Beauty in the eye of the beholder?
A client-centric framework for the assessment of professional service firms’ knowledge assets

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Structured Abstract

Purpose – This empirical paper explores how professional competences are defined and assessed by clients of professional service firms. Extant research has captured how the formal knowledge base of professionals establish and maintain the credibility and elite status of professionals. However, assessing professional competence is often difficult due to the knowledge asymmetry between clients and professionals and individual formal knowledge and firm reputation are commonly used as proxies. At the same time, there is surprisingly little empirical research that focuses directly on how knowledge resources are assessed from a client’s point of view. To address this disparity we ask: How is knowledge valued and valued by clients of professional service firms?

Design/methodology/approach – The study is based on an in depth qualitative research design suitable for inductive theory building. By building on observations from meetings in four in-depth case studies and interviews with 80 buyers and sellers of professional services, this paper
describes how knowledge is assessed by clients. In particular, we compare and analyse this extensive qualitative data to single out important dimension of how clients assess professional competence.

**Originality/value** – Value creation in PSFs has to an increasing degree been recognized as co-produced with clients and customized to their needs. Correspondingly, an interest in client-centric valuations have emerged. In spite of this, relatively limited research has been done to understand the client and competitive advantage from a client perspective in relation to professional competence. This paper offers such a client-centric perspective. By extending theory on professional service firms’ knowledge assets it provides a conceptual framework detailing important dimensions emphasised by clients when assessing professional knowledge.

**Practical implications** – The paper offers a framework that details the interrelationships between knowledge, experience and references as assessed by the clients. This framework has implications for the practice of PSFs and buyers of professional services as it details the way in which clients evaluate and value knowledge. Contrary to extant research that emphasize organizational reputation and individual formal education as key indicators of professional knowledge, our study reveals that these are perceived as mere hygiene factors by clients. The study also shows how the clients assess knowledge assets based on multiple levels and factors.

**Keywords** – Client-centric perspective, knowledge based value creation, professional service firms, valuation of knowledge assets.

**Paper type** – Academic Research Paper
1 Introduction

Professional service firms (PSFs) are perceived as model organizations for the knowledge society (Løwendahl, Revang, & Fosstenløkken, 2001). These firms are defined by their highly educated professional workforce and the intangible services they produce (e.g. Greenwood, Li, Prakash, & Deephouse, 2005). In fact, an extensive number of scholars are and have been looking at PSFs such as law, consulting and engineering design firms to understand important dynamics related to human capital and knowledge as sources of competitive advantage (e.g. Løwendahl, 1997). While extant research has recorded how these types of firms develop and transfer knowledge, there has primarily been an internal orientation of this research (Fosstenløkken, Løwendahl, & Revang, 2003; Schilling & Werr, 2013).

Currently, there is an emerging body of research emphasising the client centric perspective on PSFs within fields such as marketing (Vargo & Lusch, 2004) and innovation (Foss, Laursen, & Pedersen, 2011) and strategy (Fjeldstad, Snow, Miles, & Lettl, 2012). As value creation in PSFs has been recognized as co-produced (Ramírez, 1999) with clients and customized to client needs (Bettencourt, Ostrom, Brown, & Roundtree, 2002; Mills & Morris, 1986) the relevance of the client perspective has been recognized. Even so, limited research has been done to understand the client (Sturdy, Werr, & Buono, 2009) and the competitive advantage from a client perspective (Foss et al., 2011).

Correspondingly, an interest in client-centric valuations have emerged (Galbreath, 2007). In particular, research has focused on the assessments of short and long-term client expectations and the role of firm reputation in client assessment of service quality (McLachlin, 2000). While knowledge is a key source of advantage and value in PSFs, research on client perceptions and evaluations of PSF knowledge is scarce. Thus, by focusing on developing a client-oriented understanding of competitive advantage from knowledge resources, the research presented in the following aims to add to existing knowledge on PSFs. In particular, this study seeks to extend insights into how knowledge resources are assessed from a client centric perspective by asking the following research question: How is knowledge valuated and valued by clients of professional service firms?
The paper is structured in 4 main parts. First, we situate our research question of a client perspective within the broader research tradition of the resource and knowledge based view of the firm. Second, we present our methodology; describe our qualitative research design, the theoretically sampled research setting as well as detail how the data was collected and analysed. Third, our findings are presented. Finally, we summarize the findings and discuss how a client perspective on PSF knowledge contributes to the present understanding of how professional competence are defined and assessed in PSFs. The concluding discussion also includes key implications and limitations.

2 Theoretical background

A number of researchers have pointed to knowledge or expertise as the most essential source of competitive advantage for PSFs (e.g. Fosstenløkken et al., 2003; Hansen, Nohria, & Tierney, 1999; e.g. Morris & Empson, 1998; Ofek & Sarvary, 2001; Sarvary, 1999; Skjølsvik, Løwendahl, Kvålshaugen, & Fosstenløkken, 2007; Starbuck, 1992). Extensive research has been done to develop an understanding of knowledge management and development in PSFs (e.g. Fosstenløkken, 2007; Fosstenløkken et al., 2003; Hansen et al., 1999; Løwendahl et al., 2001; Morris & Empson, 1998; Sarvary, 1999; Starbuck, 1992). This research recognizes the dynamic nature of PSF competition and points out that the learning abilities of these types of firms are essential to be competitive, in addition to the actual knowledge base of the firm. Consequently, professional services involve an extensive degree of knowledge development and transfer (Hansen et al., 1999; Løwendahl et al., 2001; Morris & Empson, 1998; Ofek & Sarvary, 2001; Sarvary, 1999; Skjølsvik et al., 2007).

The formal knowledge base of professionals has been attributed a key role in establishing and maintaining credibility and elite status (Schilling & Werr, 2013). Given the lack of tangible proof of competence in many professions, claims of formal knowledge in the form of education and background become important proxies of competence (Alvesson, 2004; Armbrüster, 2006).

The knowledge base of professional service firms has been found to exist at the individual and collective level (Løwendahl, 1997). At the individual level, the knowledge can be related to skills and talent for doing particular types of tasks that are based on education as
well as firm and industry experience. It can concern factual knowledge about a particular topic, an industry or a particular client (Morris & Empson, 1998). Schilling and Werr (2013) empirically assess the nature of professional competence and argue that there traditionally has been a strong emphasis on a formal and unique knowledge base, which is a defining characteristic of professions and professional services (von Nordenflycht, 2010).

At the collective level, knowledge refers to experience, procedures, routines, ways of doing things, and even culture (Fosstenløkken, 2007; Løwendahl et al., 2001; Løwendahl, 1997). Experience refers to the portfolio of past projects, which is embedded in the experience record of the firm – e.g. in internal and external firm references (Løwendahl, 1997). Additionally, collective knowledge includes approaches, methods and tools (Werr, Stjernberg, & Docherty, 1997).

While it seems possible to assess some of the dimensions of individual and collective knowledge objectively, the competence and quality of professional services have been linked to problems of measurability and opacity (von Nordenflycht, 2010). In turn, opacity is often related to the knowledge asymmetry between professionals and clients, where the client does not have information or knowledge on how to select, use and evaluate the consultant (Sharma, 1997). While previous research has identified how formal education and reputation function as a proxy for quality and expertise (Løwendahl et al., 2001; Maister, 1993; Schilling & Werr, 2013; von Nordenflycht, 2010), there is room for more research into this area. Schilling and Werr (2013: 3 in original paper) argues that “It is not the formal, professional knowledge as such that makes the (successful) professional, but rather its skillful application in problem solving or persuasion”. Hence, developing a better understanding of how knowledge is valued and evaluated by clients seems timely and important.

3 Methods

The research presented here takes an exploratory approach and aims at extending theory on how clients assess the professional competence of PSFs. Based on the type of research question (Creswell, 2003; Marshall & Rossman, 1989; Yin, 1994; Yin, 2003); the complexity of research phenomenon (Yin, 2003: 15); and the need for contextualization (Denzin & Lincoln, 1994) a qualitative approach was selected.
The collection of data was done based on a desire to include a broad range of knowledge assessment criteria. In total 80 semi-structured interviews was conducted with both suppliers and buyers of professional services, across the private and public sector. The interviews were done in relation to the purchasing of the services and centered around buyer selection criteria. An overview of the sources of data is show in Table 1.

<table>
<thead>
<tr>
<th>Informant group</th>
<th>Source</th>
<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyer</td>
<td>Observed cases</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Case related interviews</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Interviews</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Supplier</td>
<td>Interviews</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Overview of data sources

To ensure variation in knowledge characteristics, different types of professional services were included in the study. Management consulting services was used as a ‘baseline’ model for comparison. This meant that all interviewees had purchased some form of consulting services. However, to the degree that these informants also purchased other business-to-business services, they were asked to describe all the professional services in which they were involved. In addition to management consulting the interviews also included descriptions related to: law, investment banking, communication consulting, recruiting, advertising, auditing, and other financial services.

The interviews lasted 1-1.5 hours. The format of the interviews was semi-structured and included questions about the type of purchasing processes used and relevant criteria. All of the informants, apart from four informants, agreed for the interview to be tape-recorded. The interviews were transcribed and recorded in Atlas.ti. The collected data was analyzed using data reduction methods and an inductive approach. As the core properties of the exploratory categorization of knowledge-based criteria emerged, they were described using memos in Word. All interviews were reanalyzed using the emergent categories to ensure category consistency and efforts were made to identify categories that were distinct, to limit overlap. Even so, the typology is exploratory and represents a starting point rather than a final understanding of client-centric knowledge assessment dimensions.
Based on the insight from both the case studies and the interviews, the different knowledge criteria will be reviewed in the following.

4 Findings

Three key categories were brought forward by clients and professionals that relate to the clients’ assessment of the PSFs’ knowledge. They were knowledge, experience, and references. Each of these categories will be detailed below and are presented in Table 2. The inter-linkage between these different concepts is discussed as a final point of this section.

<table>
<thead>
<tr>
<th>Knowledge theme</th>
<th>Sub-category</th>
<th>Category</th>
<th>Description of dimension</th>
<th>Key quality indicators</th>
<th>Frequency (of total purchasing processes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;They are good knowledge wise. The lag in terms of knowledge&quot;</td>
<td>Knowledge general</td>
<td>General, Not defined</td>
<td>Knowledge in relevant area/topics</td>
<td>Good, Has confidence, Better than competitors</td>
<td>56 %</td>
</tr>
<tr>
<td>&quot;...when we are to buy a external professional service then it has to be based on specialist expertise in a particular field.&quot;</td>
<td>Knowledge content</td>
<td>Knowledge of industry, sector and market.</td>
<td>Experience in knowledge areas, Specialist group of people</td>
<td>37 %</td>
<td></td>
</tr>
<tr>
<td>&quot;In our case it is a lot of talk about having practice from the same industry that we are in.&quot;</td>
<td>Knowledge context</td>
<td>Knowledge of buyer firm</td>
<td>Experience in knowledge areas</td>
<td>41 %</td>
<td></td>
</tr>
<tr>
<td>&quot;McKinsey had better knowledge as they had worked more with us than BCG&quot;</td>
<td>Knowledge context</td>
<td>Knowledge of buyer firm</td>
<td>Knowledge of individuals, strategy, organization, structure</td>
<td>46 %</td>
<td></td>
</tr>
<tr>
<td>&quot;...they have experience and can apply knowledge and experience from other industries.&quot;</td>
<td>Experience</td>
<td>What the individuals (and firm) have done in the past</td>
<td>Similar tasks, Industry, Comparative companies, Practical, Outcome: successful and innovative</td>
<td>56 %</td>
<td></td>
</tr>
<tr>
<td>&quot;...you need specific experience with similar types of assignments, successful experience...buyers use time to check references on similar types of assignments.&quot;</td>
<td>References</td>
<td>List of experience projects, Feed-forward of experiences by clients</td>
<td>Detail/Specification, Seriousness, Ability to: run processes, adapt, co-operate and customize, Social interaction abilities: listen, show understanding, develop trust.</td>
<td>51 %</td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Overview of relevant knowledge dimensions
4.1. Knowledge

The selection and evaluation criteria related to knowledge can be traced to three main concepts: general, content, and context knowledge. General knowledge arguments were often based on a scale from good to bad or based on confidence or doubt of the actual knowledge of the supplier. Alternatively, comparison across suppliers were made and suggestions put forward concerning whether the suppliers were better or worse than others. While the meaning of the notion of knowledge could be interpreted relative to certain knowledge areas, in many cases specification lacked.

One reason for the use and reliance on general knowledge criteria could be related to the limited explicit and implicit conceptualizations of different types of knowledge across buyers. As pointed out by the managing partner of a consulting firm and ex-knowledge manager at a major PSF: ‘...it is extremely difficult for people to describe what type of knowledge one needs....we do not have the language, concepts and methods to describe this in a distinct way. So they are not good at describing their need....’ While a number of buyers talked about specialist competence in attempts to move beyond generalist conceptualizations, the details of the specialist knowledge were still overlooked.

Beyond general knowledge, two other types of knowledge that were essential in the evaluation of suppliers could be identified: content and context knowledge. These will be described in the following. The relevance of these two dimensions is nicely illustrated by the Strategy manager at a major Norwegian firm: ‘Those that succeed have two things...knowledge within their field and a commercial understanding...an ability to put themselves in the potential situation of the buyer...’

4.1.1 Content knowledge

Content knowledge concerned the buyers’ perception of the suppliers’ professional knowledge of particular areas or topics of relevance to the given client assignment. For example, in the case of a leadership development assignment, the suppliers’ perceived knowledge of how to develop 360° evaluations was brought forward. While direct comments were made by buyers concerning the level of content knowledge across suppliers, these comments were relatively limited. Rather, the experience of the suppliers within different types of content areas was used
as an indication of the actual content knowledge. In addition to experience, the degree to which a supplier had a particular group of people or department dedicated to a particular content area was pointed out as an indicator of their knowledge. The specification of the content knowledge ranged from in-depth details such as knowledge of particular tools, e.g. 360º evaluations and particular statistical tools, to more general themes such as leadership and marketing.

4.1.2 Context knowledge
Context knowledge concerned knowledge of the situation under which the service was to be rendered. The richness of description and detail of how the context knowledge was described stands in strong contrast to the descriptions of the content knowledge. The considerations of the PSFs’ knowledge and understanding of the context could be divided into different dimensions: (a) industry, sector and market knowledge and (b) knowledge and understanding of the buyer organization, business and decision makers.

Knowledge of buyer industry, sector and market. Industry knowledge was mentioned as important in the selection of PSFs across the majority of cases and interviews. Examples of industries noted by informants were banking and finance, shipping and offshore, building and construction, telecoms, aviation, retailing, logistics and sales and marketing. In terms of understanding the industries, understanding industry mechanisms and challenges, the operating environment and the regulatory conditions were all pointed out as relevant. Industry knowledge was not a global phenomenon and most buyers seem to refer to industry with a national perspective. However, in some of the interviews and cases industry knowledge in particular geographies and most often in a particular country was pointed out as essential. PSF representatives emphasize the importance of understanding industry dynamics both locally and nationally as well as globally. In terms of sector, what was particularly relevant was the distinction between different features of the public and private sector. Insight into areas such as transportation, health, social security and employment governance was noted as essential beyond more general sector knowledge. Among things that were particularly important relative to knowing the sector and industry was that the sellers knew the ‘language’ of that particular industry or sector.
Knowledge of the buyer organization, business and decision makers. To a significant degree, the buyers were concerned with whether the suppliers knew their organization or not and had the ability to apply that knowledge. The essential role of firm level contextual knowledge can be illustrated by a quote by a buyer in the process of selecting suppliers for a parallel frame agreement within management consulting services: ‘[Organization X] is an institution with an inner life. What is essential is to understand this inner life and the people. One can have subject knowledge, but to understand [the large] number of employees in a complex organization is difficult.’

The understanding was ranked at different substantial levels. At the simplest level buyers pointed to a basic understanding of the firm. Some buyers were more specific in their descriptions and related the knowledge of different sub-areas such as: corporate structure, including its divisions, as well as business units and areas; strategies and goals, and business values and culture; logic, drivers, challenges and needs; organizational pace; and how problems were solved. Also, understanding of the individual was pointed out as essential. In particular, the individual client’s ambition, desires, wishes and risk profile were considered relevant. However, buyers also suggested that there might be instances where it is positive that the seller does not know the firm and where independence is preferable.

4.2. Experience
Experience concerns what a particular firm or individuals within that firm have done in the past. While it might seem interesting to look at education in the process of selecting professionals, education was only mentioned two times as essential in all the interviews and observation conducted. Rather, experience dominated as an indicator of knowledge. Buyers seemed primarily interested in whether the individuals assigned to specific tasks had the relevant practical experience, and was not as concerned with the firm’s experience.

The type of experience that was considered relevant among buyers was dependent on the type of service or assignment in question. Experience of the industry, sector or similar work as the one needed by the buyer, was seen as relevant. In particular, clients were interested in how companies had dealt with similar problems as the ones they were now facing in the past. They were also interested in finding out whether the PSF had worked with comparative
companies in terms of size, processes and tasks. According to some of the PSF representatives, the experience does not have to be related to success. In cases that relate to innovative and developmental work it is assumed to be better to have tried and failed, than not have tried at all. In the public sector, sector experience was pointed out as essential. Relevant sector experience was considered to be from municipal or governmental organizations, or from directorates.

Experience primarily concerned the degree to which the people within the firm were experienced. Of interest to the buyers were past work experience and the background of the individual professionals hired. In particular, they were interested in whether they had ‘worn the shoes’ of the buyer. For example, their experience as sales people, negotiators and process drivers was pointed out as relevant. Alternatively, experience as a consultant was also considered of interest. The content of the individuals’ CV was seen as a source of reference and a way to evaluate experience at the individual and group level. Average experience in years by offered personnel, for example, was used in the public sector as a way to compare firms.

The relevance of the firm and the individual level seemed dependent on the type of purchasing process in question. In the case where frame agreements were studied, the firm level experience appeared to be of particular interest. In the cases where a specific assignment was evaluated, the experience of the individuals was considered more important. In cases where experience was related to the team or group level, experience of working together was deemed important. Experience was however not always seen as positive by clients. Experience from the type of work that the client did not want was seen as a disadvantage.

4.3 References

‘...references have impact on two levels...One is as an arrow towards being serious, and...do they have any clue of what they say they have an understanding of?...’

CEO of a consulting firm

As the quote above illustrates, references are an important indicator of the knowledge a professional service firms has. In the private sector interviews, the concept of references was used broadly and as an indicator of knowledge as well as seriousness, ability to deliver value on time and as a source for understanding the co-operative ability of a supplier. However, the
case studies in the public sector suggest that the ‘reference’ concept should be refined into two different forms of meaning: a list of past assignments, which could be seen as a ‘track record’ and as evaluations by customers that have previously used the firm. A quote by a CEO of a consultancy focusing on the public sector illustrates these two uses of the concept of reference:

‘References are two things: References are in the offer, the first phase is that you have a reference list with projects and clients that show that you have done similar things....and reference persons that can be called in phase two, where you are part of a kind of final heat.’

Thus, buyers used references to get an understanding of the knowledge a particular supplier has in a particular area. The type of reference of interest to buyers is what they refer to as selected relevant references. Very few of the buyers clarify what relevance refers to. In the public sector, it is common to ask for references from the last 3-5 years.

4.4 Interlinkage across knowledge, experience and references

Content and context knowledge, as well as experience and the references that support the experience closely interlink. First, the primary source of knowledge is experience. As pointed out by the following quote by a leading professional: ‘Experience and knowledge are connected. If you are looking for knowledge, you are looking for experience.’

In turn, experience and references were found to be closely interconnected. References give traceability in the experience base of an individual or firm. While references are pointed out by buyers of professional services as an essential criterion in the process of selecting a PSF, what matters in terms of the content of the references is captured in the experience criterion. As pointed out by a leading professional at a PSF: ‘Experience is documented though reference cases’

A quote by the CEO of a consultancy focusing on the public sector illustrates the interrelationship of these different concepts and how the different concepts are used to enable the development of solutions for clients: ‘...you have some experience, and add it together, and then a lot of development takes place. And you need to show, based on your experience, that you know this. References are very important.’
The interrelationship across knowledge, experience and reference lists is shown in Figure 1, which illustrates how customers use reference cases as an indication of experience, which in turn is seen to represent the actual knowledge of the PSF. Thus, the arrows in the figure illustrate that the references are key sources of information for clients to understand experience. In turn, the experience is used as an indicator of the PSFs actual knowledge. While different buyers seem to talk of references, experience and knowledge, references and experience are key indicators of knowledge, as knowledge typically is difficult to observe directly. Even so, many buyers use the concepts interchangeably depending on their level of abstraction and specification. In turn, customers see experience as an indication of content and context knowledge, as illustrated above.

5 Concluding discussion

We find that knowledge is a multifaceted concept buyers have difficulty assessing. In asking them what they think are important in the purchasing of professional services, they always point to knowledge as among the most important. However, when assessing what customers mean by knowledge, they apply very broad and general definitions and have difficulties conceptualising what they mean in detail. However, as we go in depth, we find that
not only does formal professional knowledge (technical knowledge linked to their profession) – in the form of knowledge on which the profession is built – stand out as relevant to client. Also, context based knowledge of the industry, firm and individuals is pointed out as relevant and more frequently specified by buyers than content knowledge. The asymmetry of knowledge assumed in the professional service literature (e.g. von Nordenflycht, 2010) is primarily concerned with the asymmetry related to the content knowledge. The relevance and asymmetry of the context knowledge has largely been overlooked. While the co-operative nature of professional services has been recognized (Schilling and Werr, 2013), the centrality of context knowledge has to a limited degree been discussed.

Based on the empirical data we find that buyers in their assessment of knowledge use references as a key starting point. In turn, the references are seen as an indication of experience, which is used as a key representation of knowledge. Contrary to extant research (Schilling and Werr, 2013, Starbuck, 1992) emphasising organizational reputation and individual formal education as key knowledge indicators, our study reveals that these are not the primary sources of knowledge evaluation used by clients. Also, the framework of knowledge assessment by clients presented above adds to our current understanding of the knowledge concept for professional service firms. By taking a client perspective, the interrelatedness of knowledge, experience and references have been further developed.

The paper provides a conceptual framework for clients’ assessment of professional knowledge that is of relevance to both buyers and suppliers of professional services. This framework enables these practitioners to develop an enhanced understanding of the buying and selling of knowledge based services.

The study presented above has a number of limitations. First of all, the empirical study has primarily focused on larger buyer firms, due to the infrequency and limited amount of such purchases among smaller firms. Additionally, as for any research endeavor the cases included in the study have to a large extent been selected based on opportunities to get access. The presented study was done in Norway, which represents a very limited geographical scope if the intention is to understand client assessment of knowledge on a global scale. Also, the generalizability across all professional services, and in particular technical professional services, could be questioned based on included cases.
6 References


