

## Defining Management Consulting and Exploring Its Knowledge Creation Potential

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### Abstract

This article adopts a knowledge perspective for interpreting management consulting “in action”. It proposes: i) a definition of management consulting, which aims to identify the distinctive ontological (real, essential and relatively stable) features of this particular service activity and emphasizes the mainly cognitive nature of its value-creation potential; ii) a conceptual framework for drawing the essential cognitive paths through which this potential can be expressed.

The proposed framework represents an original application of Nonaka and Takeuchi’s organizational knowledge creation theory to the specific context of management consulting relationships. It is mainly grounded on my reasoning and on my own consulting experience; but it is also corroborated by revealing (though short) anecdotal evidence. It highlights the fact that the potential of entrepreneurial knowledge creation of management consulting (and the consultant-client relational dynamics it triggers) lies in the possibility that it can generate not only explicit knowledge but also (even, mainly) new tacit entrepreneurial knowledge, such as new interpretative skills (vision of the firm’s structure and of the competitive environment) and new experience-based diagnostic capabilities. The value of this knowledge for both the client and consultant goes far beyond the solution of the specific problem for which the consultant was engaged.

My auspicious is that a better understanding of the knowledge creation paths that can be activated by implementing management consulting interventions will allow both clients and consulting firms to more consciously define knowledge creation goals for their consulting projects, and hence to more effectively design and manage the ensuing consultant-client relationship.

**Keywords:** Management Consulting, Knowledge Creation, Consulting Relationship

### Defining management consulting and the mainly cognitive nature of its value creation potential

Numerous definitions of management consulting<sup>1</sup> have been proposed in the literature (e.g., Barcus & Wilkinson, 1995; EIU, 1993; Greiner & Metzger, 1983; Kass & Weidner, 2002; Kubr, 2002; Salvemini, 1987; Steele, 1975). The conceptual delimitation of management consulting proposed here is an attempt to identify the distinctive ontological (real, essential and relatively stable) features that qualify the inner nature of this particular and fascinating service activity (Ciampi, in press-b).

I define management consulting as a service activity performed by persons that are external to, and independent from, the client and that possess appropriate scientific-professional skills and abilities, and consisting of providing opinions in order to enable the client to identify and solve entrepreneurial problems that involve top management functions, using a rectifying, progressive and/or creative approach, and thereby contributing to the creation of new entrepreneurial knowledge (see Figure 1).

1. The independence of the consultant. Consultants must be independent in financial, decision-making and emotive terms, so that they can express their assessments and opinions objectively and impartially, by adopting cognitive and behavioural approaches respectful of the fiduciary remit given to them by clients.

2. The scientific-professional skills required of the consultant. Management consultants are able to guarantee an effective and independent approach by virtue of their possession of (and capacity to use) appropriate scientific-professional skills and abilities, acquired through specific training and/or entrepreneurial experiences and/or previous consultancy work. This feature is emphasized by the definitional approach which interprets management consulting as a profession, therefore identifying its essence precisely in the particular professional skills and expertise owned by the consultant (Greiner & Metzger, 1983). This aspect of the consulting activity is obviously important in every phase of the consulting process, even though it sometimes appears not to be adequately taken into account by consultancy firms. The following comments were made by the chief executive officer of Studio Roscini S.p.a. (an Italian garment design company whose clients include numerous leading international companies in the fashion industry, such as Gucci, Fendi, Valentino and Tod’s) regarding the conduct of a consultancy firm he had commissioned to design and implement a new Enterprise Resource Planning (ERP) system.

“A partner and two senior managers of the consultancy firm attended the first two meetings. These meetings were so productive we had already defined the project goals and the timing even before formally entering into the consulting contract. But after engaging that firm we only met junior managers and trainees and all these people, even though technically skilled, never gave us the impression they were up to the task. The project was a failure, and we were forced to go back to our old ERP system. I am certain that if the project had been followed up by the two senior managers we had met the first time, things would have worked out differently.”<sup>2</sup>

3. The consultative nature of the client-consultant relationship. Management consulting consists of providing opinions not advice, for advice would be a deviation from the requirements of objectivity and independence (including emotional independence) which should always characterize the consultant’s work. Management consulting sets into motion a process of collaborative information and knowledge exchange between the consultant, whose responsibility concerns the quality and objectivity of the opinions provided and the client, who is ultimately responsible for applying or rejecting the opinions received. The following comments were made by the chairman of a major Italian bank regarding the work of a consulting firm engaged for the development of a new internal credit rating system.

“The consulting firm demonstrated that the new rating model worked better than the one we had previously used (as it enabled us to evaluate our customers’ credit rating much better), and this model is now effectively underpinning our credit policies. However, none of us was involved in all the phases of designing the model, and as a result, none of us is fully aware of the mathematical and statistical rationale underlying

the way it operates and the complex weighting criteria used for the several variables it utilizes: the model is simply like a “black box” as far as we are concerned. How will we be able to improve that model in the future? And above all, how can we change it if it eventually turns out not to be reliable in the future (under changed economic situation, with a different qualitative composition of our client base, etc.)?”

The consultative nature of the relationship is emphasized by the definitional approaches which interpret consulting as a method, therefore finding its essence in its consultative function to the client when making decisions and/or performing certain tasks (e.g., Cohen, 1989).

4. The “problem-oriented” nature. Management consulting consists of identifying and defining problems (diagnosis), working out solutions (therapy) and subsequently applying those solutions (cure). The problem-oriented nature of management consulting makes it all the more necessary to establish an appropriate level of cooperation between the consultant and the client (Lippitt & Lippitt, 1986) in each phase of the consulting process. Here is what I was told by the managing director of the Italian division of a pharmaceutical multinational.

“We are accustomed to dealing with (and seeking to solve) problems all the time (often many problems at one and the same time). We often have to make rapid decisions regarding the prioritizing the different problems. We can decide to set aside some of them in order to solve the most urgent ones, but we cannot evade problems or pretend not to see them. I can immediately recognize people who are endowed with problem-solving skills and attitudes, and when I have to choose a consultant (whatever the task might be) these are the skills and attitudes I look for.”

5. The contractual and fiduciary nature of the management consulting relationship. The remit is given by the client firm and accepted by the consultant in the form of a contract, through which both parties agree to confer full legal and psychological legitimacy to the consultancy activity. Among the underlying elements of the consultancy relationship, originating with the negotiations carried out in the initial phase of the consulting process, are the formal and clear definition of the rights, duties and roles of each party involved (legal contract) and their conscious commitment to cooperate in a climate of mutual trust (Galford, Green, & Maister, 2000; Green, 2006) and respect (psychological agreement).

“The most difficult thing during the initial phases of contact with a new potential client is understanding whether I can trust him (whether he is sincere, whether he is really interested in the expertise I can offer, etc.) and above all, convincing him that he can trust me. Experience has taught me that being totally transparent can create a sense of insecurity in the other party (I have “lost” many potential clients for this very reason), but in the long term it certainly pays off: in the remits I have been given in the past 10 years I have always received the maximum cooperation from my clients, and only in one case have I been criticized for not fully attaining the consultancy project goals (and in our profession attaining 100% of the objectives within the given timescale is the exception, rather than the rule).”

These are the words of a founding partner of an Italian medium-sized strategic consulting firm.

6. The entrepreneurial nature of the problems addressed. Management consultants address entrepreneurial problems (strategic, organizational and/or related to one or more specific functional areas) whose solution can significantly affect the structure of the client firm (whether small or large, manufacturing or services, etc.), generate changes in its state, set in motion strategic development, stability or recovery processes (Ciampi, 2004; Fazzi 1982, 1984), and ultimately have innovative effects (Greiner & Metzger, 1983; Vallini, 1991), supported by evolutionary changes in knowledge (rationalizing change rationales), attitudes (acceptance and internalization of motivations for change), individual and group behavior (concrete actions to bring about change); in one word: changes in corporate culture (Kubr, 2002). Over the last two decades, the scope of the entrepreneurial problems addressed by management consultants has gradually expanded to cover the whole gamut of a firm’s management activities. Some authors maintain that identifying the management consultant’s “specialized areas of expertise” lies at the heart of defining the management consulting concept: a list can be compiled of certain specialized fields of expertise, and it is assumed that whoever supplies services in those specific fields may be defined as a management consultant. I do not share this view since, not only does it fail to bring out the essential features of management consulting, but it also generates obsolete definitions because of the changes to which the consulting intervention spheres are constantly subjected (Aiello, 1996; Clark & Fincham, 2002).

7. The entrepreneurial problem that is the object of the consulting intervention (“the consulting problem”) concerns the client firm’s top management. The problems to be faced by the management consultant (directly or indirectly) concern the “not delegable entrepreneurial functions” (Ciampi, 2004; Fazzi, 1982) of the client firm’s top-level managers and, consequently, the consulting problem must (directly or indirectly) be of interest to at least one person belonging to the client firm’s top management (which therefore represents “the primary client” of the consultant).

“I immediately decided to take up the KPMG offer, even though the starting salary they proposed was 20% lower than what I was paid by Alfa Consulting [a company offering Information and Communication Technologies services to manufacturing firms]. Even though I had become a senior manager, our consultancy projects almost invariably dealt with the technical aspects of the client’s technological infrastructure and my interlocutor was always an EDP employee and/or an employee of an external company, to which our client had outsourced the maintenance of its technological facilities. I was not working for an ICT management consulting firm, but for a company offering IT infrastructure maintenance services.”

This statement was made by one of the candidates that KPMG Italia recruited in 2006, after a lengthy selection process.

8. The mainly cognitive nature of management consulting value-creation potential. The most significant potential result of the management consulting intervention is the induction of new entrepreneurial knowledge (new diagnostic and/or interpretative skills and capabilities), which both the client and the consultant can exploit in the future after the consulting project has been completed. I speak of “induction”, rather than “transfer” of knowledge because the client and the consultant learn by implementing new knowledge creation cooperative processes and by connecting that knowledge to their own starting cognitive structures rather than by only acquiring new knowledge (which is codified to a greater or lesser degree). These processes are subjective by definition, and cannot be “taught”. They can however be stimulated (induced) by the specific attitudes and conduct of the parties in the consulting relationship (discussion, explanation, recovery of previous experiences, active participation, etc.).<sup>3</sup>

The entrepreneurial knowledge creation potential of the management consulting intervention has been very clearly perceived and expressed by the chairman of a multinational corporation working in the clothing industry, which owns three world-famous high-fashion labels, who argued (his words were reported to me by two partners of Beta S.p.a., a medium-sized Italian strategic consultancy firm):

“Over the past ten years we have commissioned more than twenty different consulting firms to carry out more than forty strategic consulting projects. In the last five years, despite the fact that we have almost doubled our turnover and that the managerial complexity of our business has certainly grown, we have only implemented two consulting projects within the strategic field (one on the “redefinition of our concept of customer loyalty” and the other on the “redefinition of our value chain”) using only one consultancy firm, Beta S.p.a. The fact is that after the first consulting project carried through by Beta S.p.a. our managers began to consider it possible to develop their own autonomous capacities to define, diagnose and solve problems, even when those problems belonged to completely new strategic contexts from those experienced in the past. For us, the risk of failure became a challenging opportunity for developing these capacities, an occasion that all the managers in our group are anxious to address, and no longer something from which to defend themselves, avoiding the problem as far as possible or offloading it on to external “specialists”. The consultancy projects implemented by Beta S.p.a. are much more demanding than those implemented previously and cost almost twice as much. But the value they enable us to create in terms of new strategic and managerial skills and capabilities is immeasurably higher.”

However, empirical evidence shows that, despite the official claims of some consulting firms<sup>4</sup>, it is extremely rare for this potential to be consciously perceived and fully exploited. There are, in fact, very few cases where the client and the consultant consciously set knowledge creation goals for the consultancy project (Linnarsson & Werr, 2002). Furthermore, their efforts are very often taken up entirely by merely replacing the client's existing practices with the “best practices” (mainly explicit knowledge) which the consultant proposes to “transfer” to the client (e.g., Ernst and Keiser, 2002; Newell, 2005). By so doing, both parties in the consultancy relationship renounce contextualizing the best practices proposed by the consultant in relation to the specific client firm environment. They renounce socializing their pre-existing implicit knowledge base, and they also renounce embarking upon new practices and knowledge social construction pathways (Lave & Wenger, 1991). However, not only does implicit knowledge often constitute the most valuable cognitive resource owned by both parties, but it also represents the main potential outcome of the consulting intervention. From this, it follows that even in cases where the consultancy intervention is deemed successful (because it has made it possible to solve the problem the consultant had been commissioned to solve), a big part (often the most important part) of the potential cognitive value of the relationship is often lost and/or not adequately exploited. I will address this specific feature of consultancy activity in greater depth in the final paragraph.

Figure 2 provides a synoptic overview of the distinctive ontological (real, essential and relatively stable) features and logical relations which, according to my proposed definition, qualify the essence of management consulting activity.

### **Knowledge creation and management consulting in action: An unexplored research field**

Knowledge is nowadays unanimously considered the main resource for underpinning the strategic development processes of entrepreneurial organizations (e.g., Drucker, 1995; Grant, 1996). Knowledge management (KM) has consequently become a key theme both in management literature and in corporate practice (Abrahamson, 1996). Traditional KM literature interprets knowledge as something that people own (the knowledge-as-possession view), which has an essentially explicit nature and that is relatively easy to transfer (e.g., McElroy, 2000; Ruggles, 1998). Hence traditional KM literature mainly focuses on techniques for gathering, imitating and disseminating knowledge - in essence, transferring the best practices (Newell, 2005). Conversely, the most recent literature (the knowing-in-action view) interprets knowledge as being mainly tacit, socially constructed, embedded in practice, context-dependent (Johnson, Marakas, & Palmer, 2000), difficult to transfer (Szulansky, 1996), and therefore really valuable only when it is generated in a specific reference context (from which the knowing-in-action metaphor stems), thus shifting the focus of analysis from transferring only the best practices to creating and maintaining ideal conditions in order to fully realize the knowledge generation process potential (Blacker, 1995; Buono & Kerber, 2005)<sup>5</sup>.

As far as it contributes to solving entrepreneurial problems, consulting either disseminates or creates knowledge. It disseminates by applying already adopted solutions and practices to problems and needs that are new for the client. It directly creates knowledge by proposing solutions for problems that are new to the world or that are new to the client because of external events.

Such a basic distinction is corroborated by the international literature specifically concerned with management consulting. Without delving into the vast literature on practical consulting techniques, offering recipes on how to consult (e.g., Armstrong, 1993; Bellman, 1990; Block, 2000; Freedman, 2000; Schaffer, 1997), to start (e.g., Biech, 1998; Biech & Swindling, 2000), to manage (e.g., Maister, 1993), to protect (e.g., Shenson, 1990) and to develop (e.g., Bly, 1998; Lambert, 1997; Shenson, 1994; Shenson & Wilson, 1993; Weiss, 1992) a consulting practice (Kass & Weidner, 2002), an analysis of the main literature enables one to identify two main interpretative paradigms of the management consulting relationship.

The first approach interprets the role of the consultant as a problem-solver and/or a supplier of expert knowledge (the expert consultant approach). According to this interpretative model, the firm engages the services of a consultant because it is facing some difficulties and/or is sensing symptoms of dysfunction, and entrusts the consultant with the responsibility of conducting a diagnosis (problem finding) and, subsequently, identifying and suggesting a solution (problem solving). The expert consultant must be endowed with specialized skills consistent with the specific (business and industry) field of the consulting intervention, including those needed to tailor possible solutions to the client's particular setting (Bessant & Rush, 1995; Greiner & Metzger, 1983). Under the expert consultant approach, the knowledge creation potential of the consulting relationship is limited (almost ignored as far as the client's role is concerned), and the knowledge which is transferred travels primarily in the consultant→client direction, taking on a mainly codified character.

Under the second interpretative approach (the process-consulting approach), the client retains full ownership of the problem in every phase of the consulting process, while the consultant acts as a guide in the diagnostic activity (which nevertheless mostly remains the client's responsibility) as well as a facilitator in the solution discovery and application phases (Schein, 1987, 1988, 1999; Stjernberg & Werr, 2001). Starting from its initial phase, the intervention aims to fuel and develop the client firm's self-diagnosis and problem-solving capabilities, by setting in motion a bidirectional (consultant↔client) transfer of mainly process (and hence tacit) knowledge. The process-consulting model has a far greater cognitive potential, and both parties in the relationship play a critical role in it, even though the knowledge creation potential connected with the use and the conversion of the consultant's explicit knowledge appears to be underestimated (Linnarsson & Werr, 2002).



To better understand the way consulting actually induces knowledge creation, it is however necessary to investigate the actual cognitive dynamics through which the consulting relationship is implemented.

Nevertheless, neither in the aforementioned literature nor in the more recent studies that have adopted a specifically cognitive perspective for investigating management consulting (Buono, 2002; Clark & Fincham, 2002; Engwall & Kipping, 2002; Engwall & Sahlin-Andersson, 2002)<sup>6</sup>, are there specific, thorough analyses aimed at examining the cognitive paths through which new entrepreneurial knowledge creation is (or can be) induced by concretely implementing the consulting relationship.

Only a small number of recent studies have shed light on the importance of the knowledge creation dynamics involved in the concrete implementation of management consulting interventions. Some authors have focused their attention on the complexity of the knowledge creation processes involved in the adaptation of the consultant's codified knowledge to the client's specific setting and the building among them of "communities of practices" (Todorova, 2004); on the importance of client-consultant face-to-face interaction to professional service firms' knowledge development processes (Fosstenlökken, Løwendahl, & Revang, 2003); on the mainly tacit and socially constructed nature of knowledge created and used in consulting interventions (Newell, 2005; Visscher, 2006); on the factors which enhance, or reduce, the effectiveness of consultant-to-client knowledge transfer processes (Kirsch, Ko, & King, 2005; Lahti & Beyerlein, 2000); on the role of "epistemic communities" (Cowan, David, & Foray, 2000) and "communities of practices" (Lave & Wenger, 1991) in interpreting and evaluating the impact of the management consulting intervention on the knowledge structure of the organization where the intervention takes place (Creplet, Dupouet, Kerna, Mehmanpazir, & Munier, 2001). Others have highlighted the dynamic and (tacit and explicit) composite nature of the knowledge that is used/generated in consultancy activities as a consequence of the fact that in order to discover the solution to the problem, consultants must have the ability to apply pre-existing explicit knowledge to the specific consultancy context on a case-by-case basis (thus converting explicit knowledge into new tacit knowledge) as well as (and above all) "the ability to relate to the specific situation without having a...normological model". Thus "the consultant, through processes of reflection and analysis, tends to become [also] a researcher" (Jensen, 2005, pp. 372-374), that is to say, someone who is able to produce knowledge through insight as well as through externalization (i.e., conversion into new explicit knowledge) of experience-based (and hence, tacit) knowledge. Even though these recent studies have highlighted the potential fecundity of investigating the "in action" management consulting knowledge creation dynamics, they never do delve deeply into those dynamics and consequently, "our understanding of what actually happens with consultant knowledge (in essence their main product) and the knowledge of the client organization ...[still remains]... murky at best" (Todorova, 2004, p. 74).

### Knowledge creation through management consulting in action

According to the organizational knowledge creation theory developed by Nonaka and Takeuchi (1995), creating new knowledge can be viewed as a continuous and dynamic meta-process consisting of parallel iterations of four knowledge conversion processes<sup>7</sup> (socialization<sup>8</sup>, internalization<sup>9</sup>, externalization<sup>10</sup>, and combination<sup>11</sup>), the spiral shape of which shows the expansion of knowledge towards increasingly higher qualitative (i.e., epistemological) and ontological levels (from the individual to the organizational level, and to the inter-organizational level).

#### Figure - 3

By making use of the conceptual categories developed by Nonaka and Takeuchi and by externalizing the implicit knowledge acquired through my own consulting experiences, I propose in Figures 4 and 5 a possible conceptual mapping of the essential pathways through which the potential of entrepreneurial knowledge creation of management consulting interventions can be expressed (Ciampi, in press-a, in press-b)<sup>12</sup>

#### Figure - 4

Through socialization pathways, new tacit knowledge is induced by face-to-face interaction and by the subsequent informal sharing (and integration) of the pre-existing tacit knowledge owned by the two parties in the consulting relationship. Through active participation in the consulting experience, the client and the consultant submit their own initial tacit knowledge to a critical "justification" process based on direct and mutual comparison. This knowledge is "unfrozen" and, in the event of "non-confirmation", is renovated and converted into new implicit knowledge. Mutual direct observation, comparing different viewpoints, sharing and synchronizing experiences, insights and mental models, make it possible, in particular, for both the client and the consultant:

a) to renew their own pre-existing implicit visions of the firm's structure (or functional portions of it) and of the competitive environment. For example, by sharing and comparing differing mental patterns, the client and the consultant can cooperatively develop new ways of intuitively interpreting (and "seeing") the essential (qualitative and quantitative) features of the firm's structure, and new ways of interpreting (and "seeing") the relationship between the firm and its clients, the firm and its competitors, etc.;

b) to renew their own implicit diagnostic, problem solving, and change implementation abilities. By socializing their own pre-existing diagnostic-type implicit abilities, the client and the consultant can, for example, gain new intuitive abilities to sense the cause-effect relationships among the explanatory variables of entrepreneurial problems referring to a certain functional area (for example, the marketing area) and to intuitively distinguish, in the full set of involved variables, the "relatively primary" variables from the "relatively secondary" ones.

The entrepreneurial knowledge creation potential of socialization pathways that can be activated through management consulting interventions was very clearly perceived and expressed by one of the partners of a large-sized consultancy firm, which is a global leader in the strategy consulting field, who had the following to say:

"Classroom training was banished from our company over 10 years ago. Anyone wishing to work with us must have learnt the basics of general management at business schools. However that knowledge is not sufficient. We attribute considerable weight to the mental flexibility of our collaborators, their humility, their determination and ability to learn from experience. Working "shoulder to shoulder" with more expert colleagues, and above all with clients on concrete consulting projects, makes it possible to learn, fine-tune, improve and develop one's own consulting skills, and it particularly enables development of the most important ability required of management consultants: the capacity to challenge their own mental patterns every time or, to put it another way, it teaches one to learn from experience. Our clients often do not realize it, but the value created by every consulting project averages for us at least three times more than we charge them in fees. The entrepreneur knows his business better than anyone else, and his company differs from every other company. Becoming totally immersed in this knowledge and in

this diversity enables us to build up unique cognitive value, which none of our competitors will be able to imitate.”

By applying their own explicit knowledge (diagnostic, problem solving and change implementation methods and techniques; conceptual models for interpreting the firm's structure and the competitive environment) to the specific context of the consulting intervention, both clients and consultants convert that knowledge into new tacit knowledge (internalization pathways) specific to the client's business context. This is a very arduous cognitive path as it requires both parties to shun any temptation to merely replace the client's “existing practices” with the “best practices” (mainly explicit knowledge) which form part of the consultant's cognitive background, and instead to engage themselves in an intense activity of contextualization of that knowledge (by adapting it, changing it, redefining it, etc.) to the specific (business, competition, etc.) field with which the consulting intervention has to deal. For example, by experimenting with the application of their own codified techniques for entrepreneurial problem diagnosis to the specific client business context, consultants develop new implicit diagnostic know-how (uncodified skills and abilities) that is appropriate for defining the specific entrepreneurial problem, for discovering its causes, and for identifying the client firm's capabilities that can be used to solve it. The direct experiential sharing of this knowledge conversion process also makes it possible for clients to assimilate this new tacit knowledge, while at the same time subjecting their own pre-existing explicit diagnostic-type methods to critical justification, unfreezing, and renewal.

Figure 5

Through externalization pathways, the client and the consultant cooperatively convert their own tacit knowledge (both that pre-existing and the new knowledge generated through the consulting process) by translating perceptions, insights and experiences into explicit forms. Through these pathways, new conceptual patterns and models are created, which, being explicit, are easily transmissible (to different levels of the organizational structure) through codified languages, and are also reusable in the future should the need arise. As new process (i.e., implicit) knowledge emerges that proves to work better than pre-existing knowledge (new tacit knowledge “which is shown to be true”), client-consultant social interaction shifts to the plane of a shared reflection, which, through the integrated use of inductive, deductive and abductive reasoning (metaphors and analogies; on the role of metaphors in the consultancy process see, for example, atkin and perren, 2000), aims to translate implicit knowledge into words, phrases and in the ultimate analysis, into explicit (formalized and codified) conceptual models. For example, from the initial phases of the consulting process, both client and consultant share the activity of codifying the client's initial implicit mental schemes for perceiving the qualitative and quantitative features of the firm's structure (the client's initial implicit vision of the firm's structure), thus making it possible to subject those schemes to critical justification and unfreezing processes (which will be fully implemented through successive internalization and socialization dynamics). Furthermore, during the whole consulting process, both client and consultant jointly endeavour to make explicit and codify the new tacit knowledge which emerges in the diagnostic phase (implicit diagnostic analysis know-how), in the therapeutic planning phase (implicit problem-solving know-how), and in the solution implementation phase (implicit change implementation know-how). This enables both parties to codify and learn new explicit knowledge (models, techniques, instruments and methods), which can be exploited in the future, once the consulting process is concluded.

Finally, through combination pathways the client and the consultant integrate the new explicit knowledge (which has been generated through the consulting process) into their own pre-existing explicit conceptual systems. There is a high level of knowledge creation potential in the combination pathway, even when the consulting intervention deals with partial areas of the client firm's structure (for example, a given business segment, or a given functional area). In these cases, in fact, the combination of new explicit “medium-range” knowledge with more general pre-existing concepts (for example, the explicit corporate vision) allows the older concepts to be enriched with new meanings. The creative use of ICT networks and hypertext information databases facilitates the combination pathway and helps both the client and the consultant to refreeze the new conceptual models and the new techniques that have been developed.

“Our best practices for designing and implementing management control systems have reached levels of excellence, particularly the ones that can be used by companies in the manufacturing and banking industries. I think they are the best in Europe. This has helped us to earn an excellent reputation, but our work remains extremely difficult. In fact, each new commission we receive entails immersing our logical, mathematical and statistical models into a specific corporate context and making them work in the best way possible in relation to each client company's specific [present and future] needs. To do this, we need the active cooperation of the client company's management. It is precisely thanks to this collaboration that we realize that our systems are failing to take account of important business interpretation keys, or that they possess potentialities which we had never previously realized. We offer our system to the client as the best available on the market (and we believe this to be true), but we have learned that in the course of every consulting intervention the main focus of our attention must be on seeking both the shortcomings and the latent potential of our systems and of their component modules [consequently generating new implicit knowledge through internalization]. The result is that almost all our consulting interventions lead us to modify (sometimes also to add) one or more modules [thus externalizing the new implicit knowledge acquired during the consulting intervention], and some of the relationships which enable the various modules to function as a system [hence recombining the new explicit knowledge generated through the consulting process].”

Apart from my (underlined) comments, these are the words of a senior consultant working for a large consulting firm, a leader in Europe in the management control systems consultancy. They provide an excellent example of how new (implicit and explicit) knowledge can be created by activating knowledge internalization, externalization and combination consulting pathways.

## Conclusion

This article proposes a conceptual framework for drawing the essential cognitive pathways through which the knowledge creation potential of management consulting can be expressed. The aim is not to demonstrate the absolute validity of this model, but more simply to highlight its internal theoretical consistency and to discuss the supporting evidence of a number of empirical observations. In particular, a few anecdotal cases are used to illustrate and clarify the conceptual framework, rather than serving as empirical evidence for the validity of the model (this approach is frequent in management literature. See, for example, normann, 2001). Testing the validity of the proposed framework through a systematic quantitative analysis is the next challenge I intend to undertake. Another challenge is to develop management control tools which can translate the conceptual model into practice, into systems that can support management consulting firms and their clients in the consulting relationship knowledge management.

The proposed conceptual model may have two major limitations. First, it may be subject to the limitations that some authors (e.g., Gourlay & Nurse, 2005) attribute to Nonaka and Takeuchi's theory of organizational knowledge. Secondly (and more important) the individual knowledge creation pathways and the whole conceptual framework from which they stem still need to be more thoroughly investigated and carefully sifted for validation.

The article may have significant entrepreneurial implications. Accepting the proposed framework, both clients and consulting firms can increase their awareness of the entrepreneurial knowledge generation potential engrained in the consulting relationship. Clients and consultants may then be better placed to consciously define knowledge creation goals for their consulting projects, to effectively design and manage the related cooperative learning dynamics, and to evaluate the cognitive value (rather than only the economic value) of the consulting intervention results. The client firm may come to regard the management consultant's work not simply as "seeking a solution to a specific problem" but also as "facilitating the endogenous development of its cognitive capacities" (and hence of its distinctive capabilities). On these bases, the client firm could select the consultant and, above all, could plan its expectations and active cooperation in the consulting process. Similarly, the consultant may be encouraged to interpret the consulting relationship as an opportunity for cooperative learning. This may not only increase the client's cognitive resources, but also enable the consulting firm to develop new and "unique" knowledge (which only the specific consulting context can induce), and, consequently, new distinctive consulting capabilities that are fundamental to its competitive success.

An additional auspicious is that this article will stimulate the further theoretical development of the proposed conceptual framework as well as further investigations into the cognitive dynamics of consulting.

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#### Notes:-

1. Over the past ten years management consulting has been one of the most dynamic industries within the context of the advanced tertiary sector (in terms of turnover, new business start-ups, number of employees, range of services offered, etc.). According to Kennedy's most recent annual survey on the global consulting market (Kennedy Information, 2007), the aggregate turnover in this industry reached about 285 billion dollars in 2006 (with an increase of 10% from 2005) and in the next four years it is expected to see an annual growth rate of higher than 7% (aggregate turnover is expected to reach 375 billion dollars in 2010).

2. The brief empirical evidences provided in this article are based on interviews by a group of researchers who are exploring (under my guidance) the emerging issues in knowledge management within the context of the European management consulting industry. This research project is being conducted with two samples of firms; one comprising fifty management consultancies of various sizes, and the other with over one hundred large and medium-sized corporations. The interviews are still in progress and will be completed by the end of 2008.

3. The literature offers a wide selection of studies into firm knowledge management (Abrahamson, 1996) and management consulting (Whittle, 2006). Management consulting firms are often discussed as being the archetypes of knowledge-intensive firms (e.g., Alvesson, 1995; Crucini, 2002; Heller, 2002; Werr, 2002), or as the firms whose core product is knowledge itself (Sarvary, 1999).

Consulting firms are generally aware of the value of knowledge for their own organizations and for their clients. This awareness is confirmed, for example, by the progressive and empirically detectable change in the range of management consulting services offered and their modes of delivery (creating and sharing knowledge, in terms of exploration, development and exploitation, have now become key-channels for transferring value to clients; Davenport & Prusak, 2005). Moreover, many of the top consultancies now "offer knowledge management services for their clients, focusing on how they can develop their internal knowledge management practices" (Buono and Poulfelt, 2005, p. IX).

However, the subject of knowledge creation potential that can be activated through the concrete implementation of management consulting interventions still remains a largely unexplored research area (see, also, Ciampi, in press-a, in press-b).

4. In the communications to the market made by the big consultancies that offer "high knowledge creation potential" consulting services, we may often notice such claims as "Our clients outperform the market 3 to 1" (Bain), or "We are successful if our clients have built in-house capabilities to solve their own problems the next time around" (McKinsey). See Poulfelt, Greiner, & Bhambri (2005, p. 14).

5. It is however only on the development of new interpretative paradigms, able to join "...the pole of codified knowledge..." and "...the pole of contextual knowledge..." (Rullani, 1994, p. 68), that an economic theory which is really able to explain "...when and why knowledge is produced, exchanged and used in the economic circuit" (Ivi, p. 48) can be founded. See also Rullani (2004a, 2004b).

6. Among the issues examined in this literature are:

- the internal KM procedures and systems of management consulting firms (e.g., Anand, Gardner, & Morris, 2007; Bou & Sauquet, 2005; Bukh & Mouritsen, 2005; Haas & Hansen, 2005; Henriksen, 2005; Stjernberg & Werr, 2003);
- limitations to and risks connected with the use of codified KM systems founded on the wide spread use of Information and Communication Technologies, due to the inability of ICTs to manage the uncoded (implicit) part of the knowledge that is created and transferred (Dunford, 2000; Kim & Trimi, 2007);
- the problems involved in integrating KM systems in consulting firm mergers and acquisitions (Ejenäs & Werr, 2005; Gammelgaard, Husted, & Michailova, 2005);
- management consulting firms' knowledge strategies: exploring new consulting practices vs. exploiting already known consulting practices (Baaij, Van den Bosch, & Volberda, 2005);
- the mechanisms through which professional institutions affect knowledge creation in professional service firms (Robertson, Scarbrough, & Swan, 2003).

7. The organizational knowledge creation theory developed by Nonaka and Takeuchi is based on the possibility to categorize cognitive resources in terms of the following two essential dimensions:

- the epistemological dimension, which makes it possible to distinguish between explicit and tacit knowledge (Arrow, 1962; Gelwick, 1977; Polanyi, 1966, 1985). Explicit knowledge can be expressed, codified and easily transferred between different people through formal and systematic languages. Tacit (or implicit) knowledge, on the contrary, originates from personal experiences; it is difficult to formalize; and it resides exclusively in the minds of individuals (personal insights, personal experiential skills, etc.), often at different levels than that of "full

awareness". In this regard, "... not always the firm, though made up by thinking individuals, is able to emulate the cerebral structure of each of them...". Excessively emphasizing the "firm as a cognitive system" metaphor can therefore be misleading (Golinelli, 2000, pp. 50-51). Since explicit knowledge is only "the tip of the firm's knowledge iceberg", where the foundations are essentially "tacit events" (which are difficult to express and share), the fulcrum of the entrepreneurial process of knowledge creation lies in the capacity to mobilize, convert and disseminate the tacit knowledge of individuals throughout the organization;

- the ontological dimension, which makes it possible to categorize knowledge in relation to the entities involved in its creation (individual knowledge, group knowledge, organizational knowledge, inter-organizational knowledge). The firm's knowledge creation process can be described as an interactive, looping and spiral shaped process moving away from the individual level and gradually expanding and rising through ever higher ontological levels, which involve increasingly broader interacting communities.

The interactions between individuals (social interactions) set into motion processes of knowledge evolutionary metamorphosis along the epistemological and ontological dimensions, thereby triggering a spiral of knowledge conversion processes (Nonaka & Takeuchi, 1995).

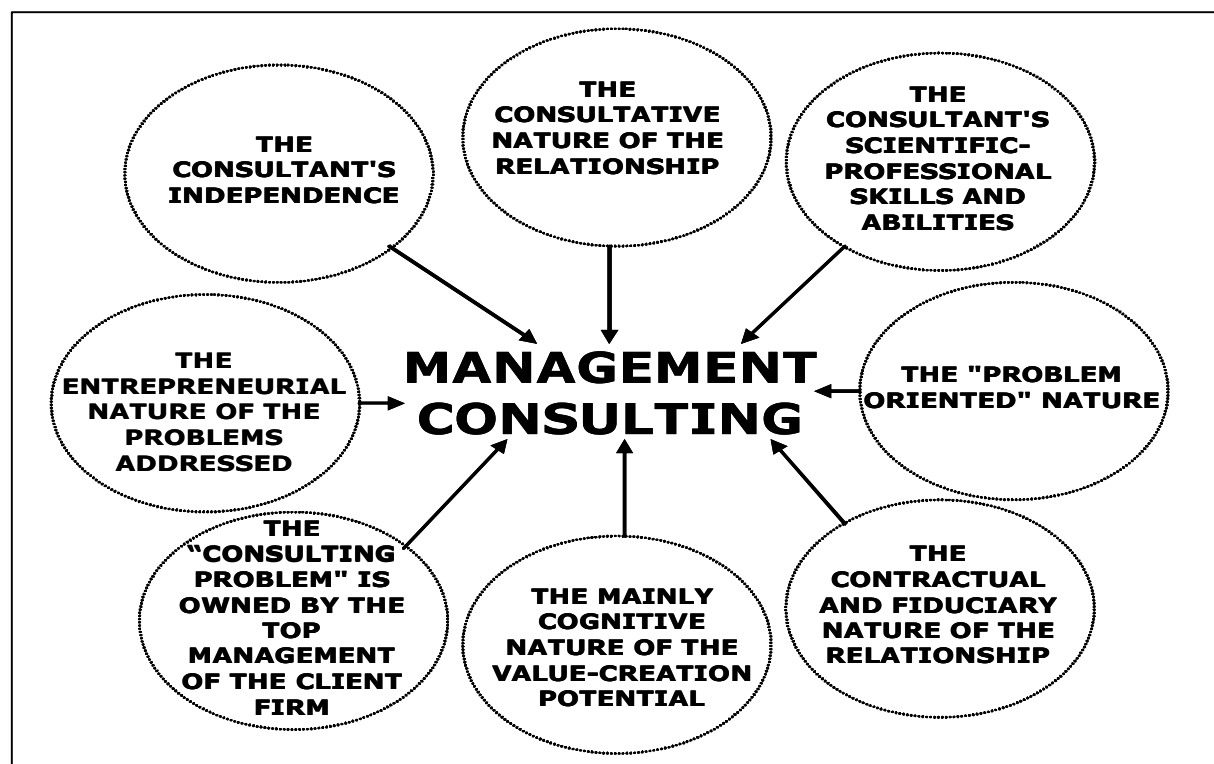
8. The socialization pathway consists of processes of tacit knowledge sharing among individuals, and generates new tacit knowledge through the social interaction arising therefrom. Since tacit knowledge cannot be codified, this cognitive path requires experience sharing, which in turn activates "fields of interaction" between those who possess a given experience and those who wish to acquire it. This may happen, for example, through recourse to on-the-job training practices thus reproducing the apprentice-master craftsman relationship, in which the former learns from the latter through observation, imitation and practice.

9. Internalization makes it possible to convert explicit knowledge into new tacit knowledge: applying explicit knowledge (codified in documents, manuals, etc.) to specific operational environments enables individuals to contextualize that knowledge, "to take possession of it", and to transform it into new implicit knowledge.

10. By resorting to "dialogue and group reflection" and methods of inductive and deductive reasoning, the externalization process makes it possible to convert tacit knowledge into new explicit knowledge, which takes the form of metaphor, analogy, concept, hypothesis and/or model. The complexity of the process is due to the fact that, in addition to being uncoded, implicit knowledge is closely linked to the mental models of individuals it is possessed by.

11. The combination process makes it possible to produce new explicit knowledge by sorting, adding, combining and categorizing pre-existing explicit knowledge. Information and Communications Technologies facilitate this process by networking, and hence "systematizing" distinct corpuses of explicit knowledge.

12. The proposed conceptual mapping of the knowledge creation pathways that can be activated through management consulting interventions was first presented in October 2007 at the 7<sup>th</sup> Global Conference on Business & Economics (see Ciampi, 2007).



**Figure 1:** Distinctive ontological (real, essential and relatively stable) features of management consulting: a synthetic conceptual framework.

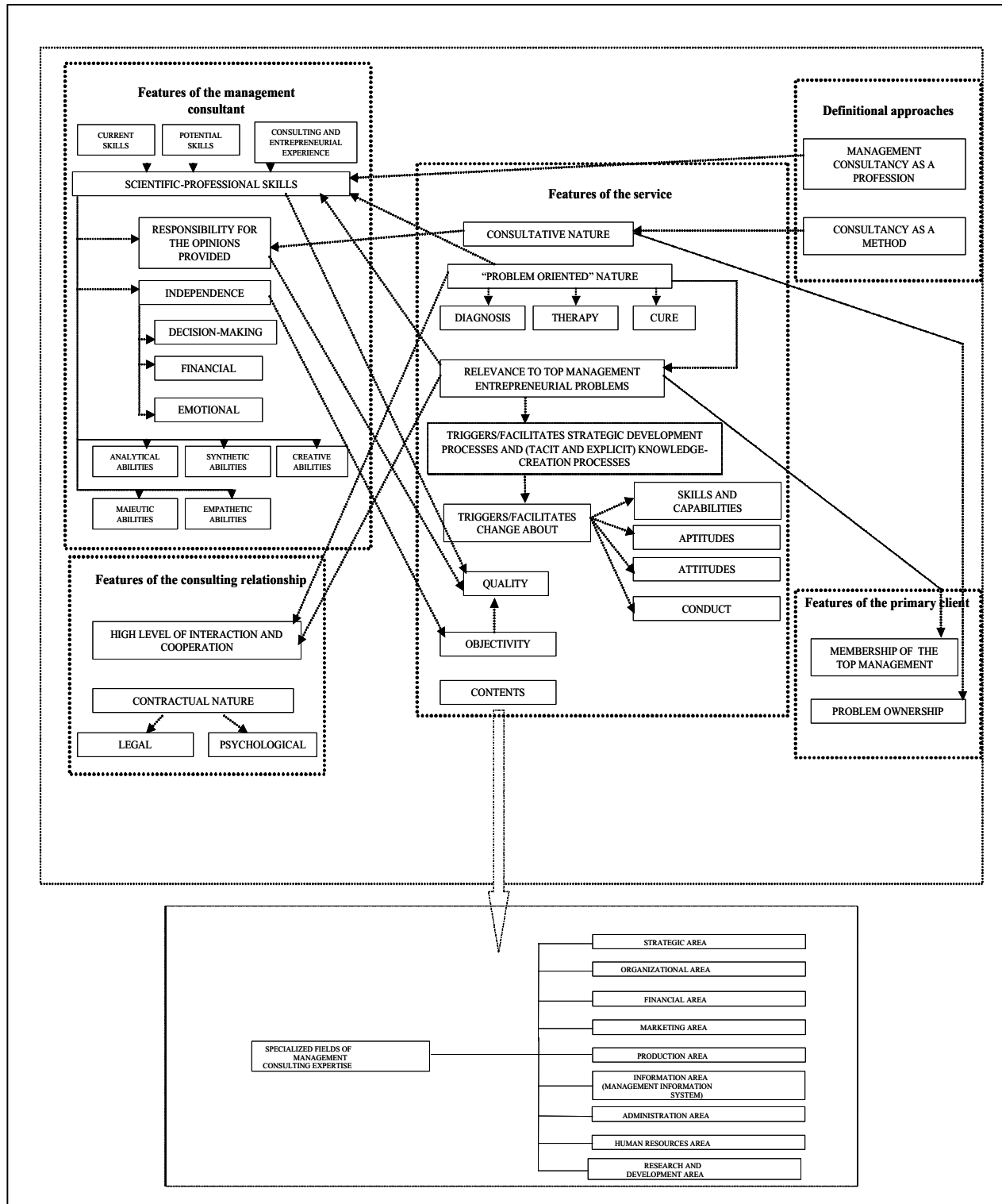


Figure 2: The ontology of management consulting activity: features and logical relationships.



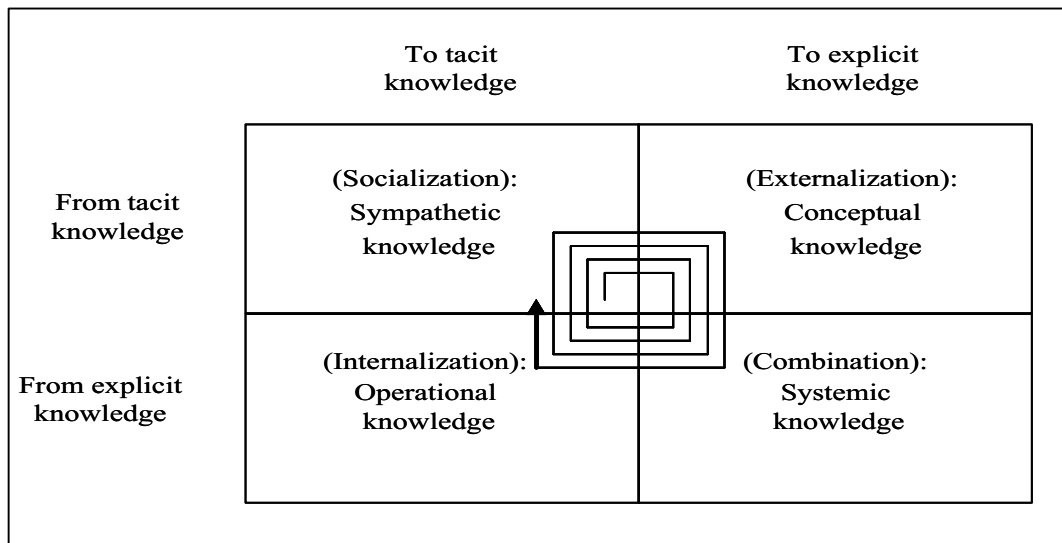


Figure 3: Knowledge conversion processes (Nonaka and Takeuchi, 1995).

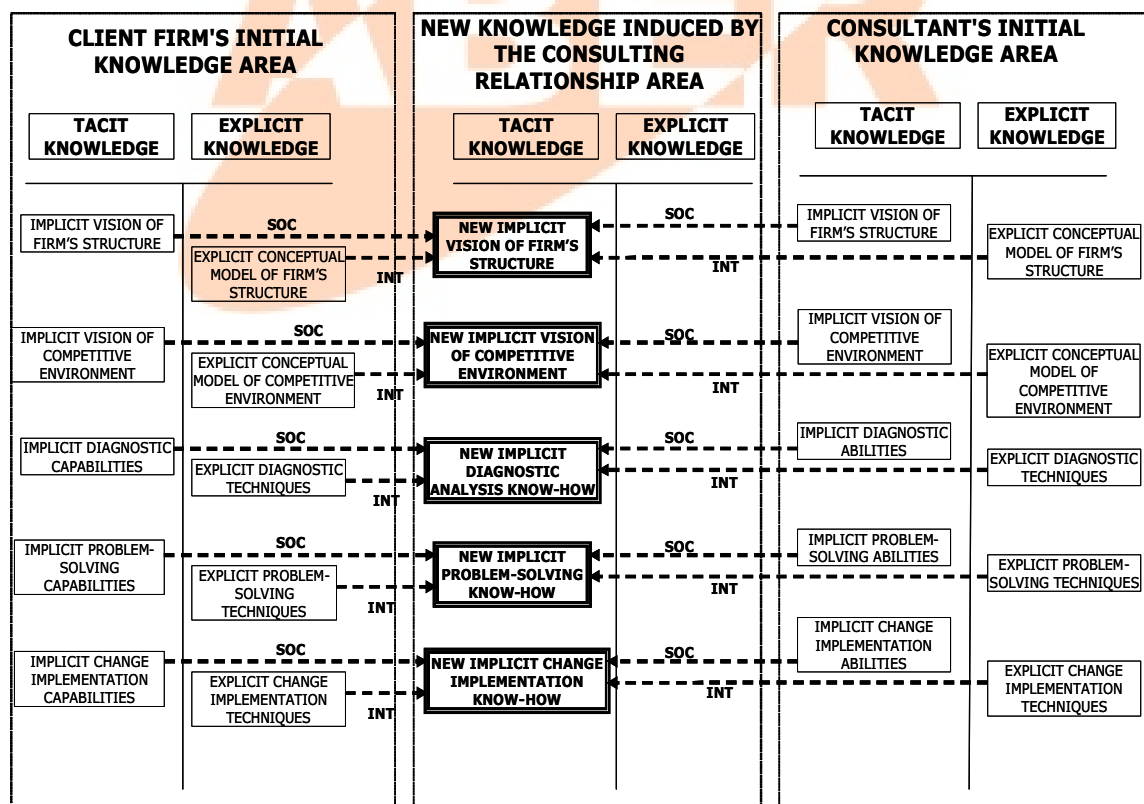
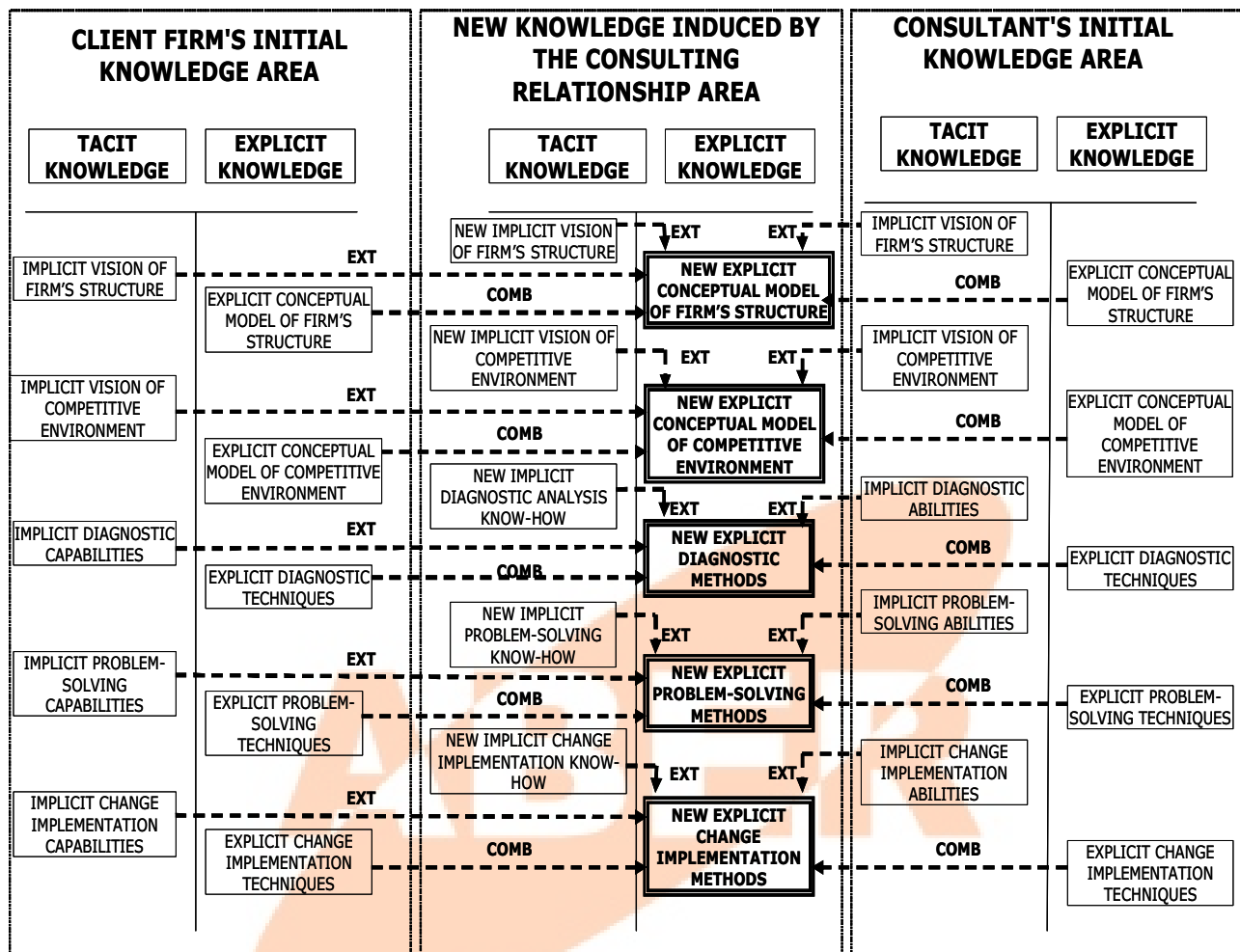


Figure 4: Cognitive interpretation of the management consulting process. Synthetic mapping of the tacit knowledge creation pathways: socialization (SOC) and internalization (INT).



**Figure 5:** Cognitive interpretation of the management consulting process. Synthetic mapping of the explicit knowledge creation pathways: externalization (EXT) and combination (COMB).