

Management Consulting and Knowledge Creation

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Abstract

Frequent environmental discontinuity, and intense changes in the competitive dynamics and logics of client business areas, are transforming the management consulting industry and the complexity and the articulation of the consulting demand is also growing.

The value chain of client firms is being reconfigured. On the one hand, both material activities and low-value added immaterial ones are being increasingly outsourced. On the other hand, knowledge-intensive activities (hard to imitate and reproduce), are being increasingly internalized.

The client's tendency to internalize intellectual activities (intellectual in-sourcing), acts as a strong stimulus for management consulting firms to go beyond their traditional intervention models.

Keywords: Management Consulting; Consulting; Knowledge Creation; Knowledge-Intensive Activities; Global Markets

1. Evolution of the Consulting Demand and Changing Roles of Management Consultants

Frequent environmental discontinuity¹, and intense changes in the competitive dynamics and logics of client business areas², are transforming the physiology of the management consulting industry. This turmoil is generating uncertainty about the direction of the future structural evolution of the industry, but may also present interesting development opportunities for consulting companies with proactive attitudes towards change.

□ *The consulting business is, despite everything, still growing. 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*

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an annual growth rate of higher than 7% (aggregate turnover is expected to reach 375 billion dollars in 2010).

Meanwhile, the complexity and the articulation of the consulting demand is also growing. The value chain of client firms is being reconfigured. On the one hand, both material activities (e.g. the production and assembly of components) and low-value added immaterial ones (e.g. the management of technological infrastructure, and back office activities) are being increasingly outsourced. On the other hand, knowledge-intensive activities (hard to imitate and reproduce), such as product and process R&D, customer service, the creation, development, and protection of critical strategic and organizational knowledge and competences, are being increasingly internalized.

The client's tendency to internalize intellectual activities (intellectual in-sourcing³), such as strategic planning, competitive analysis, human resources selection and development, and marketing planning impacts on the consulting industry boundaries; and it also makes the needs of the client evolve. Intellectual in-sourcing enhances the client firm's capability to consciously select, design, and control the value creation dynamics which can be activated through the consulting relationship⁴. This internalization tendency consequently acts as a strong stimulus for management consulting firms to go beyond their traditional intervention models⁵.

The economy is now in large part globalized, and founded on the wide spread use of modern Information and Telecommunications technologies. Today's 'market-space' competition (that is '...competition completely unconstrained by physical geographical boundaries..' where '..space becomes a competition factor..' itself), at the appropriate time ('time-based competition') and of the immaterial ('..dominated by intangible supply features and by virtual spatial coordinates..') is turning the competitive logics and dynamics of the firm upside down (Brondoni, 2002a; 2002b; 2007). Traditional strategic reactions (temporary downsizing, restructuring, outsourcing, consolidations by means of mergers and acquisitions, etc.) may turn out to be inadequate.

Whether or not consulting firms will successfully compete in the market will depend in large part on their capacity to reinvent and undertake new and diverse strategic pathways, which will change their business boundaries, their organizational profiles, and many features of the consulting practices and the consulting models that have traditionally been the basis of their competitive success.

We already have some examples of proactive strategic behaviors toward environmental change, such as:

- the diversification of services offered: outsourcing providing is added to traditional consulting activities;

□ *Nowadays a considerable amount of the turnover of some of the major consulting firms (among others IBM, Accenture, and Deloitte Consulting) comes from the direct management of activities that their clients have decided to outsource (from supplier management, to IT infrastructure management, to routine human resources management, to back office management).*

- the development of networks and alliances with both internal and external players in the consultancy industry, thus progressively overcoming the traditional model of 'stand alone' consulting firms. This development path was initially undertaken by the IT consultancies (think of the alliances between Accenture and Hewlett-Packard, between SAP and numerous IT consultancies) and I think we will see it progressively spread among the more 'proactive' players of other sectors of the industry. The imperatives of globalization are leading an increasing number of consulting firms (specialist or generalist) to take into consideration more and more frequently the start of strategic partnerships, especially between different size players and between consultancies operating in different geographical markets. For small consulting firms, alliances with bigger and internationalized companies mean that they will be able to assist clients in the planning and implementation of their international development processes. For large consulting firms, small consulting boutiques that operate on a national or regional basis can be ideal partners for alliances aimed at achieving service adaptation/personalization (to cultural and competitive local contexts) for both traditional clients (big and medium-sized firms that are implementing strategic paths of redefinition of their value chains and markets for a global and, therefore, multi-localized base), and for new clients that are the natural target of their international development (typically medium-sized firms with high growth potential and bases in emerging markets)⁶;
- the orientation toward long term consulting relationships that exceed implementation times of a single project. It is estimated that nowadays more than two thirds of the annual turnover of consulting firms in leadership positions in the various sectors of the industry originate from clients they had already acquired in previous years (Poulfelt, Greiner, & Bhambri, 2005). One of the advantages of this type of relationship is that there are lower marketing costs and lower investments (also on the part of the client); and it is easier and cheaper to build and maintain the client's trust and the consulting firm's credibility.

Figures 1 and 2 are an attempt to systematize and project present-day dynamics, where demand is increasingly aware of the real economic and cognitive value generation potential that can be activated by the consulting relationship. The figures show two possible scenarios of the evolutionary transformation of management consultant's roles.

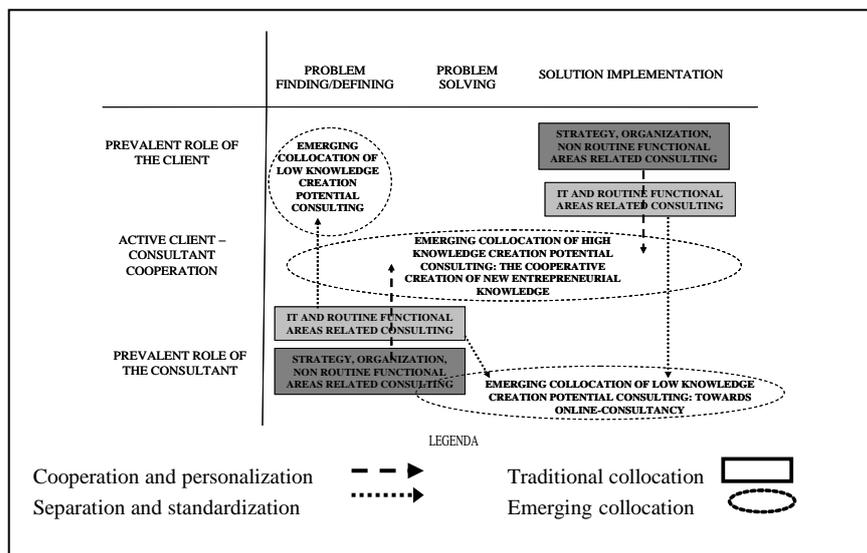
In those consulting areas characterized by 'low knowledge creation potential', typically IT consulting and consulting on routine functional area related problems (accounting consulting, auditing consulting, etc.), the pressure from the demand is for standardization and cost reduction in low-value added activities (operations management, IT infrastructure management and low knowledge-intensive immaterial activities). This is generating the need for the client firms to further delegate problem solving and implementation activities to consultants, and to focus company time and attention on aspects of problem finding and problem defining (e.g. which activities should be standardized, and with which cost reduction

objectives), besides, obviously, on control of the consulting project (intermediate and final) key results.

Such a scenario lead me to hazard a guess that a possible evolution of the management consultant's role could be toward:

- the 'online-consultant'. This limits face to face interactions with the client to a bare minimum, incorporates diagnostic and problem solving best practices into modular software, and delivers consulting services through extensive use of the internet and/or of dedicated intranet platforms (Czerniawska, 2005). The use of ICT platforms will also effectively satisfy the growing needs of clients to easily have full control of the progress made in the implementation of the consulting intervention;
- the 'outsourcing provider', which tends to take on the management of those activities that client firms decide to outsource (a decision that might be based on advice given by consultants themselves).

Figure 1: Emerging Issues in Management Consulting Relationship.



A different evolutionary path is predictable for the role of management consultants operating in areas characterized by 'high knowledge creation potential' (typically: strategy consulting, organizational consulting, consulting on non-routine functional area related problems). In this respect, the growing propensity of client firms to internalize activities characterized by greater knowledge intensity (intellectual in-sourcing) and, consequently, to more consciously evaluate the real effectiveness of any consultancy intervention is progressively leading these firms to prefer management consulting models characterized by:

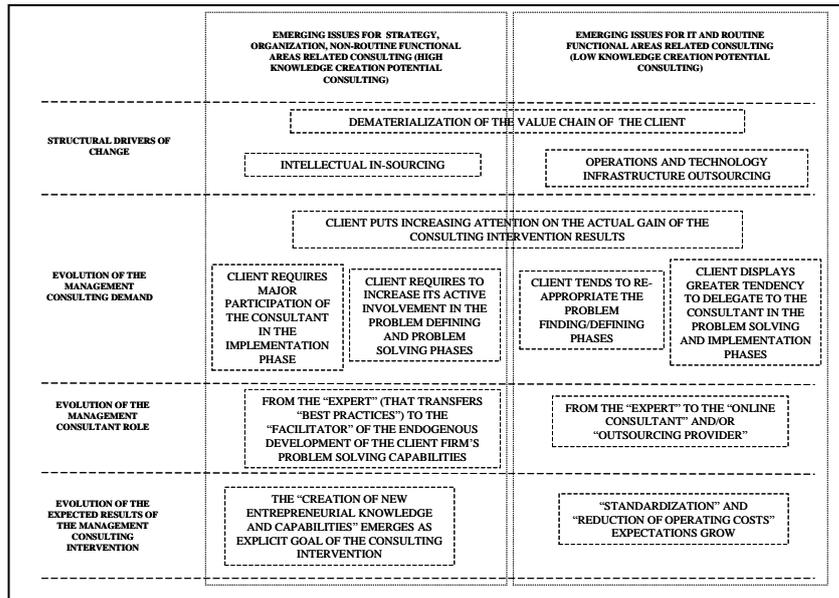
- greater involvement of consultants in the concrete implementation of change management solutions, and compensation criteria for consulting services founded on concrete, achieved results ('success fees');
- greater involvement of the client in phases traditionally delegated to the consultant (problem finding, diagnosis, solution discovery). The progressive

‘reappropriation’ of the problem defining and solutions specification phases will allow the client firm to more promptly verify the effectiveness of the consulting intervention, to benefit from a more customized service, to exploit its own pre-existing diagnostic capabilities (no one knows the specific entrepreneurial setting with which the consulting intervention has to deal better than the client). Above all, the client firm will be able to maximize the development opportunities of new and autonomous knowledge and capabilities that will allow to successfully manage future entrepreneurial problems, which may not necessarily be similar to those which had been object of the consulting intervention.

Therefore, in consulting areas characterized by ‘high knowledge creation potential’ the competitive power of the management consulting firm will also depend on its capacity to overcome traditional service logics (geared to the simple transfer to the client of mainly explicit knowledge -‘best practices’-, in order to resolve specific entrepreneurial problems), and to evolve its consulting practices towards models designed to provide support, collaboration and facilitation for the creation of new, mainly implicit knowledge (managerial skills, change management capabilities) that enhances the cognitive resources of the client firm and its capability to successfully face future strategic challenges. In this respect we should, however, notice that:

- a. notwithstanding the official claims of some consulting firms⁷, the empirical evidence shows that even today it is very rare that the client and the consultant consciously set knowledge creation goals for the consultancy project (Linnarsson and Werr, 2002), and that, therefore, (economic and, above all, cognitive) the value-creation opportunities related to the transition from consulting approaches geared to the transfer of ‘best practices’ (consultant as expert) to consulting approaches geared to the cooperative creation of new knowledge and entrepreneurial capabilities (consultant as a facilitator of new entrepreneurial knowledge and capabilities creation processes) are rarely consciously perceived and, consequently, are not adequately planned for and exploited;
- b. despite the vast amount of international literature on enterprise knowledge management and management consulting and despite the fact that management consulting firms are often referred to as the archetypes of knowledge-intensive firms, 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, 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).

Figure 2: Management Consulting Role Restructuring



2. Management Consulting and Knowledge Creation

Knowledge is the main resource for underpinning the strategic development processes of entrepreneurial organizations (e.g., Drucker, 1995; Grant, 1996)⁸.

As far as it contributes to solving entrepreneurial problems⁹, consulting either disseminates or creates knowledge¹⁰. 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 world¹¹ 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 offering practical recipes on how to start, to manage, to protect and to develop a consulting practice (Kass and Weidner, 2002), an analysis of the main literature enables one to identify two main interpretative paradigms of the 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. 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 and Werr, 2001). Starting from its initial phase, the consulting 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 knowledge creation potential, and both parties in the relationship play a critical role in it.

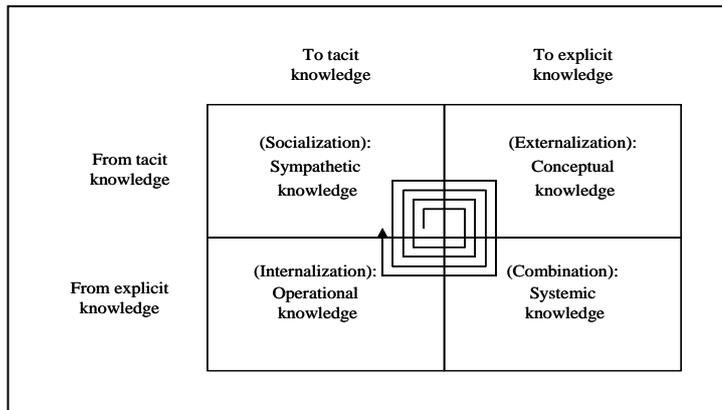
To better understand the way consulting actually induces knowledge creation, it is however necessary to investigate the actual cognitive dynamics through which the consulting relationship is implemented.

However, neither in the aforementioned literature nor in the more recent studies that have adopted a specifically cognitive perspective for investigating management consulting (e.g., Anand et al., 2007; Baaij et al., 2005; Ejenäs and Werr, 2005; Kim and Trimi, 2007)¹², 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; even though some of these recent studies have highlighted the potential fecundity of these analyses (e.g., Creplet et al, 2001; Jensen, 2005; Kirsch et al, 2005; Newell, 2005; Todorova, 2004; Visscher, 2006)¹³.

3. Knowledge Creation Through Consulting: the Knowledge Conversion Pathways

The organizational knowledge creation theory developed by Nonaka and Takeuchi (1995) is based on the possibility to categorize cognitive resources in terms of the *epistemological* dimension (Polanyi, 1966; 1985), thus distinguishing *explicit knowledge*¹⁴ from *tacit knowledge*¹⁵. 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.

Figure 3: Knowledge Conversion Processes (Nonaka and Takeuchi, 1995).



Source: Nonaka and Takeuchi (1995)

According to Nonaka and Takeuchi's theory, creating new knowledge can be viewed as a continuous and dynamic meta-process consisting of parallel iterations of four knowledge conversion processes¹⁶, the spiral shape of which (see Figure 3) 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).

The nature of the new created knowledge depends on the way it is converted. *Socialization* produces *sympathetic* knowledge, that is to say, shared technical abilities and mental schemes. *Externalization* creates *conceptual* knowledge (for example, the concept of a new product structure). *Combination* produces *systemic* knowledge (for example, the conceptual architecture of a new technology). *Internalization* produces *operational* knowledge (for example, project management innovative know how).

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 knowledge generation power of 'high knowledge creation potential' consulting can be expressed¹⁷ by following the process-consulting approach¹⁸.

The conceptual framework proposed here is also corroborated by revealing (though short) anecdotal evidence.

Through *socialization* pathways, new tacit knowledge is induced by face-to-face interaction and by the subsequent informal sharing (and integration) of the preexisting tacit knowledge owned by the two parties in the consulting relationship.

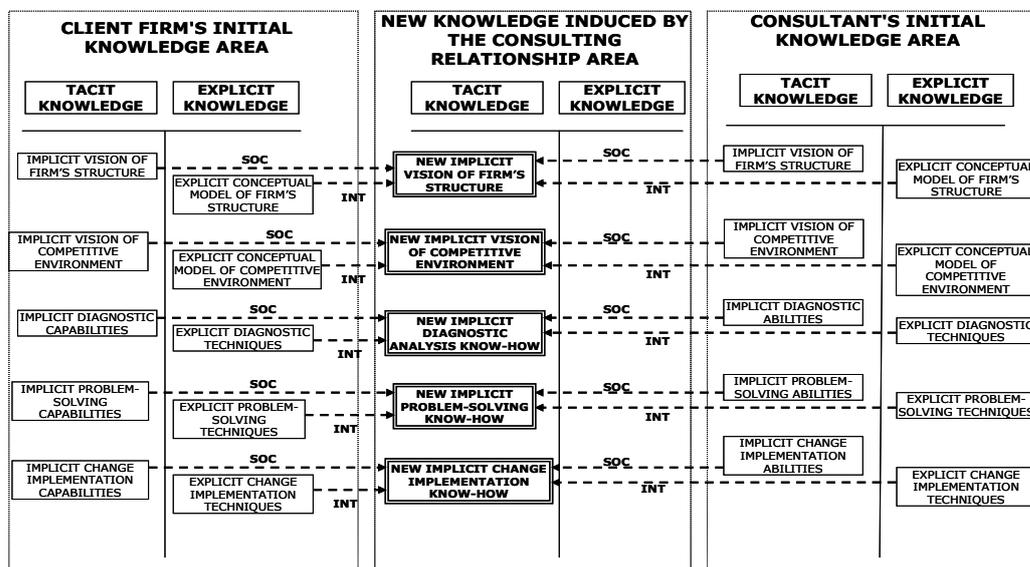
Mutual direct observation, comparing different viewpoints, sharing and synchronizing experiences, insights and mental models, make it possible, in particular, for both the client and the consultant:

- a. to renew their own preexisting *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.

Figure 4: Cognitive Interpretation of ‘Process Consulting’: Socialization (SOC) and Internalization (INT)



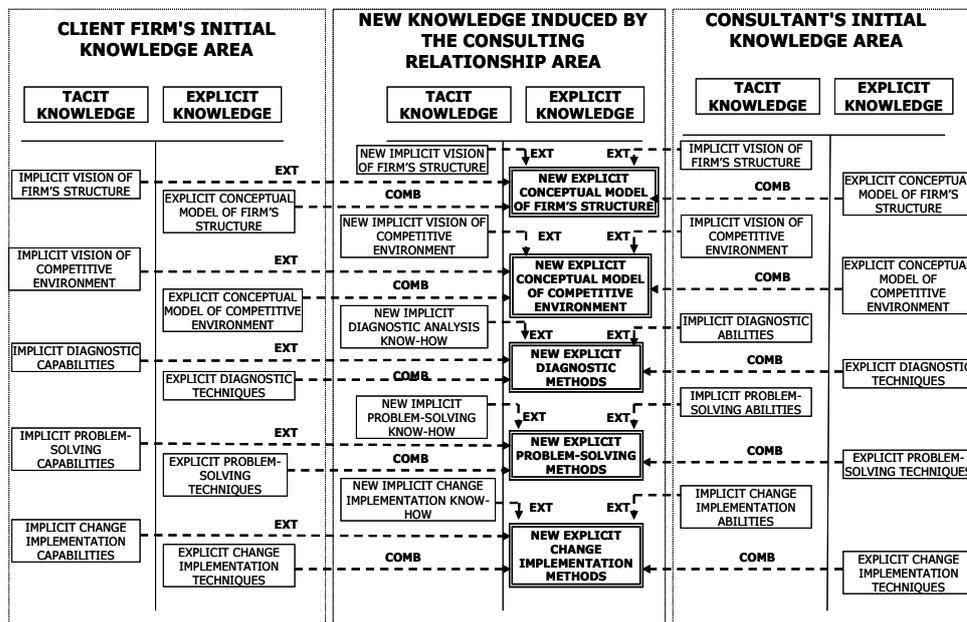
□ *The entrepreneurial knowledge creation potential of socialization pathways that can be activated through management consulting interventions was very clearly perceived and expressed by one of the partners of a large-sized consultancy firm, which is a global leader in the strategy consulting field, who said: ‘...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 in which the consulting intervention takes place, 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.

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, 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 company 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.

Figure 5: Cognitive Interpretation of 'Process Consulting'. Externalization (EXT) and combination (COMB)



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.

□ *A senior consultant working for a large consulting firm, a leader in Europe in the management control systems consultancy provided an excellent example of how new (implicit and explicit) knowledge can be created by activating knowledge internalization, externalization and combination consulting pathways: '...each new commission we receive entails immersing our ...models into a specific corporate context 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]...’.

My auspicious is that a better understanding of the knowledge creation paths that can be activated by implementing management consulting projects conducted following the process-consulting approach will allow both clients and consulting firms to increase their awareness of the entrepreneurial knowledge generation potential engrained in consulting interventions characterized by ‘high knowledge creation potential’. 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 For example: the 'dot.com bubble' which burst in the first months of 2000 (with consequent restructuring and downsizing of numerous sectors of the telecom industry), and the tragic events of September 11th of the following year, had considerable impact on levels of activity (and therefore, turnover) and the economic results achieved in several sectors of the consulting industry; then there was the collapse of Enron that (similarly to the 'Parmalat case' in Italy) not only brought about the extinction of one of the 'Big Five' (Arthur Anderson), but had also extremely negative effects on the business of many consulting and auditing firms; the recent bursting of the subprime mortgage bubble has had a considerable negative impact over past months on the business of rating and financial consulting firms.

² The following represent some of the principal competitive dynamics that characterize the majority of industries in the developed economies: the globalization of markets and companies; the shortening of product life cycles and of 'time to market'; growing competitive pressure in domestic markets and a resulting exponential increase of resources to be invested in activities such as new product development, renovation of old products, exploration and penetration of emerging markets; fierce cost competition by manufacturers located in emerging markets; and the exponential development of Information Technologies. These emerging competitive issues are all having a strong impact on the strategies and on the organizational structures of most of the client companies served by the main management consulting firms, whether they are big or small, local or international, generalist or specialized.

³ If knowledge is becoming *'the resource'* on which the entrepreneurial organizations operating in developed economies base their competitive advantages (and their strategic development processes) it should not come as a surprise that this should be seen as *'the challenge'* to be faced in the years to come by management consulting firms, being as they are the *'archetypes of knowledge-intensive firms'*.

⁴ More and more frequently the top and middle management positions of many medium to large client firms are held by former senior consultants of major consulting firms (and/or by graduates of international business schools that offer the most updated training in *'best management practices'*), who are well able to master the consulting techniques and models used by top consultancies. Consequently, the control and development of the *'cutting edge'* strategic and organizational analysis techniques and models are no longer the exclusive competence of the leading consulting firms.

⁵ Such models see the members of consulting teams as *'experts'*, possessors of *'superior'* knowledge, management tools and implementation skills, whose simple *'transfer'* would enable clients to achieve *'certain'* results in terms of attaining/strengthening their competitive advantage. BCG has traditionally founded its competitive strategies on the *'unique'* abilities of its consultants in the application of the *'growth share matrix'* and the *'experience curve model'*. Monitor founded its competitive strategies on its *'higher'* interpretive capabilities of the *'value-chain model'*; Strategos on its analysis and enhancement skills of the *'core competencies'*, etc. (Poulfelt, Greiner, & Bhambri, 2005).

However, with increasing frequency many of the abstract conclusions and recommendations of the consulting firms (not only those made by *'generalist'* consulting firms or by firms specialized in the strategy field but, even if on a smaller scale, also those made by firms specialized in sectors traditionally considered to be *'at a high level of standardization'*, such as credit rating firms and accounting auditing firms) reveal growing implementation issues and/or when tested against the reality of hard facts, lead to results which are very far from what had been promised.

⁶ Nowadays the turnover growth rates of many top consultancies are much higher in the emerging markets than in the traditional ones (Europe and USA). For instance, in 2007 Deloitte global network's growth rate in Asia reached 17,2%, almost 50% higher than that achieved in the USA (11,9%).

⁷ 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 et al. (2005).

⁸ Currently, not only does knowledge play a critical role in the competitive strategies of companies in all industries, but it has also more specifically demonstrated its strategically central role in knowledge-intensive sectors. This is confirmed, by example, by the progressive and empirically detectable change in the range of services offered by management consulting firms themselves and their modes of delivery: creating and sharing knowledge (in terms of exploration, development and exploitation) have now explicitly become key-channels for transferring value to clients (Davenport and Prusak, 2005). Moreover many of the top consultancies nowadays *'offer knowledge management services for their clients, focusing on how they can develop their internal knowledge management practices'* (Buono and Poulfelt, 2005, p. IX).

⁹ 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, and ultimately have innovative effects (Greiner & Metzger, 1983; Vallini, 1991).

¹⁰ Traditional Knowledge Management 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). Hence traditional KM literature mainly focuses on techniques for gathering, imitating and disseminating knowledge (in essence, transferring the best practices; Newell, 2005).

¹¹ Not surprisingly, the most recent literature (the *knowing-in-action* view) interprets knowledge as being mainly tacit, socially constructed, embedded in practice, context-dependent, difficult to transfer and therefore really valuable only when it is generated in its 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 potential (Buono and Kerber, 2005).

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).

¹² Among the issues examined in this literature are:

- the internal Knowledge Management (KM) systems of management consulting firms (e.g., Anand et al., 2007);
- 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 (e.g., Kim and Trimi, 2007);
- the problems involved in integrating KM systems in consulting firm mergers and acquisitions (e.g., Ejenäs and Werr, 2005);
- management consulting firms' knowledge strategies: exploring new consulting practices vs. exploiting already known consulting practices (Baaij et al., 2005).

¹³ 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 (Todorova, 2004); 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 et al., 2005); on the role of 'epistemic communities' and 'communities of practices' in interpreting and evaluating the impact of the management consulting intervention on the knowledge structure of the organization where the intervention takes place (e.g., Creplet et al., 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.

¹⁴ *Explicit knowledge* can be expressed, codified and easily transferred between different people through formal and systematic languages.

¹⁵ *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 consequently be misleading (Golinelli, 2000, pp. 50-51).

¹⁶ The *socialization* pathway consists of processes of tacit knowledge sharing among individuals, and generates new tacit knowledge through the social interaction arising therefrom. 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 *combination* process makes it possible to produce new explicit knowledge by sorting, adding, combining and categorizing pre-existing explicit knowledge. Finally *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.

¹⁷ 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 7th Global Conference on Business & Economics (see Ciampi, 2007).

¹⁸ The basic aim of 'process-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.).