"Eliminating Chaos Through Process"

MCL & Associates, Inc.

A Veteran-Owned Company

RESULTS, NOT SERVICE:

OPTIMIZING MANAGEMENT AND INFORMATION CONSULTING

A WHITE PAPER

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WHITE PAPER
Results Not Service: Optimizing Process Improvement Consulting

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1.0 INTRODUCTION

Thomas Edison was renowned for his somewhat quirky but effective method of problem solving; what we now call the "Keep-It-Simple-Stupid" (KISS) approach. There are many variations of what is essentially the same story:

> A young engineer goes to Mello Park, in hopes of gaining employment with Edison. He is ushered into the great man's laboratory, whereupon Edison hands him an irregular shaped object and instructs him to determine its volume. After considerable and painstaking measurement and calculation, the engineer comes up with an answer. Edison picks up the object, drops it into a measuring beaker, and confirms the young engineer's solution. The young engineer is turned-away, presumably chastened and somewhat wiser from the experience.

Great effort may result in useful problem solving, but hardly is it ever effective problem solving. The struggle merely points out that the path to the problem's solution was unknown in the first place, forcing the user to resort to trial-and-error methods. The longer it takes to find an answer, the greater the probability that the solution's window-of-opportunity has passed-by unresolved.

This paper will discuss a specific and growing subset of management consulting: Process Improvement, a subset of the Quality Movement. While its roots trace all the way back to the guilds of Medieval Europe, the Quality Movement is quintessentially American. It is in America where the fathers of Quality - Frederick W. Taylor, Walter Shewhart, W. Edwards Deming, and Joseph M. Juran - laid-down its foundations. It is in democratic America - not class-conscious Europe, or the paternalistic systems of the remains of the rest of 19th and 20th Century humanity - where quality matures as an offshoot of management science and statistics, and where it is ultimately exported back to the world-at-large. At its core, it is the American ideal of individual worth - transplanted from the European guild tradition by successive waves of craftsmen émigrés whose progeny become the new nation's political leaders and industrialists - that transforms an entire society. It fuels the idea that the quality of one's work product and the quality of one's deeds reflect the true worth of an individual.

The Management Consulting field is now at a crossroads. Regardless of its past successes, businesses and our society as whole face new challenges on a global scale that requires both effectiveness and agility. The 2004 Standish Group's "Chaos Report," a bi-annual study based on more than 50,000 Information Technology (IT) projects, estimates that only 29 percent of all projects succeed, with 53 percent of all projects failing to attain their specified cost, schedule, or performance goals. An additional 18 percent of projects are cancelled prior to completion or delivered and never used: cumulatively a 71 percent failure rate.[1] This author has suggested elsewhere that the success rate for Six Sigma (6σ) projects is no better than any other project.[2] This failure rate is assumed to be a rough indicator of the industry's current effectiveness at producing results. In this light, it does not appear that the management consulting industry is giving its customers a very good return on its investment.

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[1] Retrieved 7/12/2004, from: http://www.standishgroup.com/sample_research/ PDFpages/q3-spotlight.pdf.
[2] Lefcowitz, M. (2007). Implementing six sigma: exploring issues of suboptimization. *U.S. Army Journal of Installation Management, Volume 2, Winter*, 18-28. Retrieved from the Web at: http://www.mcl-associates.com/Index_files/ImplementingSixSigma.htm.

Clearly, it is time to consider using Edison's approach.

2.0 PROFESSIONAL SERVICES VS. TRADE SERVICES EXPECTATIONS

Suppose for a moment that you own an automobile. One day, it begins to act-up unpredictably; hesitating and failing to accelerate as you apply power. Having some automotive knowledge, you attempt to fix the problem yourself. You change the spark plugs. The problem persists. You install a new distributor cap. No help. Finally, you admit that all your efforts have failed, and the best and cheapest thing to be done in the long run is for you to go to a specialist who is knowledgeable about the workings of automobiles: a mechanic.

You go to a mechanic recommended to you by a friend. You question the mechanic about their experience with your particular make and model car. He assures you that he has plenty of experience. The mechanic informs you that since examining the car takes time, you will be charged an estimation of service fee, which will be applied against the total cost of the repair, should you decide to have the required repairs done by him. You both agree that the mechanic will examine the car, and that he will call you back with his analysis of the problem, and an estimate of how much the repair will cost you. You agree that the actual cost of the repair cannot exceed 10 percent of the estimate. A few hours later, you get a telephone call. You are told that what is needed is a computer chip that regulates the amount of fuel to the engine. You are told that it will take a few days to get the required part, and you agree upon a price. You instruct the mechanic to order the part and make the repair.

A few days later, you receive another telephone call from the mechanic. Instead of telling you that you can pick up your repaired vehicle, you are informed that the new computer chip has not succeeded in solving the problem. The mechanic outlines some more possible reasons for your automobile's power problem, and suggests another course of action. You give your approval to the new repair plan and estimate, and a few days later, you are informed that you can pick-up your car; the problem has been solved.

You go to the mechanic's place of business to pick up your car. You are presented with the bill for its repair; the amount is slightly above the estimated amount, but well within the 10 percent factor to which you have agreed. You pay the bill and drive away.

But what if the mechanic had not been able to fix the problem? What would you have paid under those circumstances? Rather than the agreed upon estimation fee, what if the mechanic had attempted to add in the cost of the parts and labor for the failed attempts? Is there anyone who would have paid for a solution not received?

Let us, now, change the expertise we are seeking. Rather than a problem with our car, what if were talking about a medical problem? Perhaps, instead, we are talking about a legal problem, or perhaps, a problem with our business. Does that change the commercial expectations we have? Does that change the circumstances under which we are willing to pay for a service that fails to deliver results?

The word "service", of course, is used in its economic sense: work done either by an individual or by a group that benefits another. The very fact that we distinguish between "professional" and "trade" services, rather than just "services", tells us quite a bit about ourselves and our attitudes toward vocation.

Though largely ambiguous in terms of specific application, there is a distinction between professional services and trade services; the differentiation is real and it is palpable. On its face, the difference appears to be determined primarily based on the amount of education required to pursue a particular occupation, rather than the actual long-term earning ability of an individual's occupation. An entry-level plumber, for example, earns approximately the same amount as an entry-level accountant. Beyond education, it is really all about social status and the prerogatives of class, with education acting as the bearer preventing various unworthy aspirants from entering its rarified ranks. It is not necessary, here, to delve into the dialectic of class. For the purposes of this discussion, it is sufficient only to acknowledge that class distinctions do exist, that to a greater or lesser degree they matter to all of us, and to examine how our perceptions of class affect the expectations we have toward the commercial services we receive.

Rolled-up with issues of class are the economic issues of supply and demand, and ultimately power. He who controls the supply of something in great demand, or conversely, he who controls demand of something in short supply, has a great deal of power over that thing. It is our perceptions of power that dictates our perceptions of who serves whom. A concrete example seems to be in order, here: when does a painter become an artist? For example, when did Vincent Van Gough stop being a painter in the commercial sense of the word, and become transformed into an "artist"? The answer is, when there was a demand for his paintings. Sadly, for Van Gough, this recognition occurred predominately after his death.

As Calvin Coolidge once remarked, "unrewarded genius is almost a proverb". Conversely, it is the perception of worth - whether justified or not - that is the driving reality. In terms of commercial success, it matters little whether Van Gough is - in fact - a master painter, what matters is that he is perceived as being one. Since there is only one Vincent Van Gough, his art is in short supply to satisfy a large demand. Van Gough has not changed - he has long since past on - but our collective perception of his art has.

Vocations whose outcomes are in high demand and whose supply is limited have acquired both social and commercial status, and thus can charge considerably more for there services. Our expectations are lower for these high demand services, because we are flushed with excitement - and perhaps even grateful - at having acquired it. Rarely do we have objective criteria to judge the actual "worth" of a service. We are left to accept the judgments of others'.

Is there a better way?

3.0 CONSULTANTS VS CONTRACTORS

Management consulting emerged from both the academic study of management and the practice of contracted technology research. Its earliest practitioners (Arthur D. Little, Edwin G. Booz, James O. McKinsey, Marvin Bower, and Andrew T. Kearney) took a more practical and less paternalistic approach to business competency. Managerial acumen and analytical skill were viewed as being just another rare commodity in high demand. What might not be available through native talent could be purchased on a contractually limited basis, instead. The premise of management consultancy was that companies would be more successful if they could have access to someone from outside their own organizations to give them expert and impartial advice on specific business problems.

This paper assumes that this basic premise was - and remains - accurate.

The field has grown exponentially since its first beginnings almost a century ago.[3] The Department of Commerce, International Trade Administration, estimates that in 2007 the Management Consulting sector is expected to generate $125 Billion in revenue.[4] The Department of Labor estimates, in the United States alone, the total 2004 population for the management, scientific, and technical consulting services industry is slightly greater than one million individual workers.[5] Over the ten-year period of 2004 - 2014, the Department of Labor expects wage and salary employment in the management, scientific, and technical consulting services industry to grow by 60 percent.[6] This outstrips the 14 percent growth projected for all industries. Management consulting does not appear to be the exclusive domain it once was. It seems a safe bet that our future will have an even greater reliance on management consultants than we have today.

[3] While Arthur D. Little, Inc. was founded in 1886, it originally specialized in contracted technology research. The first company established for the purposes of management consultancy was by Edwin G. Booz in 1914. Following active military service during World War I, Booz started Edwin G. Booz, Business Engineering Service, eventually renamed Booz Allen Hamilton.
[4] Retrieved 7/15/2007, from: http://www.ita.doc.gov/investamerica/management.asp.
[5] U.S. Department of Labor, Bureau of Labor Statistics, Career Guide to Industries. Retrieved 7/15/2007, from: http://www.bls.gov/oco/cg/cgs037.htm.
[6] Ibid.

The "Great Society" legislation of the 1960s and the economic turmoil of mid-1970s appear to be the transforming tipping point. New government mandates and a sluggish economy, coupled with simultaneous jumps in inflation and unemployment led to a series of corporate re-organizations and layoff's in the 1980s and the 1990s. At exactly the same time, the use of the personal computer for business purposes was beginning to be felt. There was a high demand for individuals with technical skills.

For many managers there were three separate pressing issues that needed to be solved: 1) satisfying the immediate need for technical acumen, 2) keeping the cost of acquiring that expertise as low as possible, and 3) keeping employee benefits as low as possible: a return to profitability. Outsourcing - taking internal company functions and paying non-employees to do them - appeared to solve both problems.

Outsourcing is a new word for a very old business practice: subcontracting. Businesses have routinely turned to other companies for goods and services to supplement their own capabilities. What makes the "outsourcing" movement different is its pervasiveness in every nook-and-cranny of the business organizational structure. Rather than using subcontractors as a temporary stopgap, companies are now relying on non-employees to substantially run important functional areas of their business that were once the sole purview of core staff. In the government sector, the institutional memory of whole agencies now resides in hands of non-employee contractors.

The Bureau of Labor Statistics (BLS) 2005 report on contingent and alternative employment arrangements noted that:

> "Independent contractors were the largest of the four alternative work arrangements. In February 2005, there were about 10.3 million independent contractors, accounting for 7.4 percent of the employed … Independent contractors were more likely than those with traditional arrangements to be in management, business, and financial operations occupations; sales and related occupations; and construction and extraction occupations."[7]

Today the words "consultant" and the word "contractor" have become virtually interchangeable. Both are contractually hired. Both sell services and products, producing "works for hire", labor for hire, and frequently include, too, associated intellectual property products. In an attempt to un-muddy the waters, the matrix, below, outlines contractor and consultant functions:

	Fill a Skill-Set Gap	Fill a Personnel Gap	Decrease Costs	Provide Political Cover	Expert-level Expertise	Impartial Point-of-View
Contractor	x	x	x	x	x	
Consultant	x	x	x	x	x	x

Consultant / Contractor Functions

The distinction between the two roles revolves around the nature of each individual role, and ultimately who sets the agenda based on the consultant's expertise. A contractor is a person or business who performs services for another person or business under an expressed or implied agreement, and who is subject to the other's control, or right to

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7 U.S. Department of Labor, Bureau of Labor Statistics News (USDL 05-1433), July 27, 2005. Retrieved 08-22-2007, from http://www.bls.gov/news.release/pdf/conemp.pdf.

control, in the manner and means of performing these stipulated tasks by virtue of private law; i.e., by contract. A consultant provides expert counsel, giving analysis and advice in order to help the client make the best possible choices. A consultant's primary function is to give expert guidance; a contractor's primary function is to perform tasks.

This may appear to some to be much ado about nothing. Clearly, consultants often perform tasks and contractors often give counsel. To the contrary, however, the distinction is no small point. In a contest of wills, unless specifically covered contractually or against the law, it boils down to who ultimately sets the agenda. For the contractor, the customer will always have the last say. At the end of the day, the counsel of the contractor - like the counsel of an employee - can never be counted upon to be impartial because their continued self-interest relies heavily upon their continued good standing with their employer.

Consultants, on the other hand, are under no such handicap. Independent by nature, their own self-interest lies in their reputation for giving expert, accurate and timely, counsel.

One of the management shortcomings enumerated by John Bergey et al is that organizations make inappropriate use of outside consultants and outside contractors:

> "Outsiders can often offer substantial benefits [to] a project for a number of reasons, such as understanding of the domain, technical expertise, objectivity, or simply the ability to bring extra personnel to a project quickly. However, if used unwisely, they can also contribute to the failure of reengineering projects. Since outsiders rarely know the business as well as insiders, their role needs to be carefully defined and monitored. Organizations and outside contractors often have conflicting interests. The former obviously wants to minimize the cost of external resources, while the latter wants to maximize it. Sometimes the contracting organization relinquishes all control to the contractor. However, it is important for the contracting organization to retain sufficient insight into the work to know if the project is headed for trouble.
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> Often, three, four, or five sets of consultants will have looked into a problem over a period of as little as a year. Each group often finds similar problems, but the problems persist even after being brought to light. Sometimes the consultant's reports are rejected as being biased in some way. Sometimes the consultants do not have the right experience or credibility. Sometimes they are not given the time to do an adequate job. Sometimes the management just wants to give the impression that they are addressing problems in some way by stirring the pot. In these cases, the problem is not with the consultants, but with management. Conversely, reengineering efforts can also fail when they shun outside help when they actually need it. Outsiders often bring a fresh perspective or additional manpower that is otherwise unavailable within the organization. The attitude that all knowledge exists within the organization can be just as damaging as the converse.[8]

Providers of outsourced services - in particular the larger, multinational companies - have become one-stop shopping centers where customers can find both management consulting and contractors. These companies provide their customers with convenience; they have a wide range of products and services they offer to the business community. Therefore, in instances where a broad array of skill sets and technologies are in play, a company avoids the need to coordinate the activities of multiple companies to complete a particular project. There is no question that the one-stop shopping approach gives the illusion of safety. It is certainly exploited by technology and management contractor sales representatives the world over. There is, however, nothing convenient or safe about business. To have such expectations is both unreasonable and foolhardy.

[8] Bergey, John, Dennis Smith, Scott Tilley, Nelson Weiderman, and Steven Woods. "Why Reengineering Projects Fail". Carnegie Mellon, April 1999 (Technical Report, CMU/SEI-99-TR-010, RSC-99-TR-010), p. 7. Retrieved June 10, 2006, from http://www.sei.cmu.edu/pub/documents/99.reports/pdf/99tr010.pdf.

In many cases, the use of outsourced services has been a non-solution, solution because it merely masked the symptoms of the problem, rather than curing the cause: ineffectual management. While providers of outsourced products and services are greatly motivated to promise a great deal on the front-end, their implementation is often less-than-perfect, frequently requiring contract modifications unanticipated by the customer.

It became apparent almost immediately that the practice of outsourcing had some serious costs, including:

- Discrepancies in what the outsourcer promised, and what was actually delivered
- underestimation of the time and costs of the vendor selection process itself
- unanticipated resources (time, manpower and costs) associated with the ongoing governance and management of the service provider relationship
- unanticipated loss of internal continuity and institutional memory, and
- widespread dissatisfaction with the overall consequences of outsourcing by process stakeholders.

Organizations, of course, all-too-frequently have openings in their staffing. BLS estimates that the average annual rate of job turnover from June 2006 through May 2007 was at 43.9 percent. For the same period, annual new hires averaged 46.6 percent of the working population.[9] At least two out of every five jobs are in some state of transition.

Businesses, too, often need to fill skill-set and personnel gaps. The statistics cited above indicate a 2.7 percent difference between the average new hires and the average job turnover. Replacement of internal promotions probably account for the discrepancy. Additionally, however, the Bureau of Labor Statistics also estimates that the annual rate of new hires for the same period was at 34.9 percent.[10]

Both contractors and consultants can provide political cover and risk mitigation for unpopular or complex business tasks. As noted already, one of the primary drivers for outsourcing was to decrease costs and restore profitability during a particularly chaotic period in business history. Outsourcing assumes that those with the necessary experience to do something also have the necessary objectivity to provide strategic guidance. This assumption is in direct conflict with the tenets of management consulting, which assumes that those involved in the operation of a process often get lost in its details, or have other interests and motivations, which tend to constrain the ability to be objective.

All in business wish to build - or appear to build - a better mousetrap, and then sell their experience and products from that endeavor to ensure continued revenue from customers into the future. This is the nature of commerce.

As Adam Smith noted:

> "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."[11]

The question is - presuming self-interest - how can we separate the competent from the mere dilettante or the charlatan?

4.0 RESULTS, NOT SERVICE

Not so many years ago, our company was in search of a top-flight sales representative to help our company to establish itself. We interviewed many experienced individuals, all with impressive resumes. All wore expensively

[9] U.S Department of Labor. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey; Seasonally Adjusted. Retrieved 8/12/2007, from http://data.bls.gov/PDQ/servlet/SurveyOutputServlet.
[10] Ibid.
[11] Smith, Adam. An Inquiry into the Nature and Causes of the Wealth of Nations. Retrieved 9/2/2007, from http://www.bartleby.com/10/102.html.

cut suits, all displayed gold accoutrements that would have made a pharaoh envious, and all drove the expensive cars that are the obligatory “dress for success” persona of the thriving salesperson. All claimed to have sales in the millions of dollars. All wanted high-end, six-figure salaries, including the usual employee benefit package, out-of-pocket expense reimbursement, and incentive bonuses. We countered with a straightforward offer of a 60-40 split of all net sales performance contract. None of these supposed sales “aces” accepted our counter offer, or even proposed a follow-up response offer. Instead, negotiations came to an abrupt halt.

Eliyahu Goldratt, the father of the Theory of Constraints has written, "Tell me how you will measure me and I will tell you how I will behave."[12]

That is precisely so, and it is specifically what is wrong with the Management Consulting industry in general, and the current state of the Process Improvement field. It is time that we stop talking about quality and instead that we start doing it.

Services without results are unacceptable, and business without risk is fanciful at best. A new standard of management consulting needs to be established that creates a level playing field for both the competent consultant and the competent business executive, based on mutual risk, specific and mutual obligations, and rewards for success.

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[12] Eliyahu Goldratt, The Haystack Syndrome, North River Press, 1991.