancy represents a central phenomenon. In comparison to other knowledge industries, such as biotechnology, management consultancy is less research-intensive and more customer-driven, and it brings about intangible results. Only the results of IT consulting are more tangible, and the results of financial consulting are often measurable. In general, however, consulting services represent intangible and hard to evaluate resources, and involve information asymmetries between economic actors as well as uncertainties about service quality, actor behavior, and business transactions. This highlights the questions of how clients gain quality certainty and how supply and demand meet, and transaction cost economics and embeddedness theory suggest themselves as representatives of economic and sociological perspectives. Moreover, consultancy represents a market of symbolic resources and has an institutionalized market stratification. Thus it is beset with phenomena external to the immediate exchange relationship between clients and consultants, and signaling theory and sociological neoinstitutionalism deal with these phenomena explicitly. While further theories could have been added, the selection of transaction cost economics, embeddedness theory, signaling theory, and sociological neoinstitutionalism was based on a tradeoff between redundancies and gains of omitting one theory or taking a fifth on board.

In the future, an application of game theory to management consultancy may sharpen the insights gained by the theories used here. This is not only due to game theory's modeling capacities but, first and foremost, due to its capability to take up arguments from different strands. In a few sections in the book I mention game theory in passing, but, at this point of the debate on consultancy, taking game theory fully on board would have overloaded the approach. Transaction cost economics, signaling theory, embeddedness theory and sociological neoinstitutionalism all make specific and irreplaceable contributions to the current state of scholarly writing on consultancy.

Chapter 1 outlines these four theories and their relationships to each other. After this, the book is divided into three parts. Part I looks at the mechanisms of the consulting market. By "mechanisms" I mean those institutions, such as trust, power, reputation, and price, that connect supply and demand and that determine the relationship between buyer and seller. These institutions are results of the features of consulting services, especially their intangible character and quality uncertainty. Hence Part I focuses on the questions of why consulting firms exist as independent firms and why the sector grows (chapter 2), which procedures connect supply and demand (chapter 3), which factors generate power between clients and consultants (chapter 4), and in which cases internal consultancies accompany or compete with external advice (chapter 5). Interviews with consultants and clients have been integrated as far as this seemed useful for illustrating or comparing the theories.

Part II seeks to explain the drivers of managing consulting firms. By "drivers" I mean the circumstances of strategy, marketing, organization, and human resource management which lead to decisions of senior consultants and which shape the fortunes of firms. Part II relies on Part I in that it refers to the market mechanisms outlined there and explains the management of consulting firms on their basis. The individual sections then look at the strategies of large providers (chapter 6), at the marketing of consulting services (chapter 7), at organizational governance and knowledge management (chapter 8), and at human resource management in the form of personnel selection and promotion mechanisms (chapter 9). Like Part I, it keeps the presentation of empirical material at a minimum and focuses on the comparison of theories. The concluding Part III summarizes the insights gained from the multidisciplinary perspective, puts them in the context of past and ongoing shifts to a knowledge economy, and discusses the relationship between economics and sociology on the basis of critical rationalism (chapter 10).

If the details of one theory or a particular aspect of the market or of managing a consulting firm had been in the foreground, then each topic – such as the consulting industry's growth, firm strategies, or personnel selection and promotion policies – would have been worth a full book. For example, an analysis of selection and promotion policies in management consultancy could usefully have been expanded to a monograph on personnel economics (see Pudack 2004 for a useful example, in German, based on signaling theory). However, the intention of this book is a different one. It seeks to provide a theory-guided overview of consulting market mechanisms and firm management. The book limits the degree of detail for each theory and gives center stage to a comparison of theories, seeking to enhance our knowledge on individual topics and phenomena.

For each subject I select an economic perspective as the point of departure, and complement, criticize or adjust it from the viewpoint of at least one sociological theory. I put a particular question in the foreground (e.g. why does consultancy grow? Why have strategy consulting firms moved less into IT consulting than accounting firms? Why do consulting firms select personnel by case studies rather than assessment centers?) and use the theories as different or complementary tools of explanation. This specialization on topics rather than theory or method represents a phenomenon-oriented rather than paradigm-driven work. Inevitably, this comes with the risk of being sketchy or eclectic. It is a hazard we must bear if we want to reap the benefits of a theory-comparative approach.

I hope that this book attracts not only scholars of management consulting, but also a broader audience of scholars interested in the economic shifts to a knowledge economy and in the relationship between economics and sociology. The literature on the knowledge economy often refers to knowledge workers as a general phenomenon, but tends to abstract from differences between them. Hence this book seeks to specify management consultancy as a part and a result of the considerable changes toward a knowledge and service economy. If we can sensibly explain why management consulting – as a pivotal sector of these changes – has grown, how supply and demand in such a market meet, why consulting firms are managed the way they are, and how careers in such firms develop, then we contribute to an encompassing understanding of economic and social developments that affect countless professional and private lives.

1 Management consultancy viewed from economic and sociological perspectives

The literature on management consulting

Only since the 1990s has management consultancy prompted a great deal of attention in management research. Until then little had been written on this service sector, probably because it was not yet recognized as a mainstay in the economy. Management research, organization studies, and industrial sociology had primarily concerned themselves with larger industries and corporations, and the management consulting business was still too small to be recognized as an industry with considerable influence. Only a few authors, for example Hagedorn (1955), Higdon (1969), and Havelock and Guskin (1971), had begun to recognize the role of consultants in the transmission of business techniques. Other early publications on management consulting were concerned with organizational development, a consulting approach to help clients help themselves (Schein 1969; Argyris 1970).

Throughout the 1980s publications in the sociology of professions (Stanback 1979; Stanback *et al*. 1981; Noyelle and Dutka 1988; and later Tordoir 1995) referred to management consulting as one of the service sectors toward which industrialized economies shift. It became recognized as an emerging profession in which formal professional qualification has given way to professional work independent of a formal professional background (Abbott 1988; Brint 1994). At about the same time, Greiner and Metzger (1983) wrote a first advisory book for consultants, and the International Labour Organization (Kubr 1986) issued the second edition of a landmark book on best practices in management consulting, to which prominent management scholars and practitioners contributed and which aimed to cover a broad range of aspects from both consulting and client perspectives.

Despite these advances in the 1980s, the number of studies on management consulting remained low in comparison to the growth of the literature in the subsequent decade. Presumably it was assumed that not much could be added to the established view of consultants as transmitters of business techniques and carriers of organizational change methods. Not even the history of management consulting as a service sector and profession (McKenna 1995, 2001, 2006; Kipping 1996, 1997, 1999) was available to the scientific community before the 1990s. Only in the first half of the 1990s, following the rapid growth in the industry, did the significance and influence of management consulting become more recognized in the academic literature. Globally active consulting firms had achieved a high level of visibility, and management scholars could no longer ignore the influence of these firms on management knowledge, decisions, and practices. In the 1990s a large number of books appeared on the subject, oriented toward the markets for practitioners (e.g. Maister 1993; Kubr 1996), for MBA graduates applying to major consulting firms (e.g. Wet Feet Press 1996; Wickham 1999), or for those interested in starting their own consulting business (e.g. Kishel and Kishel 1996; Biech 1999).

At about the same time, a growing number of popular books on the potential dangers of hiring consultants appeared on the book market. These were mainly written by journalists or former consultants and had suggestive titles such as *The Inside Story* (Rassam and Oates 1992), *Dangerous Company* (O'Shea and Madigan 1997), or *Consulting Demons* (Pinault 2000). Even the Dilbert comics ridiculed consultants as shallow advisors. In this high tide of consulting bashing, well-known management scholars joined the ranks of those warning of *Flawed Advice* (Argyris 2000). Indeed, one of the salient characteristics of the consulting literature has been, and continues to be, that both journalists and academic commentators tend to have strong feelings about the business, considering consultants to be anywhere in a broad spectrum from shallow charlatans to modern carriers of economic growth.

Based on these images of the business, one can broadly distinguish between a functionalist and a critical view on consulting. The functionalist view sees consulting firms as carriers and transmitters of management knowledge. For example, Bessant and Rush (1995) distinguish between two knowledge-based roles for consultants: an intermediary one that supports clients' acquisition of knowledge and technological developments; and a capability-building one that supports clients' adoption and implementation of changes. Along this line, many authors have pointed out that consulting firms possess knowledge about analytical procedures which enables them to provide a variety of services and tasks that clients cannot perform on their own (Starbuck 1992; Moore and Birkinshaw 1998; Morris and Empson 1998; Sarvary 1999; Werr *et al.* 1997; Werr 1999, 2002; Armbrüster and Kipping 2002). Traditional organizations are assumed not to have the human resources, analytical skills, and procedural potential, with the result that taking management consultants into service has become a matter of course rather than an exceptional case, as it was some decades ago (Alvesson 1995; Faust 2002; Suddaby and Greenwood 2001). This perspective will be taken up in chapter 2 and integrated into a transaction cost perspective.

The functionalist view also points out other features of large consulting firms: the worldwide representation, the familiarity with a wide variety of industrial sectors, and the "one-firm" governance concept (for details, see chapter 8). These features ensure that consulting firms can obtain knowledge from a large variety of sources and, potentially, apply experiences gained in other industrial sectors or parts of the world. From this perspective, the methods to generate data and information outside and within the client organization constitute the primary driver of the consulting business and its growth. The recruitment of talented personnel, an extraordinary work ethic, and the strong commitment to an achievement culture represent a fundamental aspect of their performance and of the demand for their services. From the functionalist perspective, systematic knowledge management allows consulting firms to stay up to date with industry practices and market information, and it also enables them to distribute knowledge resources in a manner unequaled by conventional organizations (Larsen 2001; Hansen 1999, 2002; Hansen *et al.* 1999; Hansen and Haas 2001). I shall come back to these arguments in the transaction cost approach to consulting in chapters 2 and 8.

The critical literature on consulting does not necessarily doubt the usefulness of consulting for clients, but argues that the view that "consultants are experts and provide knowledge and analyses to clients for a fee" is too narrow to grasp what is going on in consulting projects (Clark and Fincham 2002). For example, Abrahamson (1996), Kieser (2002) and Ernst and Kieser (2002) refer to the faddish character of many management activities and argue that, among others, consulting firms have an economic interest in the up- and downswings of management concepts and substantially contribute to fashion setting. Berglund and Werr (2000) point to consultants' communicative flexibility, for example in their use of rationality and pragmatism myths to legitimate their approaches. Benders *et al*. (1998) have done empirical work in this context, finding that consultants use the term "business process reengineering" for a large variety of services that have often little to do with Hammer and Champy's (1993) original call for radical changes. Benders *et al*. (1998) argue that consultants separate the label from the contents of this management concept and create a sense of urgency by using a particular term without relating project contents to it. Similarly, Fincham (1995) argues that, in particular, business reengineering is constructed and marketed as a saleable commodity in order to meet the needs of the "managerial consumer." Ernst and Kieser (2002) and Kieser (2002) draw on these ideas to suggest that the circulation of management concepts and fashions contributes to managerial insecurity and fuels the demand for consulting services.

In a micropolitical view of consulting, Jackall (1988: 140–4) argues that consultants often trade in the troubles between the internal factions of a client organization, and that consultants often have to work on the problem as defined rather than develop a solution autonomously. As in an earlier approach by Moore (1984), client firms are not conceptualized as organizations as a whole, but as consisting of competing actors and groups. Using IT consulting as an example, Bloomfield and Danieli (1995) argue that the socio-political skills of consultants are indissoluble from their technical expertise, because technology cannot be separated from its communicative representation and thus from vested interests within a client firm. During the elaboration and implementation of advice, consultants and clients mobilize discursive and symbolic resources, which render it impossible to conduct consulting without any micropolitical involvement (see also Bloomfield and Best 1992). As with the other approaches, the micropolitical view draws on the insight that consultancy services are intangible and that their commercial impact is difficult to evaluate. But, rather than focusing on the consequential market mechanisms, the critical perspective on consultancy looks at the ways in which consulting assignments and client–consultant interactions are open to distortion.

In this context, Czarniawska-Joerges (1990) holds that the use of metaphors and labels that are new to the client organization can give meaning to situations and engender action through sense making. Seen from this perspective, the communicative resources of consultants provide some potential to obfuscate issues, to interpret situations for vested interests, or to manipulate definitions of success and failure. For Alvesson (1993), the point of departure is the uncertain character of all types of knowledge, even scientific knowledge. He argues that knowledge work needs to be viewed in the context of institutionalized myths of rationality, since there is no objectively determinable knowledge. Claims of knowledge, and therefore of communicative performance, may move into the foreground of this business, as credible stories about the world need to be delivered. The work of Clark (1995) has been influential in this respect. Given the lack of objective criteria for quality assessment, he argues, convincing clients of consulting quality requires considerable communicative skills and thus promotes consultants' impression management and rhetorical abilities. Along these lines, Clark and Salaman suggest viewing management consultants as "systems of persuasion creating compelling images which persuade clients of their quality and work" (Clark and Salaman 1998: 18).

In summary, the critical view argues that consulting results and project achievements are too problematic to be sufficiently theorized in terms of knowledge transfer. Authors in this paradigm point to the contestable nature of consulting knowledge, to the involvement of consultants in vested interests in client organizations, and to the potentially flexible mode of "consultancy speak." In so doing, they are expressing much of the concern, or even distaste, of an academic research community regarding consultants (March 1991), contributing to a more emancipated comprehension of the business. This critical take on consultancy will be taken up in chapter 4.

Theories used in this book

Publications of the above two types, the functionalist and the critical views, today characterize the literature on consultancy and have considerably advanced our knowledge of the industry and its mechanisms. Nevertheless, to date both are beset with limitations. The functionalist view lacks a systematic outline of why clients have increasingly externalized management services and continue to do so, and the critical view lacks an acknowledgment of economic processes and clients' rational deliberations. More precisely, the functionalist view presents useful lists or outlines of the economic role of consulting firms, but it lacks an analytical grounding. Neither theoretically nor empirically does it engage with the question of why client firms do not perform the services themselves or hire experts as employees rather than making use of external consultancies. It has not delved into the question of how clients gain quality certainty or why they hire a particular consultancy in preference to another, and a more theoretical analysis and elaboration suggests itself.

For its part, the critical view exhibits a limitation that is at least equally serious. As Salaman (2002) points out, it is preoccupied with consultants' truth claims, with consultants' supposedly unscientific approaches, and with an ostensibly dark side to consultancy. It either focuses on management fashions that clients supposedly fall for – which represents an oversocialized conception of the consulting market, to use Granovetter's (1985) term – or it portrays consultants as opportunistic agents who exploit clients' lack of quality certainty – which represents an undersocialized conception of management consulting. In some cases, the critical approach mixes over- and undersocialized views by portraying clients as somewhat retarded victims of both opportunistic consultants and mesmerizing management fads. This way, it has no concept of situations in which clients know exactly what they are doing when they hire consultants, and of conditions in which social ties and reputation effects preclude opportunistic action by consultants. Much of the literature from the critical camp seems based on an anti-consulting attitude, and scholars reproduce and reinforce their attitude in their research. The neglect, or even denial, of client prudence and economic deliberations is reminiscent of what W. O. Coleman (2002) has recently pointed out as anti-economics. I shall take up this discussion in chapter 4 and in the conclusion.

Sociological neoinstitutionalism

The only theory that the previous literature on consultancy has systematically drawn on is sociological neoinstitutionalism. For example, many articles in the volumes edited by Sahlin-Andersson and

Engwall (2002) and Kipping and Engwall (2002) draw on Meyer and Rowan (1977), DiMaggio and Powell (1983), Powell and DiMaggio (1991), or Tolbert and Zucker (1996). Sociological neoinstitutionalism is based on the argument that it is belief in the efficiency of particular practices or solutions, rather than any proven efficiency, that determines or influences economic action. According to this view, legitimacy toward the organizational environment rather than technical efficiency represents the core of organizing. If the efficiency or efficacy of organizational innovations or management ideas cannot be objectively evaluated, then they are oriented toward what the environment or decision-makers themselves believe to be efficient or effective. This leads to a number of effects – such as the institutionalization of management ideas – that are deemed efficient but are not necessarily so, or to pressure on organizations to adopt the same practices or structures as other firms (isomorphism) in order to gain legitimacy. Issues such as the legitimacy of organizational structures, the enforceability of change processes, and the validation of management decisions have taken center stage in the literature on consultancy (Sahlin-Andersson and Engwall 2002; Kipping and Engwall 2002; Alvesson 1993, 2004). The large and renowned consultancies in particular have duly been described as carriers not only of knowledge but also of legitimacy, as their analyses and reputation validate management decisions.

The diffusion of management concepts and innovations also touches upon elements of isomorphism in the neoinstitutional sense. If the efficiency and effectiveness of change initiatives or innovations often remain uncertain, then organizational decisions are frequently – on a normative or mimetic basis – oriented toward the behavior of other organizations. If a number of firms adopt a particular practice or innovation, then this is taken as signifying that these practices or innovations generate improvements. Even if it remains impossible to determine with certainty whether an innovation triggers progress or more efficient operations, a firm at least puts itself on equal footing with other firms if it adopts the same practices, and for this it often needs agents of change (such as consultants) as transmitters. Observations of McKinsey interventions, for example, have given rise to one of the founding publications of neoinstitutional theory, the article by DiMaggio and Powell (1983), which was based on the two authors' observation that McKinsey advice led to a number of isomorphic changes in public- and private-sector organizations.

Sociological neoinstitutionalism has been somewhat appropriated by the critical view on consultancy, as the theory seems to fit nicely into the critical camp's doubts about efficient outcomes from consulting assignments. However, the theory does not lend itself fully to the critical view. In fact, it has some elements of functionalism. For example, consultants as traders of legitimacy provide a service to a client *even if* their solution is similar to others, because it puts the consulted firm on a par with the others. Moreover, the sheer otherness of consultants in relation to client firms plays a central role in their ability to provide advice and gain legitimacy for it (Meyer 1996). And, as a central point, in their article on the institutional conditions for diffusion (of innovations, management practices, etc.), Strang and Meyer (1993) argue that any process of diffusion is accompanied or even preceded by a process of institutionalization. That is, before anything can disseminate as an idea or practice, it must be conceptualized and commodified as a term and concept, for only a communicatively transferable concept or explicit theory stands a chance of diffusing within or between professional groups. Consultants represent interpreters and theorists of individual cases and events. They often frame ambiguous information in new terms and theories, and thus develop and sharpen an interpretive consciousness within the client firm. Only this preceding theorization and term-building process enables an idea to diffuse. And, again, it is especially those consulting firms with a high public reputation that play a part in this process.

Signaling theory

The application of sociological neoinstitutionalism to management consultancy has been a useful and important advance, as it has highlighted the role of consultants in legitimation processes and in the communicative framing that precedes the diffusion of management concepts. Nevertheless, relying solely on sociological neoinstitutionalism may narrow the focus on societal norms and divert researchers from looking at the deliberative processes of individuals. Although sociological neoinstitutionalism acknowledges the possibility of different degrees of deliberation in economic action (Meyer and Rowan 1977; DiMaggio and Powell 1983), the question of the conscious behavior of economic actors represents the Achilles heel of this theory. As DiMaggio (1988: 9) observes, "[s]elf interested behavior tend[s] to be smuggled into institutional arguments rather than theorized explicitly." Sociological neoinstitutionalism has been developed to model the influence of norms on economic action, but it has difficulties with modeling autonomous action in the context of norms that economic actors are aware of. DiMaggio's (1988) distinction between institutionalization as a process and as an actual state then allows us to conceive of individual action at least in processes of institutionalization (see, in this context, Tolbert and Zucker 1996 and Barley and Tolbert 1997). If we take into account the possibility that clients are experienced and knowledgeable executives who can reflect on norms and act deliberately, then sociological neoinstitutionalism meets its limits and other theories suggest themselves.

In particular, economic signaling theory (Spence 1973, 1974, 1976) models deliberate signaling processes in the context of known norms. Signaling theory argues that, in markets of credence goods and quality uncertainty, providers invest in product or service features that signal status, quality, and reliability. Spence models graduate education (essentially, the reputation that different kinds of education involve) as a signal for graduates' future productivities. At the center of attention are the costs of signaling (e.g. for graduates on the job market the costs of education such as loans and household credit, and the effort put into attaining the degree), the effects of signaling (type of job, salary, promotions of the hired employee), and the incentive structures to invest in signals. If a provider cannot prove the quality of the outcome prior to purchase, and not even for some period after purchase, then he resorts to proving input factors as an indicator for the quality of the outcome. Signals such as certificates concerning educational background reduce the information asymmetry between supply (graduate) and demand (employers) of labor. Spence's central point is that a good education works as an efficient mechanism to signal a graduate's future productivity because, for someone with lower future productivity, it would be much more costly (investments, efforts) to attain a renowned degree. A conceptually simple but methodologically unfeasible test of signaling theory would be, for example, to gather people of identical ability and randomly assign some of them a degree certificate. If those with the certificate later earn more, then signaling theory would be supported.

There is one fundamental difference between economic signaling theory and sociological neoinstitutionalism. The former assumes that