

**CLIENT AND CONSULTANT LOGICS ON THE PURCHASING OF
MANAGEMENT CONSULTING SERVICES:
GOODS AND TRANSACTIONS VERSUS SERVICES AND RELATIONSHIPS**

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INTRODUCTION

During the last decades there has been a tremendous increase in organizations' use of management consulting services (hereafter referred to as MCS) (Kipping, 2002; IBISWorld, 2010; First Research, 2011; Plunkett, 2011). Despite this development, clients still tend to perceive the purchasing of MCS as risky, as consulting projects are often expensive and strategically important, where a mistake can be costly (Mitchell 1994; Clark, 1995; Glückler&Armbrüster, 2003). As the value creation and outcome of the projects to a large extent depend on the individual consultants' capabilities and abilities to collaborate with the client, it also becomes highly important to select the "right" consultant (West, 1997; Schiele, 2005; Schiele& McCue, 2006). To handle the perceived risks, client managers have traditionally followed a service dominant and relational purchasing logic; hiring consultants they know well and trust (Glückler&Armbrüster, 2003; Lian& Laing, 2007; Werr&Pemer, 2007). While this has reduced the perceived risks, it has also led to lower bargaining power for the buyer, informal processes and restricted supplier bases (Werr&Pemer 2007). To overcome these problems and increase transparency and control, many organizations have started to formalize their purchases of MCS, thereby replacing the traditional dyadic manager-consultant relationship by a triadic manager-purchaser-consultant relationship (Mohe 2005; Werr&Pemer 2007; Bals, et al., 2009; Höner&Mohe 2009; Tate et al., 2010). This change poses new challenges for the involved parties, challenges that need to be addressed and dealt with to ensure successful purchases and purchasing practices.

One such challenge is to align the parties' expectations and understandings for how MCS should be purchased. As value creation in MCS to a large part depends on the client-consultant collaboration, alignment in the understanding of the nature of the project and the role of MCS in it is essential, especially in the early phases of the project (purchasing and supplier selection) where decisions are made on problem approach and solution (Mills & Morris, 1986; Stabell&Fjeldstad, 1998; Ramírez, 1999; Bettencourt et al., 2002; Vargo&Lusch, 2004). Should the "wrong" approach or solution be selected, the subsequent phases will be heavily impacted and the chances of value creation reduced. As purchasing processes typically range from goods- and transactional to service- and relational logics (Axelsson&Wynstra, 2002), and the logic reflects the view on the service purchased (Kraljic 1983), it impacts the client-consultant interaction even before the project has started. Aligning the purchasing logic with the service to be purchased is thus regarded as essential to ensure alignment in expectations and, in the end, value creation in services (Andreassen, 2003). It is also important from an organizational perspective, as alignment of expectations and logics can

lead to higher purchasing efficacy and, eventually, also strategic alignment within the organization (Baier et al., 2008).

While studies have pointed to variation in purchasing logics across organizations, they have to a limited degree been studied across buyers and sellers for a particular service. Neither have purchasers been included in the studies, despite them being increasingly involved in the purchasing of MCS – especially in organizations striving to formalize their processes. This study aims to help fill these gaps in existing research by exploring the following research question: *What logics do buyers (managers and purchasers) and sellers (consultants) of MCS use to describe the buyers' purchasing approaches?*

PURCHASING LOGICS AND THE NEED FOR ALIGNMENT

Despite the recent interest in how the purchasing of MCS is organized, relatively little is known about the impact of increased involvement of purchasers (Werr&Pemer, 2007; Pemer&Werr, 2009). It has however been suggested that while client managers traditionally use a service dominant logic and relational purchasing, purchasers tend to apply a good dominant logic and transactional purchasing (Lindberg &Nordin, 2008), and contribute to increased formalization (Carter & Carter, 1998; Pettijohn&Qiao, 2000; Schiele& McCue, 2006). In the following, the differences in the good and service based logics of purchasing are briefly explored.

The good dominant logic

The good dominant logic emphasizes the introduction of technocratic production principles such as materialization and standardization to services (Levitt 1972, 1976). From the perspective of the buyer, the goods dominant logic of services can be found in transactional purchasing (Axelsson&Wynstra, 2002), which is rooted in neo-classical economic assumptions (Lian& Laing, 2004). This purchasing logic is based on a linear purchasing process including detailed specifications (Agndal et al., 2007), a competitive approach, distanced relationships, a focus on effectiveness and price (Axelsson&Wynstra, 2002), standardization of processes (Lindberg &Nordin, 2008), and increased involvement of purchasers in the purchasing process (Robinson et al., 1967; Webster & Wind, 1972; Sheth, 1973).

The service dominant logic

In the last decades, however, scholars have pointed out that the purchasing of services is different from that of purchasing products (Fitzsimmons et al., 1998; Axelsson&Wynstra, 2002). As a response to the need for purchasing logics better adapted to the nature of services, the service dominant logic of value creation has emerged, emphasizing the co-produced and knowledge-intensive nature of value creation in services (Vargo&Lusch, 2004). This logic resembles relational purchasing (Axelsson and Wynstra 2002), and has gained extensive attention among both scholars and practitioners (Bolton et al., 2004; Grönroos, 2006; Hart, 2007; Grönroos&Ravald, 2011).

Alignment of expectations

Service management literature scholars (Andreassen, 2003) have suggested that it is essential for effective marketing, delivery and use of services that suppliers and buyers are aligned in their logics – regardless of whether they use a transactional or relational purchasing/selling logic. For example, in the case where the buyer follows a transactional logic, the seller's over-investment in a relationship is likely to be a wasteful use of resources. In the case where the client follows a relational logic, and the seller has a transactional way of selling, the buyer will typically miss the consultants' investment in the relationship. Thus, exploring the alignment of logics is highly relevant. In the following research we will explore the degree to which clients, consultants and purchasers express transactional or relational purchasing logics.

RESEARCH DESIGN AND METHODOLOGY

The paper builds on data from three inter-related studies performed in Norway and Sweden from 2003 to 2006 involving purchasers, consultants and client managers. To capture the logics expressed in these three groups, a qualitative and explorative research approach was used (Marshall & Rossman, 1989; Yin, 1994, 2003; Creswell, 2003), combining theoretical and maximum variation sampling (Patton 1990, 2001). Data was collected from: (a) observations from four network meetings for purchasers from six large companies, (b) 18 in-depth interviews with leading consultants and partners at 15 consulting firms, and (c) 20 in-depth interviews with client managers, in two of the companies represented in the network meetings, where 10 interviews were made at each company. All interviews and observations were tape recorded and transcribed. To get an overview and develop familiarization with the data, the transcripts were carefully read and re-read several times. The data was then coded using Nvivo. Based on the coding, three themes were inductively developed; the studied group's focus, perceived challenges and strategies used to handle them. These themes will be described in more detail below.

ANALYSIS

In this section, each group and its focus, perceived challenges and used strategies to handle the challenges are presented.

The purchasers' logic

The organizations participating in the network all had or were planning to start formalizing their purchases of MCS. The major reasons for this desire for formalization was that the organizations spent large amounts of money on consulting services, but had too little control over the purchases and lacked information about what purchases had been made, by whom and why.

The purchasers' focus. Despite the differences between their organizations (industry, size, etc), the purchasers expressed the same visions and ideas for how to improve the purchasing of MCS. In short, they wanted to increase control, transparency and coordination in the organizations and use the organizations' bargaining power to reduce costs by structuring the supplier base and establishing frame agreements. To achieve this they wanted to impose purchasing models built on

either co-operation (close relations with a few preferred suppliers) or competition (letting the suppliers compete for each new project).

The purchasers' perceived challenges. A first challenge for the purchasers was to identify the needs of the organization and select suppliers that fit with the needs. This task was obstructed by the managers' inability and unwillingness to specify their needs and agree upon a list of suppliers. The purchasers had met strong resistance from managers and consultants in their formalization attempts, and a second challenge was thus to overcome the resistance and establish a purchasing process that would be accepted. Related to this challenge was the political dimension in the organizations. As the use and purchase of MCS was perceived as a highly political and very sensitive issue, the purchasing department had to "tread carefully" and try to win acceptance for their ideas without losing more of their already relatively low status in the organization. A mistake or a conflict could thus be costly and was something that the purchasers needed to avoid.

The purchasers' strategies. To win acceptance for their ideas, the purchasers used several strategies. A first strategy was to start formalizing the purchasing of simple services and use those services as "a good example" to gain status and acceptance for "their new way of thinking", before moving on to more complex services such as MCS. Another strategy was to seek support from top management. This was described by the purchasers as "absolutely necessary" as the purchasing of MCS was perceived as a "risky business" and a "mine field". A third strategy was to present the purchasers as offering support to managers; relieving them from tedious tasks such as writing contracts. This strategy was frequently used in organizations where the purchasers had low status and little support from top management. In organizations where the purchasing department had higher status and support, however, their focus expanded to developing control mechanisms, monitoring the purchases of MCS and reporting managers who engaged in maverick buying to top management.

Summing up, the observations from the network meetings indicated that the purchasers expressed a *transactional logic* and wanted to create purchasing processes where personal relationships played a less important role, and where transparency, control, coordination and cost reductions were promoted.

The consultants' logic

Despite working in consultancies of different size, scope and orientation, the consultants described the purchasing of MCS and the formalization attempts in very similar ways.

The consultants' focus. The consultants described having close relationships with clients as the most important component for winning new projects. Strong relationships reduced the intensity of competition for projects, as clients were said to use personal relations to select consultants directly without competition or to select firms to be invited for competitions. Interestingly enough, relationships were also pointed out as a selection criterion in competitive purchasing processes and used to give consultants valuable insights in the client's situation, which enables them to write better proposals than competitors. Thus, if two competitors were evaluated as equally good, the client would select the one s/he had a good relationship with. Relationships were also seen as an important marketing channel. By being in frequent contact with the clients (inviting them to lunches, workshops, etc) the consultants hoped to get on the client's "short list" and be able to pick up issues that would be of interest for the clients.

The consultants' perceived challenges. The increased involvement of purchasers in the purchasing of MCS was described by the consultants as problematic, as the purchasers were too focused on price instead of value and did not understand the nature of MCS; they asked the wrong questions and believed that increased competition was equal to increased professionalization. Having a trustful client relation was “a must” for the consultants, especially in sensitive projects, but as the purchasers did not or could not use subjective qualities like trust or creativity as selection criteria, these central factors were disregarded and other, more quantifiable factors such as price or delivery time were favored. The purchasers' desire to buy large quantities from each supplier also made it difficult for smaller consultancies to win contracts or become preferred suppliers.

The consultants' strategies. To overcome these perceived challenges, several strategies were used. A first strategy was to continue building strong relationships with clients, as that would give the consultants insights into their clients' needs, and better chances of winning contracts. A second strategy was to avoid doing business with formalized organizations.

Summing up, the consultants expressed a *relational logic*, using relations to market their services and win new projects. The increased formalization and involvement of purchasers in the purchasing of MCS were seen as obstacles towards successful and value-adding executions of the projects. To overcome these obstacles the consultants continued to build strong relationships with clients, as that was regarded as key to winning contracts – not least in the more transactional purchasing approaches that were becoming increasingly common among clients in the private and public sectors.

The clients' logic

The clients' focus. All interviewed managers expressed the same kind of foci. Central questions were how to solve organizational problems, reduce losses/increase returns, reach strategic goals and strengthen their own position. The managers differed however in how they used MCS to achieve these goals and their ideas on how the purchases of MCS should be organized. Two groups could thus be identified: one group resisting formalization and one being in favor of it.

The clients' perceived challenges. The managers resisting formalization regarded consultants as an important help in solving complex and sensitive problems. The challenge was not to find the “right” consultant, as the manager often knew which consultant s/he wanted to hire, but rather to circumvent the purchasing process to get the “right” consultant. The purchasers were described as not understanding the importance of a trustful relationship and as being too focused on price. Moreover, the managers thought it part of their responsibilities and freedom to hire consultants, and the formalization attempts by purchasers were regarded as intrusions and micro management. The other group of managers held a different view on management consultants, and used them more as extra resources. This group of managers described formalization as something positive as it would lead to higher efficiency and transparency in the organization and enable cost reductions. The challenge was to identify those managers who did not follow the purchasing process and to find ways of convincing - or forcing - them to follow it.

The clients' strategies. The managers in the first group used several strategies to make sure they got the “right” consultants for their projects. One was to “take the fight”; questioning the formalization initiatives openly and arguing for why managers – and not purchasers – should purchase MCS. Another strategy was maverick buying; ignoring the purchasing processes and

contacting the selected consultants directly. A third strategy was to divide larger projects into smaller projects, thus making it “legitimate” to purchase MCS without involving the purchasers. The managers in favor of formalization used different strategies: A first one was to establish policies for when and how consultants were to be used. A second was to “set an example” and use the purchasing processes to show that they worked. A third strategy was to develop control mechanisms to ensure that the purchasing policies were followed.

Summing up, the clients could be divided into two groups; one expressing a *relational logic* and resisting formalization, and the other expressing a *transactional logic* and being in favor of increased formalization.

CONCLUDING DISCUSSION

The results from the analyses above are in line with arguments in the literature, describing consultants as operating in a market dominated by relations and purchasers as being more focused on reducing costs, and illustrate well the existence of a misalignment of logics between consultants and purchasers (Carter & Carter, 1998; Pettijohn & Qiao, 2000; Glückler & Armbrüster, 2003; Schiele & McCue, 2006). However, the role of the client in the struggle for/against formalization in purchasing has not been studied to the same extent. As revealed in the analyses, the client managers expressed both logics. This finding sheds new light on the role of the clients as “weight” in the organization, who by taking side can make the balance shift between the two logics. For example, the purchasers working in organizations following a service dominant and relational logic described that they felt misunderstood and that trying to formalize the purchases of MCS was risky and could lead to lower status. In organizations following a good dominant and transactional logic, on the other hand, the consultants felt misunderstood and hindered from bringing value to their clients. The existence of two logics in organizations, as expressed in the interviews with the clients, also seemed to create conflicts about what actions were regarded as appropriate and not. This illustrates an *inter-organizational* misalignment between purchasers and consultants, but also an *intra-organizational* misalignment between managers. By separating the two forms of misalignment from each other, it becomes possible to more precisely address the question of how to create alignment and thus increase the possibilities of value creation. The paper thus adds to the literature on value creation in professional services, such as MCS, by showing how the existence of inter-organizational misalignment of purchasing logics hinders effective communication and co-operation in the first phases of a consulting project, i.e. the framing of the project’s scope and the selection of consultants. Second, it contributes to the service purchasing literature by illustrating empirically how intra-organizational misalignment of purchasing logics between managers and/or purchasers, can lead to internal conflicts, increased maverick buying and less clear strategies for how to handle these kinds of purchases. Third, by pointing at the managers’ role as organizational “weight” in the struggle for domination between different logics, contributions are made to the literature on drivers of increased formalization (e.g. Mohe 2005; Höner & Mohe 2009; Werr & Perner 2007). The findings also have implications for both managers and consultants. While managers need to align expectations and create a common purchasing strategy for MCS, consultants need to understand their clients’ logic and adjust their selling activities. In sum, by striving to align the different logics expressed by consultants, purchasers and clients, client organizations can hopefully turn what is now a purchasing area characterized by misalignments into an area with higher purchasing efficacy, value creation and strategic alignment (Baier et al., 2008).

REFERENCES AVAILABLE FROM THE AUTHORS