A Practice Approach to Addressing Strategic Risk and Uncertainty for Management Consultants

Thomas Cooper
Memorial University

Blair Winsor
Memorial University

We take a practice approach to addressing risk and uncertainty for management consultants. We discuss the notion of strategic risk and its importance to the management of uncertainty, outlining the strategic risks and uncertainty created by the range of consulting engagement. Our contribution is to explore what are the strategic risks facing consultants, how they address uncertainty and ultimately propose a conceptual model to assist in the identification and analysis of strategic risks and uncertainty.

INTRODUCTION

David sits at his computer pondering the latest proposal to come across his desk. David is the risk manager for his large management consultancy. Previously a principal consultant with his firm, he has been moved across into an operational role because of his experience in managing clients, projects and understanding the risks and uncertainties that are apparent in any consulting engagement. In order for David to do his job effectively he has to manage uncertainty - and turn it into an understanding or probability for the consulting firm - the essence of risk management.

Risk is not unique to consultants. At an organizational level, financial risks, such as credit and market, are usually seen as ‘hard’ in that they can be calculated and quantified for users. On the other hand, operational risks, such as risks to a firm’s reputation, its strategy and its human resources capital are considered ‘soft’ in that they are more difficult to measure, quantify and therefore ultimately control (PricewaterhouseCoopers 2005). These ‘softs’ risks are the ones ‘that consultants and consulting firms find difficult to manage and control, creating significant uncertainty to projects and business models. The management of the risks created by project, client and knowledge uncertainty makes it even more difficult to manage and cope with client demands, expectations and wants.

The nature of consulting is filled with uncertainty, anxiety and a perception as ‘risky’ by both the client and the consultant. Questions that we have heard as practicing management consultants demonstrating the uncertainty and risk facing the profession include:

Do we risk bring in a consultant to help us?;
How long will be engaged with this client?; and
Do we know enough to properly take on this project?
The purpose of our study is to answer another question:

**How do consultants cope with uncertainties? What strategies do they employ?**

Based on our over thirty years direct experience as consultants employed with Big 4 firms, consulting directly with public sector organizations and small to medium sized businesses, as well as researchers in the field, we propose that one method of dealing with uncertainty is through the management of strategic risk. Specifically through addressing the strategic risks that management consultants face, they will have a better understanding of their clients, projects and the overall direction of their consulting organizations.

Our study is organized as follows. In the first section, we outline a background to risk and uncertainty. In the second section, we discuss the notion of strategic risk and its importance to the management of uncertainty. Third, we outline the strategic risks and uncertainty created by the range of consulting engagement. The purpose of outlining these strategic risks is to propose a conceptual model to assist in their management. Finally through a discussion of the notion of risk and uncertainty, we place the proposed approach to the management of risk and uncertainty within the management literature. Our contribution is to explore what are the strategic risks facing consultants, how they address uncertainty and ultimately propose a conceptual model to assist in identification and analysis.

**BACKGROUND**

Consultants control the choice of projects, but the payoffs associated with possible projects are exogenously determined. There is therefore a sharp boundary between the intra-organizational context of decision making and control over strategy and risks for the consulting organizations, and the probabilistic, uncertain and uncontrollable external environment (Bowman 2009 163). Ultimately this boundary creates risk and uncertainty for management consultants involved with projects, clients as well as setting the overall strategy of their firms.

Management consultants have to deal with considerable amount of uncertainty. Sturdy (1997) contends that management consulting is an “insecure business”, defined by pressures from demanding clients and projects. Consultants struggle with forms of “weak knowledge”, which is complex, esoteric and highly ambiguous, and are decidedly not able to deliver straightforward diagnoses and solutions to their clients’ problems (Sturdy et al., 2009). Clients, projects and incomplete knowledge all create uncertainty and therefore risk for the consultant in terms of engaging with the client. Strategic risks also emerge in ensuring projects, clients and solutions are aligned with business models and the consulting organization’s risk appetite. Risk managers within consulting firms, such as the example of David outlined above, ensure both formally and informally through their experience that uncertainties are managed, controlled and are consistent with the risk appetite as well as the strategic business models of the consulting firm.

If consultants constantly deal with uncertainty, they also continually strive to create value. Block (1997) contends that one of the principal aims of consultants is to add value to clients by using a variety of techniques, concepts and expertise. By extension, it may be argued that the nature of consulting is to create value for clients both now and in the future while managing the risk of the erosion of this value. What this value is may be seen as uncertain and, at the very least, a moving target. Ultimately we see the uncertainty around the value that consultants offer and provide as a strategic risk that firms must identify, analyze and manage to ensure that they deal with client, project and overall organizational uncertainty.

Risk is an incredibly important concept in the management fields and was traditionally understood in terms of its role in ‘taming chance’ by quantifying and controlling uncertainty. The early management literature reflects this understanding of risk. Following the work of Knight (1921) and Keynes (1937) distinctions are made between risk – where probabilities are known – and uncertainty – where they are unknown (Bernstein 1996; Hopkins and Nightingale 2006).

It is important to note that financial risk has been at the center of much of the management literature and the focus for most consultants. Financial risk such as credit, currency and market risk is primarily quantitative with emphasis on the risk return relationship; the academic research manifesting this focus on quantitative analysis (Miller and Bromiley 1990; Kiev 2002). Yet for management consulting firms,
focusing on the short-term financial risks may exemplify a lack of focus on strategic objectives as well as the management of uncertainty. Financial risks, for the most part, do not succeed in addressing the necessity of managerial perspectives on the clients, projects as well as the employees they are using on engagements and projects.

To the layperson, the terms “risk” and “uncertainty” appear to have similar meanings. In economic terms, however, the meanings are far more specific. Knight (1921) used the term risk to describe situations in which a series of potential outcomes could be predicted and a set of probabilities attached to them. By his definition, then, risk is quantifiable and its potential impact can be estimated and assessed. Yet intuitively it would seem that uncertainty is unquantifiable and its impact cannot be estimated or assessed.

In his study connecting risk to entrepreneurship, Knight (1921) drew upon relevant economics research on risk from around the turn of the century. Reflecting the Enlightenment view, Knight (1921) depicted ‘risk’ as knowledge of the probability distribution of outcomes — either exact or estimated — with probabilities taking values between zero and one. He contrasted this with ‘uncertainty’, defined as a situation characterized by inability to classify outcome states and, hence, lacking an empirical basis for estimating probabilities.

Miller (2009) outlines that several influential economics studies in the 1940s and 1950s carried forward Knight’s definition of risk to advance utility theory. Von Neumann and Morgenstern (1944) extended the expected utility model of decision making to games where payoffs are contingent on others’ decisions. Savage (1954) assumed that decision makers, such as those found within consulting firms, subjectively assign probabilities to possible outcomes and attempt to maximize subjective expected utility. The dominant perspective in this tradition is that of the risk-averse individual decision maker usually found within large organizations.

Although behavioral decision theorists subsequently uncovered empirical patterns deviating from decision making based on maximizing expected utility and strict risk aversion, their work retained the emphases on individual decision making and decision problems specified in terms of probabilistic outcomes (Lupton and Tulloch 2002). Yet this assumes high levels of certainty in the organizational environment in order to determine a probabilistic outcome. In our experience, as practitioners and as researchers in the management consulting field, high levels of uncertainty rather than certainty are more consistent with the external environment of management consulting firms.

The notion of the risk-adverse individual decision maker may also be inaccurate when examining how uncertainty and risk are managed in consulting firms. Lash (1993) calls for consideration of the ways in which people respond emotively and aesthetically to risk as members of subgroups rather than as atomized individuals (Lupton and Tulloch 2002). Lash (1993) argues against the individualization thesis in asserting the importance of group membership and traditional conventions and social categories in structuring responses to risk which would see the organization as the primary driver of risk perception, management and identification. The consulting firm then becomes one of the drivers to manage uncertainty and risk.

To inform management consultants, there has been a plethora of research on the managerial perspectives on risk and risk taking (March and Shapira 1987; Sitkin and Pablo 1992) particularly within financial risk management. Significant work has also been done at the organizational level where most of the management literature has emerged from Bowman’s (1980) work on the notion of risk/return (Maurer 2004). In our experience, risk management in the management consulting field has primarily focused on this risk/return relationship particularly as it relates to projects. Yet little attention has been paid to the strategic risks that consultants must manage in addressing uncertainty. There is not a clear risk return relationship in the projects and clients most consultants must manage. Moreover, the management of these strategic risks where knowledge may be uncertain and value will certainly be eroded if they are not addressed, is critical for the overall consulting firm and its ongoing strategy.

‘STRATEGIC’ RISK OR ‘STRATEGIC RISK’ MANAGEMENT?

Risk management is much wider than simple financial or operational risk. Concepts such as ‘strategic risk management’, ‘integrated risk management’ and ‘enterprise risk management (Kleffner et al. 2003;
Liebenberg and Hoyt 2003; Meulbroek 2002; Kendrick 2004) now describe the wider application of such thinking, tools and techniques in the management of risk and uncertainty.

There would seem to be a common view within the literature that strategic risk is about managing risk ‘strategically’ rather than examining strategic risk as a category similar to operational, financial and other risk areas (e.g. Aron et al. 2005; Zolkos 2002; Lenckus 2006; Jones et al. 2006; Miller and Bromiley 1990). This common view causes confusion, especially to a management consultant examining what strategies they should employ to manage uncertainty.

One of the reasons for the confusion is that there is no commonly accepted standard definition of strategic risk. Much of this is no doubt due to the complexity of the concept of strategic risk, even within a specific sector such as management consulting, suggesting that no single quantitative measure will prove satisfactory in all strategic situations.

Common acceptance of risk and uncertainties is the goal of most organizations. This means risks that can be precisely quantified receive most of the attention, while ‘soft risks’, however significant, often receive little notice (PricewaterhouseCoopers 2005). We have found this especially true for industries such as management consulting where there are low barriers to entry and high failure rates on projects.

Slywotzky and Drzik (2005) attempt to find this common understanding on strategic risk defining it as “an array of external events and trends that can devastate a company’s growth trajectory and shareholder value” (p. 80). They further categorize strategic risk into seven major classes: industry, technology, brand, competitor, customer, project, and stagnation. It is important to note that this definition and categorization of strategic risk focuses principally on the external environment. Consultants, in focusing on the external environment, may miss internal risks that have as much importance strategically as external ones.

An alternative definition may be seen as that proposed by (Johnson et al. 2006 p. 369) where “strategic risk can be seen as the probability and consequences of a failure of strategy”. The interesting element of this definition is that it focuses on the ‘strategic’ element of the definition rather than solely the ‘risk’ element. This is important in that strategic risk is not just about the management of risk but also that of uncertainty. For example, the likely return from a particular strategy around a client, project or organization may be seen as an important part of the acceptability of that strategy. Investigating the risk of pursuing a particular strategy for a management consulting firm should therefore be another method of examining the acceptability as well as managing the uncertainty around whether the strategy will be successful.

ADDRESSING RISK AND UNCERTAINTY FOR MANAGEMENT CONSULTANTS

Certain parts of a consulting firm may have different approaches to risk and uncertainty – from a strategic perspective there may be more mature product lines or services with high risk of failure but significant reward since it may be a boutique offering that can be developed into a more established practice. The different perceptions towards risk within the management consulting firm will be implicit or explicit depending on how formalized the approach to managing risk and uncertainty.

Some organizational risk researchers retain - explicitly or implicitly - the modernist assumption that there exists an objective environment that is knowable, at least probabilistically. Such a view follows Knight’s (1921) portrayal of risk, in which realized events are drawn from predefined probability distributions. To make rational decisions, managers must possess some knowledge—albeit limited — about possible states and their effects on firm performance, as well as about possible organizational responses and their likely implications (Milliken 1987). What we have seen in the management consulting sector is that this objective environment is not knowable – even probabilistically. Instead, significant uncertainty exists which drives the need for strategic and formal risk identification and management.

Uncertainty, in contrast to risk, is used to describe situations where there is insufficient data available to make prediction and assessment possible. Managers deal with risk; entrepreneurs as well as consultants deal with uncertainty (Alvarez and Barney, 2004). It is our contention that risk and uncertainty stem from similar origins; whether an event that could impact a management consultant is considered as risk or uncertainty is largely a function of the organization itself.
It has been recognized that pure risk and pure uncertainty rarely exist in practice (Gifford, 2003; Holmquist, 2004). In fact, in our view, “pure” risk and “pure” uncertainty occupy the extreme ends of a continuum; both consultants and managers operate at a point somewhere between these extremes.

In other words, few entrepreneurs have to deal with complete uncertainty, with the total lack of available information that this position implies; nor do managers always have the level of information that will enable them to confidently predict and assess potential outcomes. Consultants, on the other hand, may have to deal with full spectrum of both entrepreneurial and management activities that creates both risk and uncertainty.

Issues involving specific sources of risk and uncertainty then may be seen as occupying a point on the continuum. For management consultants this point at an organization level will be dependent on the identification, analysis and management of strategic risk. There is a need to understand what uncertainty exists, can be it better managed as a risk, and how does it affect the overall strategy of the consulting firm. As the ability to deal with potential risk sources increases, a management consultant can move along the continuum, away from uncertainty and toward risk. Yet the question arises then what types of risks and how can consultants move along the continuum.

MOVING ALONG THE CONTINUUM – THE RANGE OF CONSULTING AND STRATEGIC RISKS

In order to understand how consultants use strategic risks to manage uncertainty we outline below a number of important roles for consultants as well as the risks and uncertainties inherent each role. Our experience as practicing consultants for over thirty years is the basis of our understanding and explanations. Our approach then may be seen as conceptual and based solely on our experience as practitioners.

Consultants deal with a wide variety of services and activities in their practices. In our experience, these activities or services may be placed on a continuum whereby the consultant is either acting as an expert or a facilitator.

In addition, the nature of the relationships developed by the consultant is also important. Some engagements are more focused on one-off engagements while others are extremely dependent on the relationship developed with the client. Depending on the role and type of consulting engagement there will be different strategic risks and uncertainty as well as the creation of value.

We perceive increased value in the different roles, yet these may create specific risks and uncertainties. There will be a range of risks in each of the roles from low to high. The spectrum of uncertainty will also be low to high consistent with the risk attribute. In order to understand how consultants cope with uncertainty and what strategies they employ, we propose a spectrum of risks and uncertainties based on the role the consulting firm is engaging in as described in Figure 1. We outline these roles below:
We would see the range of risks and uncertainties as follows in Table 1:

### TABLE 1

**SERVICE DELIVERY – ASSIGNMENT APPROACH – RISK AND UNCERTAINTIES**

<table>
<thead>
<tr>
<th>Risk Attribute</th>
<th>Service Delivery – Approach - Assignment approach – new or known area of expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lowest Risk 1</strong></td>
<td>• Well-tried and tested approach/ methodology.</td>
</tr>
<tr>
<td><strong>Low Risk 2</strong></td>
<td>• Reasonably well-tried and tested approach/ methodology.</td>
</tr>
<tr>
<td><strong>Some Risk 3</strong></td>
<td>• Some previous use of approach/ methodology.</td>
</tr>
<tr>
<td><strong>High Risk 4</strong></td>
<td>• Little experience of approach/ methodology.</td>
</tr>
<tr>
<td><strong>Highest Risk 5</strong></td>
<td>• New untried approach/methodology.</td>
</tr>
</tbody>
</table>

**Expert** – in this role the consulting firm is acting as an expert on a particular project. The strategic risk for these types of projects is low as the consultant has in-depth knowledge of the subject matter and/or the client. They are being asked to perform a specific role and the specific strategic risk is that their expertise is either outdated or obsolete. The consultant may not be able to deliver a solution to the client that is consistent with the expectations around the expertise (especially by external stakeholders) or alternatively they will have to bring in (subcontract) the expertise if it is lacking within their own consulting organization or project.

**Limited Scope of Work** – the second type of role that consulting firms would engage in is projects that have a limited scope of work. In our experience, there is a small degree of uncertainty for the consultant or the consulting firm where there is a limited scope of work. The consultant is being brought...
into perform a specific task or service and so little uncertainty exists. The client expectations are clear and there is limited risk for the consultant in terms of client relationships or the ability to deliver the solution. The biggest uncertainty is around whom, at the client, the consultant will be working with as well as the dependence on the resources available at the client to complete the tasks.

We would see projects involving a limited scope of work having the following range of risks and uncertainties as outlined in Table 2:

**TABLE 2**

**CLIENT – ENTITY STAFF – RISK AND UNCERTAINTIES**

<table>
<thead>
<tr>
<th>Risk Attribute</th>
<th>Client – Entity Staff - Availability, commitment and experience level of the entity staff we will be working with.</th>
</tr>
</thead>
</table>
| **Lowest Risk 1** | • Good availability of experienced entity staff.  
• Strong entity commitment.  
• Limited dependence on entity staff. |
| **Low Risk 2** | • Some limitations on access to appropriate staff and some dependence on entity staff, but no major difficulty expected. |
| **Some Risk 3** | • Entity short handed but competent.  
• Moderate dependence on entity staff.  
• Access to people is closely co-ordinated and monitored by the entity. |
| **High Risk 4** | • Significant dependence on entity staff performance or timeliness of action and anticipated difficulty in obtaining enough experienced entity resource. |
| **Highest Risk 5** | • Heavy dependence on entity staff performance, commitment or timeliness of action.  
• Uncertain of entity commitment to project.  
• Lack of experienced available entity personnel.  
• Formal or informal restrictions that inappropriately limit our access to people |

**Interim Management** – consultants are sometimes brought into a client organization to effectively act as interim management. This is predominantly because there has been an operational failure and the consultant is seen as having the requisite level of understanding of the industry, client or operational processes to act as interim management. There is a higher level of risk in this role than in projects involving a limited scope of work since the consultant may be asked to engage in activities where they have little or no experience.

**Benchmarking** – closely consistent with interim management is that consultants are sometimes asked to benchmark processes, products or business units either internally or against competitor peers. Consistent with interim management, this poses a range of risks and uncertainties in that the client may be expecting findings that are not consistent with their expectations or their assumed beliefs. Moreover the consultant may not fully understand or totally capture the nuances of the industry, business area or product line they are benchmarking because of incomplete knowledge.

In order to analyze the risks and uncertainties that consultants undertake when engaging in projects where the role may be seen as interim management or benchmarking, the following in Table 3 may be seen as the spectrum of risks or uncertainties.
**TABLE 3**

CLIENT – EXPECTATION MANAGEMENT – RISKS AND UNCERTAINTIES

<table>
<thead>
<tr>
<th>Risk Attribute</th>
<th>Client – Expectation Management - Risk of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Misunderstanding entity requirements or expectations.</td>
</tr>
<tr>
<td></td>
<td>• The entity not understanding limitations in scope document or attempting to change or extend requirements during fieldwork.</td>
</tr>
<tr>
<td></td>
<td>• The entity potentially misusing deliverables.</td>
</tr>
</tbody>
</table>

| Lowest Risk 1 | • Entity fully understands the extent of and limitations of our work. |
|               | • Entity understands the purpose of the work. |
|               | • Previous experience with entity and no problems. |

| Low Risk 2    | • Limited experience with entity and only minor issues. |
|               | • -OR- |
|               | • No experience with entity but scope/requirements seems clearly understood. |

| Some Risk 3   | • Entity is reasonable but attempts to extend scope beyond agreed terms of reference during the assignment. |
|               | • No experience of misuse of deliverables. |

| High Risk 4   | • Concerns exist that entity is not clear on scope/requirements. |
|               | • Disagreements exist between different entity personnel on requirements. |
|               | • Instances of scope issues in the past. |

| Highest Risk 5| • Prior experience of misuse of deliverables (e.g. sending to third parties). |
|               | • History of mis-understandings/scope issues. |
|               | • Entity has unreasonable and unrealistic expectations of our work. |
|               | • Strong possibility of misusing or misrepresenting our report. |

**Relationship** – some projects and clients are engaged solely because of the relationship the consultant has with the client. The consultant may be a trusted advisor or have strong relationships in delivering a product or service across an industry. Where the consultant already has a strong relationship with the client the main risk is around service delivery. The spectrum of risks and uncertainties facing consulting organizations that are engaging based on relationships may be seen as follows in Table 4:

**TABLE 4**

SERVICE DELIVERY – SERVICE DELIVERY – CONSULTANT RELATIONSHIPS AND EXPERIENCE

<table>
<thead>
<tr>
<th>Risk Attribute</th>
<th>Service delivery – Consultant’s relationship and experience with proposed work and the entity’s location.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest Risk 1</td>
<td>• Extensive experience in type of work/entity’s location.</td>
</tr>
<tr>
<td>Low Risk 2</td>
<td>• Reasonable experience in type of work/entity’s location.</td>
</tr>
<tr>
<td>Some Risk 3</td>
<td>• Some experience of type of work. Limited location experience.</td>
</tr>
<tr>
<td>High Risk 4</td>
<td>• Little experience in type of work or in the location.</td>
</tr>
<tr>
<td>Highest Risk 5</td>
<td>• New area of work – no previous experience.</td>
</tr>
<tr>
<td></td>
<td>• No experience in the location.</td>
</tr>
</tbody>
</table>

Taken together, we would see the strategic risks that management consultant firms face as a conceptual model or checklist that firms need to use in identifying and addressing uncertainty. We outline the model in Figure 2 below.
### FIGURE 2
A MODEL TO IDENTIFY AND ASSESS RISK AND UNCERTAINTY FOR MANAGEMENT CONSULTANTS

<table>
<thead>
<tr>
<th>Role</th>
<th>Strategic Risk</th>
<th>Risk Attribute</th>
<th>Lowest Risk 1</th>
<th>Low Risk 2</th>
<th>Some Risk 3</th>
<th>High Risk 4</th>
<th>High Risk 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expert</td>
<td>Service Delivery – Assignment Approach</td>
<td>Assignment approach – new or known area of expertise</td>
<td>Well-tried and tested approach/ methodology</td>
<td>Reasonably well-tried and tested approach/ methodology</td>
<td>Some previous use of approach/ methodology</td>
<td>Little experience of approach/ methodology</td>
<td>New untried approach/methodology</td>
</tr>
<tr>
<td>Limited Scope of Work</td>
<td>Client – Entity Staff</td>
<td>Entity Staff - Availability, commitment and experience level of the entity staff we will be working with</td>
<td>Good availability of experienced entity staff. Strong entity commitment. Limited dependence on entity staff.</td>
<td>Some limitations on access to appropriate staff and some dependence on entity staff, but no major difficulty expected.</td>
<td>Entity short-handed but competent. Moderate dependence on entity staff. Access to people is closely coordinated and monitored by the entity.</td>
<td>Significant dependence on entity staff performance or timeliness of action and anticipated difficulty in obtaining enough experienced entity resource.</td>
<td>Heavy dependence on entity staff performance, commitment or timeliness of action. Uncertain of entity commitment to project. Lack of experienced available entity personnel. Formal or informal restrictions that inappropriately limit consultant’s access to people</td>
</tr>
<tr>
<td>Interim Management &amp; Benchmarks</td>
<td>Client – Expectation Management</td>
<td>Risk of: Misunderstanding entity requirements or expectations. The entity not understanding limitations in scope document or attempting to change or extend requirements during</td>
<td>Entity fully understands the extent of and limitations of our work. Entity understands the purpose of the work. Previous experience with entity and no problems.</td>
<td>Limited experience with entity and only minor issues. -OR- No experience with entity but scope/requirements seems clearly understood.</td>
<td>Entity is reasonable but attempts to extend scope beyond agreed terms of reference during the assignment. No experience of misuse of deliverables.</td>
<td>Concerns exist that entity is not clear on scope/requirements. Disagreements exist between different entity personnel on requirements. Instances of scope issues in the past.</td>
<td>Prior experience of misuse of deliverables (e.g. sending to third parties). History of misunderstandings / scope issues. Entity has unreasonable and unrealistic expectations of our work. Strong possibility of misusing or misrepresenting our report</td>
</tr>
<tr>
<td>Role</td>
<td>Strategic Risk</td>
<td>Risk Attribute</td>
<td>Lowest Risk 1</td>
<td>Low Risk 2</td>
<td>Some Risk 3</td>
<td>High Risk 4</td>
<td>High Risk 5</td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>---------------</td>
<td>------------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>fieldwork.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The entity potentially misusing deliverables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

By examining each of the areas outlined above, consulting firms may have a better understanding of the risks and uncertainties they are facing. Moreover, by focusing on the strategic risks outlined above, they will have a better approach to the management of risk and uncertainty.

**DISCUSSION**

Scholars have noted that an understanding of many aspects of management consulting work is difficult because of two main sources of uncertainty. The first source is that consultancy work often involves unclear boundaries, structures, and goals, and non-existent or very loose evaluative criteria, all of which is surrounded by actors who have potentially different interpretations of the situation (Alvesson, 2004; Robertson & Swan, 2003; Werr, 2002). Alvesson, for example, notes that,

“Knowledge work (and this would include management consulting) is characterized by a high level of ambiguity in input, process, and output: knowledge may play a more limited and less robust role in work and for results. This means that we may view the knowledge-intensive as ambiguity-intensive” (2004, pg. 237).

Lowendahl (2005), using different terminology, arrives at much the same conclusion. She describes the ‘extreme characteristics’ of professional service firms – which are largely similar to management consultancies – including the intangibility of inputs and outputs (Lowendahl, 2005, pg. 181-182). The second source of uncertainty also derives from a critical and, arguably, a more cynical perspective. These scholars focus on the relationship between client and consultant and suggest that clients use consultants to assuage the anxiety caused by the ambiguities and vicissitudes of their work – or, indeed, created by the consultants themselves (Fincham, 1999; Legge, 2002; Sturdy, 1997, 2002). They argue that, on the whole, consultants do not create solutions for their clients but, instead, generate the means, including rhetorical means, to enable management to deal with uncertainty. From the perspective of either of these schools of thought, one point is clear; consultancy work can be obscure, contentious, and, ultimately, quite uncertain.

In this context there is, then, a need for a deeper understanding of uncertainty and how they may be addressed through risk management. If a consultant is to use risk management processes as described above to manage uncertainty then there needs to be an understanding that risk is driven both by theory and practice. Theorizing about risk has been published extensively in the social sciences in with the ideas of Ulrich Beck (1992) and Anthony Giddens (1990) having proved influential, particularly those dealing with the concepts of ‘risk society’ and ‘reflexive modernization’.
Ultimately for any consultant attempting to address uncertainty it is important to note that risk is an essential element of society. The ways in which people have conceived of risk have varied historically (Bernstein 1996) and the same would hold true for management consultants. In our experience within consulting firms, uncertainty has been managed through the assigning of probabilities – high, medium, low - attempting to quantify what may be in essence unquantifiable. It is taking the spectrum of risks and uncertainties, trying to identify them, and then formally analyze and manage them as part of the consulting engagement that needs to be addressed in the management of uncertainty. The conceptual model we address above is an approach to formally analyzing the spectrum of risks and uncertainties.

Yet risk is not the same thing as probability for a management consultant or firm. The extant literature shows that the association of risk with probability theory took place during the shift toward modernity in western culture (Hacking 1975, 1990; Miller 2009). Modernist thinking has continued to inform risk research up to the present time. Because of their pervasiveness in risk research, modernist assumptions are often taken for granted, rather than explicitly acknowledged and defended. They support the prevailing paradigm within which normal science can proceed (Kuhn 1970; Miller 2009). However, the modernist paradigm may ignore or at least discount the uncertainties facing management consultants in the management of uncertainty.

The nature and the scope of consulting engagements suggest that it is difficult to assign definitive probabilities to outcomes in order to manage uncertainty. The modernistic assumption of certainty based on probability may therefore be flawed when examining management consulting practices and firms. Trying to develop a probabilistic model to explain or understand uncertainty may be flawed. Instead, we would argue that a ‘checklist’ type of model is more consistent with practice and ultimately assists management consultants in identifying and analyzing the risks as well as the uncertainties they face. Focusing on the strategic risks we have outlined above makes the management of uncertainty even more effective as it helps consultants address what really are the important risks. Addressing strategic risks provides the clarity for management consultants to manage uncertainty.

Yet uncertainty and a lack of clarity around strategic risks for management consulting firms may not be a negative element. It has been argued that in Western societies at the end of the 20th century, risk has become somewhat of a key word, used with increasing frequency to denote danger, hazard and threat (Lupton, 1999). Douglas asserts that contemporary lay understandings of risk see it only as a negative outcome: ‘the word risk now means danger’ (1992 p.24). Instead of thinking of dangers – we may lose a client if we do not complete a proposal – there is also an chance to examine opportunities – if the management consulting firms decides not to submit a proposal to an existing client, then they may have more resources to pursue other ones. This balance between hazards and opportunities is consistent with the ‘risk society’ as outlined by Beck (1992) and specifically for management consultants, the risk society is also potentially a self-critical or self-reflexive one, because anxieties about risks serve to pose questions about current practices in the management of uncertainty. If a consulting firm is currently identifying and analyzing uncertainties through appropriate strategic risk management processes – critically reflecting on clients, projects and service offering – then they may be better able to improve practices for the future and reduce uncertainty.

It is also important to note that people and therefore the clients of management consultants have become skeptical about such modernist institutions as industry and modern corporations (Lupton and Tulloch 2002). Risk is now viewed as the product of human action and decision-making rather than of fate, and is treated as a political rather than a metaphysical phenomenon. The political nature of risk within a management consulting firm then cannot be discounted in the approach to the management of uncertainty. Our experience has seen the power of senior executives within management consulting firms using their influence to push ahead potentially strategically hazardous projects or clients. The political – rather than the formalized approach – can ultimately create more uncertainty than before. Forcing management consultants and their firms to engage in a formalized approach as discussed above makes the management of risk more salient and value for the organization. Using a model to examine strategic risks and uncertainties, as described above, reduces the role of the political approach and therefore the uncertainty it may create.

Addressing uncertainty through risk management ultimately needs to become an important part of a management consulting firms’ culture. Lash (1993) points to the role played by unarticulated
assumptions, moral values and practices in responses to risk such as those found in organizational culture. He argues that these are shared, developed through acculturation and are often non-reflexive in that they are taken-for-granted. This would be especially true of management consulting firms with organic or entrepreneurial cultures that may have only formed for a short period of time. Strategic risks need to be understood and managed in order for consulting firms to effectively address uncertainty. Moreover, the management of strategic risk and uncertainty then becomes part of the culture of the management firm and influences its attitude towards addressing risk and uncertainty. Tools such as checklists and models can have an important role in helping to shape the organizational culture as an approach to the management of uncertainty.

Bowman (1982) has also argued that an organization’s attitudes towards risk may influence its approach to uncertainty. Firms who do not perform as well in the aggregate often take greater and less justifiable risks. Intuitively this would seem to hold true for consultants and consulting firms especially as it relates to the management of uncertainty. Bowman’s (1982) finding pointed to the need for a comprehensive strategy and understanding of the individual organizational factors in the development of an approach to risk. However, the result of Bowman’s and others work has been to place an emphasis on risk within a financial context which has focused and shaped the management literature. While financial risk is important, it is not the only risk that consultants and consulting firms may have to consider in the management of uncertainty. Our model outlined above hopefully will assist consultants in addressing the important risks that they may be facing specifically around service delivery and client management. Through taking a formalized approach, consultants and firms will have better management of uncertainty.

Obviously our approach is limited in that it is a conceptual model. Yet we would believe that as practicing management consultants, our approach has merit and can be the basis for a more formalized approach to the management of uncertainty. Further research will have to be done in order to demonstrate that it is a model that can be used across different types of consulting firms and engagements. Yet we would hold that the strategic risks centered on clients and service delivery would be consistent with most consulting firms and engagements. Our approach is also predominantly based from a practitioner viewpoint and as a result more academic research is needed to ensure that the model is reliable and valid for both researchers and practitioners. However, it may be seen as a first step to examining and analyzing the strategic risks that consultants need to address in managing uncertainty.

CONCLUSIONS

Risk and uncertainty have similar origins; whether an event is categorized as one or the other largely depends on the organization that is impacted. A logical extension of the view expressed by Holmquist (2004) and Gifford (2003), that pure risk and uncertainty rarely exist, is that so-called “pure” risk and “pure” uncertainty form the extreme ends of a continuum; individual firms, projects and consulting service offerings occupy points somewhere on the continuum.

Consultants are assumed to formulate expectations about the riskiness of actual and potential projects as well as engaging with new clients. However, such deliberations are necessarily done on a foundation of uncertainty. On the basis of such formulations and in light of their own risk preferences, consultants compare alternative projects, clients and organization structures and make choices about where to commit organizational resources (e.g. Bowman 1982; Fiegenbaum and Thomas 1988; Singh 1986). Decisions have to be made. Understanding these strategic risks in making decisions is essential to the management of uncertainty.

Moving management consultants along the continuum away from the uncertainty and toward the risk involves increasing their ability to predict potential problems and develop strategies to deal with them. Ultimately this will depend on the type of consulting they are engaged in and their understanding of the risk/uncertainty continuum. The model we propose may be a useful first step in helping consultants and consulting firms address uncertainty.

Risks are everywhere for consultants and this creates significant uncertainty. Once engaged with a project and client, assumptions and goals around projects and clients may become obsolete. What may have been seemingly a worthwhile investment in a particular client organization may become redundant with a takeover, acquisition or a change in management. The return on investment of projects, client
relationships and even consultants themselves is so uncertain that the inherent risk for consulting firms cannot be disputed. Understanding how those uncertainties may be managed, how they impact operations and strategy, are critical for success in consulting firms and promoting the profession of management consulting.

REFERENCES


