

» DON'T INNOVATE, IMITATE! THE HISTORIC ROLE OF CONSULTANTS IN ORGANIZATIONS

DR CHRIS MCKENNA

That Oxford University Consulting is part of Isis Innovation makes a great deal of sense given the long history of consulting

How did it come to be that management consultants focus on the transfer of best practices, not the creation of new processes, as their central professional service?



Innovation, we would all quickly agree, is the holy grail of modern industry. Because true commercial innovation is so rare and valuable, however, we often discount the value of imitation and ignore the extraordinary value of the transfer of best practices amongst organizations. Best practices, far more than innovation, allow smaller organizations to remain competitive in the marketplace. After all, money spent on technology transfer – whether that technology is scientific or managerial – is much closer to a “sure thing” than funding research and development in the hope of achieving a technological breakthrough.

Of course, one source of technology transfer is Isis Innovation, the technology spin-out arm of the University of Oxford, but another source of best practices is Oxford University Consulting, a relative

newcomer in both the consulting business and within Oxford. While business and technology consultants have been important since the end of the nineteenth century, only recently have they become so extraordinarily prominent in the corporate landscape.

But why should consultants favour the transfer of best practices over the development of novel solutions for their clients? Isn't innovation always a better proposition than imitation? Perhaps some historical perspective might give us a better sense of the relative merits of the two potential business models for consulting.

Nowhere was the potential value of consultants more obvious than in the rapid growth of the Boston-based consulting firm founded by Arthur D.

Little, a chemical engineer trained at M.I.T., who advised the largest industrial companies on cutting-edge technology. Although many engineers founded consulting firms at the end of the nineteenth century, Arthur D. Little, Inc. was particularly successful because of Arthur Little's personal connections with the faculty at M.I.T. and the pre-eminence of the Boston-based banks in financing industrial companies like General Electric and AT&T prior to 1900.

In particular, Arthur Little boasted of solving problems that others could not handle including his infamous demonstration that he could turn a “sow's ear into a silk purse” by spinning gelatin made from sow's ears to create artificial silk that was then woven into a purse. Interestingly, Little's decision to

specialize in the most difficult problems – and to never do the same thing twice – was a reversal from his previous career, since his initial experience managing a series of paper mills gave him expertise in the routine transfer of established best practices.

Although Arthur Little got his start in consulting through the routine testing of chemical compounds, he preferred to wrestle with a succession of novel engineering puzzles rather than concentrate on a single specialty. Following Isaiah Berlin's famous distinction, Little was a fox, interested in many things, not a hedgehog, interested in just one big thing. It is perhaps not surprising then that Little generally shunned assignments that tended toward the "management" side of consulting rather than the "engineering" side of consulting even though the two were frequently, and necessarily, intertwined. Arthur Little's aversion to management may also explain why he was delighted to help General Motors set up its own research and development laboratory in 1911. Little explained that "the more research they have, the more they'll need me" for the most difficult and unusual problems in General Motors..

Arthur Little, however, never became the archetype for consulting despite all of the success that he enjoyed. Unlike general management consultancies, the firm of Arthur D. Little, Inc. remained linked in the public eye with specialized research and development. In contrast, the management consultants who founded firms in Chicago during the early twentieth century – people like James McKinsey, of McKinsey & Company, Edwin Booz, of Booz Allen & Hamilton, and Arthur Andersen, of (obviously) Arthur Andersen & Company – would go on

to dominate the emerging profession by offering best practices, not novel solutions, to their corporate clients.

Executives readily accepted the value of these outside advisors because consultants were able to master and manipulate new realms complex knowledge, even if they themselves had not developed the original ideas. Thus consultants exhibited what I have called "economies of knowledge" or the ability to efficiently apply knowledge gained in one setting to problems in another through the repeated transfer of best practices.

In 1958, for example, Jock Whitney, an early venture capitalist, selected McKinsey & Company over Booz Allen & Hamilton to reorganize *The New York Herald Tribune*, primarily because his business partner assured him that McKinsey "had extensive experience in newspaper work" through the consultancy's studies of the *Los Angeles Times* and other newspaper chains. Through their intrinsic "economies of knowledge," which were necessarily predicated on their status as outsiders, the consultants from McKinsey and Booz Allen provided their clients with a cost-effective means to acquire managerial skills at a lower cost than equivalent internal studies of the same problem.

Repeatedly, corporate executives decided whether or not to employ external advisors based on two distinct preconditions. First, that the underlying problem be brief, specialized, and non-recurring, thus making the alternative – an internal analysis of the topic – both slow and costly. Second, that the potential consultants had experience with similar cases through previous assignments in the industry, either because of the consultants'

knowledge of a functional specialty, or, most often, because the consultants had performed a similar study for a competitor. Thus management consultants became knowledge-brokers who solved administrative problems not through their innovative solutions to unusual questions (like Arthur Little) but rather through the application and reformulation of existing knowledge to well-understood problems.

Having argued that consultants are less concerned with innovation than imitation, should we think any less of their professional services? My answer is that imitation, just as much as innovation, should be valued. Innovation is a costly process and one that rarely yields easy results. Employing consultants to transfer proven methods that have been tried and tested in other organizations is a far more effective solution for most routine managerial problems. That Oxford University Consulting is part of Isis Innovation makes a great deal of sense given the long history of consulting. Innovation, after all, is only one aspect of the many needs of complex organizations.

Christopher McKenna, author of the prize-winning book, The World's Newest Profession, is University Lecture in Strategy at the Saïd Business School and a Fellow of Brasenose College. He is a founding member of the Clifford Chance Centre for the Management of Professional Service Firms at the University of Oxford.

PRESS CONTACT

Dr Christopher McKenna
Saïd Business School,
University of Oxford
T +44 (0)1865 288800