



---

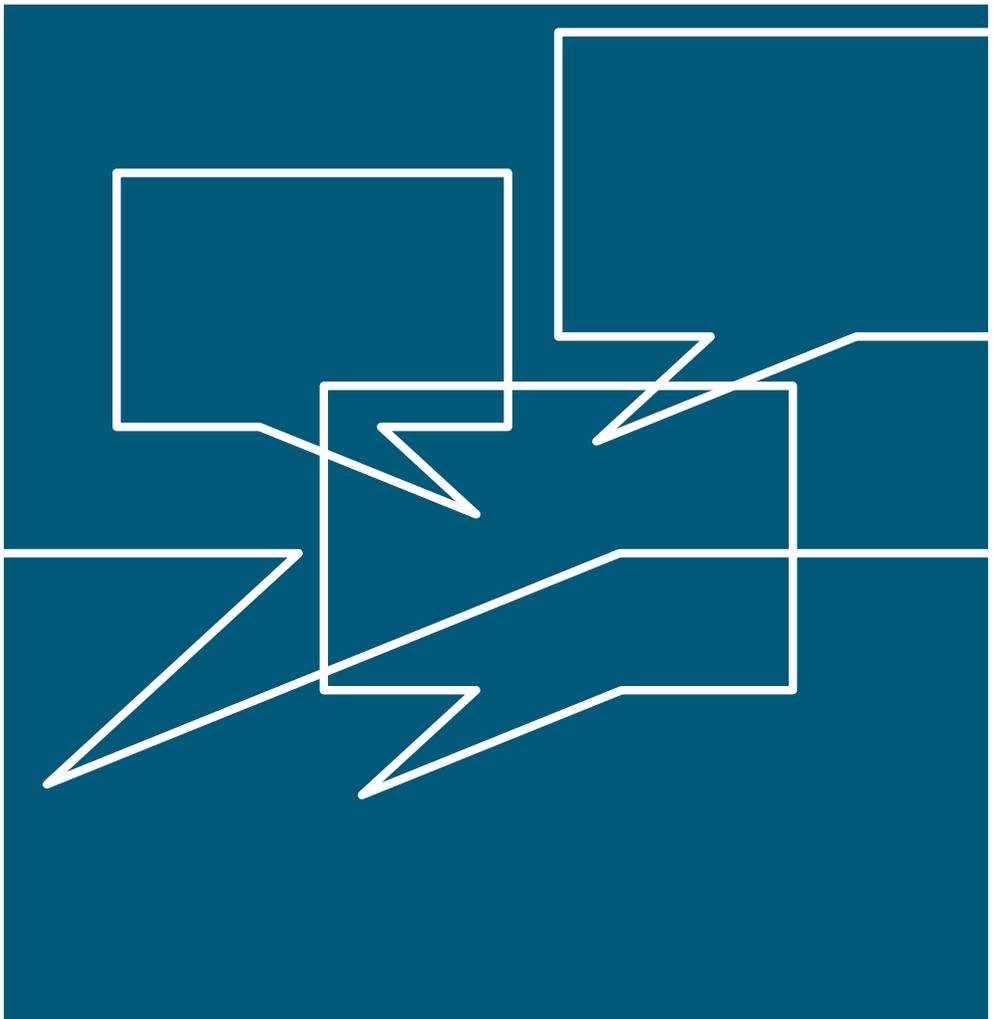
# THE ROLE OF REPUTATION IN PROFESSIONAL SERVICE FIRMS

---

NOVAK DRUCE CENTRE INSIGHTS

No. 6

---



---

## CONTENTS

---

- 01 INTRODUCTION
- 02 THE RELATIONSHIP BETWEEN REPUTATION & QUALITY  
IN PROFESSIONAL SERVICE FIRMS (PSFS)
- 04 CHOOSING A CONSULTANCY: THE INTERPLAY BETWEEN  
NETWORKS, TRUST & KNOWLEDGE
- 06 FINDINGS
- 08 THE LESSONS

---

## **‘PEOPLE ARE NOT BUYING FOR THE QUALITY. PEOPLE ARE BUYING FOR THE STAMP, THE RED STAMP.’**

Managing Partner of a management consultancy

Copyright © 2011 The Novak Druce Centre  
for Professional Service Firms

Based on the articles, ‘How are reputation and quality built within management consultancy firms’ and ‘Single reputation or multiple reputations? The case of a global management consultancy organization’ by William S Harvey and Tim Morris. Grateful thanks are offered for the intellectual, financial and administrative support provided by the Centre for Corporate Reputation at the University of Oxford.

---

---

## INTRODUCTION

---

‘Reputation’ and ‘quality’ are often assumed to be one and the same in relation to professional service firms. We set out to test this assumption by exploring how far reputation was matched by the quality of projects in a leading international management consultancy and found that the reputation of the firm by no means necessarily aligns with the quality and success of its projects. Not only is the relationship between reputation and quality uncertain in management consultancies, the process of building and sustaining reputation is complex and various. It is a process of overriding importance to both consultancies and clients and demands to be better understood and carefully managed.

---

## THE REPUTATION OF THE FIRM BY NO MEANS NECESSARILY ALIGNS WITH THE QUALITY AND SUCCESS OF ITS PROJECTS

---

## THE RELATIONSHIP BETWEEN REPUTATION AND QUALITY IN PROFESSIONAL SERVICE FIRMS (PSFS)

### REPUTATION MATTERS TO FIRM AND CLIENT ALIKE

To date, most of the evidence used to analyze issues of reputation and quality has focused on consumer products where reputation is strongly aligned with the actual physical quality of the product. However the role of reputation in the professional service sector, where judgments of quality are far harder to make, is much more complicated. The 'products' in PSFs consist of complex, customized solutions devised for clients who themselves are often required to play a key collaborative role in helping create them.

Beyond this there are other uncertainties. One is the lack of institutional standards in the profession such as legal regulation, fee rates and necessary qualifications. Another is 'transactional uncertainty'. This refers to the way in which 'experience goods' cannot be inspected, compared or controlled for quality by the client in advance. In choosing between competing professional service organizations, therefore, the client often has to fall back on other signals, notably reputation.

Reputation is important in other ways for PSFs in that it helps guarantee a continuing flow of business. Professional service clients experience a high degree of risk at the point of purchase. They will be tempted to repeat purchases with a highly regarded professional service organization because this reduces the uncertainty of switching to an untried and untested firm.

In addition, reputation plays an important role in PSFs' own labour market. The work of PSFs involves delivering knowledge-intensive services, whose knowledge is embedded in professional staff and delivered through individuals and teams of employees interacting with clients. Hiring and retaining professional staff of the appropriate quality is therefore critical to the competitiveness of PSFs, especially as such staff are relatively mobile.

In short, reputation matters a great deal for both PSFs and their clients. This is broadly accepted but how reputation is formed and what specific aspects of reputation are particularly critical in choosing PSFs are little understood. The received view rests on two untested assumptions, both of which merit challenge: firstly, that reputation and service quality are identical and, secondly, that a PSF's reputation is the same for all its stakeholders.

### QUALITY IS AN UNCERTAIN QUANTITY

There have been few attempts to link the quality of project delivery of professional service firms to their reputation, but the general assumption seems to be that reputation is built through consistently delivering high quality services. Once a firm's reputation is established, so the thinking goes, there are spillover effects that it can exploit in new practice areas that, if successfully developed, can further generate or consolidate its reputation. The process can be illustrated as in Figure 1 below:

FIGURE 1: THE ASSUMED RELATIONSHIP BETWEEN REPUTATION & QUALITY



## REPUTATION IS MOST STRICTLY APPLICABLE IN SITUATIONS WHEN TRANSACTIONS OF THE SAME KIND ARE REPEATED

However, before accepting this model at face value a number of qualifications need to be made. Reputation is most strictly applicable in situations when transactions of the same kind are repeated. Even then, reputation is only strictly relevant if processes are the same across all transactions, and the case of professional service firms no project is ever exactly the same as another in aims, content, delivery or personnel.

Overall, there are two main dimensions to service quality. The first is 'technical quality', which refers to the core service being delivered. The second is 'functional quality', namely *how* the service is delivered. The quality of what is delivered may be very different from how it is delivered. The two dimensions are not mutually exclusive and each affects how clients perceive the quality of the other.

The distinction between the two dimensions matters, however, because they demand different skills. Technical competency depends on firms applying their core knowledge and skills to deliver tangible results to clients. Functional competency depends far more on interpersonal skills, style of delivery and expectation management. In both cases, however, managing relationships is critical and effective, and regular communication between the service provider and the client is important for instill trust and reducing the risk of failure in the relationship.

In transactions with PSFs clients are exposed to considerable risks about the confidentiality, integrity, and commitment of a consultant. Keeping promises has therefore been singled out as the most important aspect of engagement success. Relationships between PSFs and clients demand empathy, responsiveness and reliability – with reliability often cited as the most important dimension.

## RELATIONSHIPS BETWEEN PSFS AND CLIENTS DEMAND EMPATHY, RESPONSIVENESS AND RELIABILITY

## CHOOSING A CONSULTANCY: THE INTERPLAY OF NETWORKS, TRUST AND KNOWLEDGE

Three factors are of overriding importance in helping build reputation among PSF stakeholders: networks, trust and knowledge.

### NETWORKS ARE KEY

Client and employee alumni networks can result in significant financial returns. According to one recent survey of management consultancy firms across three different countries, some 80–85% of their fees resulted from such networks. Networks not only generate positive word-of-mouth but are even more important when one takes into account clients' tendency to repeat purchases and their resistance to competitive offers. However, while the importance of networks is generally accepted, the interaction between reputation and trust is less well-understood.

### TWO TYPES OF TRUST

As noted, projects within the professional service sector are particularly difficult for clients to evaluate. How do consumers not trained in law, for instance, know whether they actually received the best legal advice? As a result, clients have to rely heavily on their trust in the service provider. There are two important types of trust that management consultancies need to nurture: 'competence trust', which rests on the service provider possessing the necessary qualifications, skills and capabilities to fulfill a particular task, and 'goodwill trust', which turns on the moral and ethical commitment of service providers not to behave opportunistically.

Competence trust is more one-sided and easier to signal and recognize, whereas goodwill trust is more reciprocal and therefore involves the motives and actions of both parties. Clients may trust a firm to deliver a high quality project, but not necessarily that it will treat its information confidentially. Moreover, different projects demand different types of trust. Clients may be more interested in competence trust in short-term strategy projects than long-term cost-cutting projects, where they may be more interested in goodwill trust.

The relationship between trust and reputation is problematic in other ways. A client may be well satisfied with how a management consultancy has used their confidential information on a particular strategy project, and this will help to instill trust. However, this is only the first step. The firm needs to exhibit consistent behaviour over time in different projects to build this form of reputation on a solid basis.

## THE TYPE OF KNOWLEDGE THAT A PARTICULAR PROJECT ENTAILS HAS IMPORTANT IMPLICATIONS

### KNOWLEDGE TRADE-OFFS

Clients' choice of management consultancies is not only influenced by networks and the types of trust they inspire but also the type of knowledge involved in the project. Projects which demand a greater degree of client-specific and client-intensive knowledge tend to be placed with existing consultants. This is not to say that clients are not open to working with new management consultants, but there is a strong preference towards using consultants with whom they have established business relationships when the project involves sensitive information. In contrast, in projects that are more functional and industry-specific clients often prefer to use external consultants with whom they hold looser business relationships. In short, the *type* of knowledge that a particular project entails has important implications.

When clients are reaching decisions about which management consultants to use, they often have to make trade-off choices between the type of knowledge and the level of confidentiality. If they are less concerned about innovative knowledge, but confidentiality is a key factor, they will err on the side of using established consultants and prefer 'goodwill trust'. In contrast, when clients are more concerned about innovative knowledge and confidentiality is not so important, they will err on the side of using new consultants and prefer 'competency trust'. The process can be summarized as follows:

TABLE 1: CHOOSING MANAGEMENT CONSULTANTS

	Established management consultants	New management consultants
Type of knowledge	Less innovative knowledge	More innovative knowledge
Level of confidentiality	More confidentiality	Less confidentiality
Form of trust	Goodwill trust	Competency trust

To an extent, therefore, clients could be said to act rationally in their choices of management consultancies. But in other ways they appear to be driven more at random. This is one of the reasons why clients typically rely on other criteria, in particular reputation, as a signal of quality, even though reputation is not necessarily synonymous with quality.

In order to study the significance of reputation and the process of reputation formation across different competencies and stakeholder groups we looked at a global management consultancy, examining offices in various countries and markets and interviewing clients, key 'gate-keepers' and other employees and alumni.

---

## FINDINGS

### REPUTATION HELPS GET FIRMS THROUGH THE DOOR BUT DOES NOT GUARANTEE QUALITY

---

A strong reputation undoubtedly helps consultancies get to the starting line in the race to win a project. Both internal and external stakeholders frequently referred to the tendering process as a 'beauty contest' implying that invited participants need a minimum reputation simply to be considered. However, once a certain level of reputation is reached, the quality of particular projects is not taken into account because it is assumed that if a firm has an excellent reputation then it must be delivering excellent quality projects. Consequently, firms with strong reputations do not need to exceed the expectations of clients and can afford occasionally to get away with lower quality.

### QUALITY AND REPUTATION ARE NOT A TWO-WAY STREET

---

Reputation affects how quality is perceived and judged, and client expectations are driven by a firm's reputation and influence clients' views of the quality and success of a project. But the converse is not necessarily true.

### REPUTATION IS NOT A MONOLITH

---

Consultancies have multiple reputations. Firms' reputations not only vary widely among clients and potential clients but even, we found, within the consultancy itself. Even its own employees' assessments of functional expertise, quality and reputation varied significantly, and they identified a wide variety of different reputations based on factors such as office location, the respondents' area of expertise or their positions in the company.

---

## SOME CLIENTS SEEM MORE INTERESTED IN WHICH MANAGEMENT CONSULTANCY DELIVERS THE PROJECT RATHER THAN WHAT THEY DELIVER

### NETWORKS ARE KEY TRANSMITTERS.

---

The relationship between consultant and client may transcend the purely commercial and become a strong personal relationship. This is important not only in generating repeat work from the client but in referrals. Consultants and clients both agreed that strong referral networks are important for securing projects, and some even felt that reputation built through networks is a more decisive factor than quality when clients are deciding which firm to choose for a project. Networks can help overcome a lack of information and experience in selecting a competent supplier. In this regard, therefore, the reputation of the network connecting the client and the consulting firm acts as a critical factor in selection.

### REPUTATION 'STICKINESS' IS AN ISSUE

---

One problem with transferring reputation from the firm to a specific project team is 'reputation stickiness' whereby clients are unable or unwilling to transfer reputation from one type of work to another until they are clear that the firm holds an established position in that service line. In cases of uncertainty, clients will tend to opt for firms who have established reputations in those areas to minimise risk.

---

## FIRMS WITH STRONG REPUTATIONS DO NOT NEED TO EXCEED THE EXPECTATIONS OF CLIENTS AND CAN AFFORD OCCASIONALLY TO GET AWAY WITH LOWER QUALITY

### PROJECT 'MATCH' ALSO COUNTS

---

Reputation is important, but during the tendering process potential clients become more interested in the potential quality of the project. At this stage the focus of the firm's reputation shifts significantly from the firm to the project team. Clients not only focus on how their project needs match with what the consultancy is proposing in terms of the process of addressing the project goals but also whether the experience and skills of the firm's proposed project team fits with the needs of the project.

An important proxy for skill and experience, incidentally, is the seniority of the consulting team. Consulting firms with weaker reputations often have to allocate more senior and expensive consultants than those consulting firms with stronger reputations. In turn, this affects the relative profitability of the consultancies, with the more reputable firms able to generate greater profits per assignment on average. Higher profitability in turn also attracts higher quality staff who see the opportunity for greater earnings from higher profits, thus setting in motion a virtuous circle arising from reputation in both labour and client markets.

### CONSISTENCY IN DELIVERY IS KEY

---

The consistency of project delivery is an important bridge between quality and reputation. The view of the quality of project delivery by the firm, particularly in its core markets, was not always consistent in all its international offices. Although the firm's reputation for particular projects was very strong across a range of clients, this was not the case among all clients and for all competencies. Consequently, clients often received mixed signals about what to expect from the firm, and to resolve these differences consistency in delivery is essential.

### CLIENT USES CONSULTANCIES' REPUTATIONS AS SIGNALS ABOUT THEMSELVES

---

Some clients seem more interested in which management consultancy delivers the project rather than what they deliver because they want to signal to external stakeholders such as board members and the media that they are taking a particular issue seriously by hiring a market leader. Often clients also need to validate their own policies or proposals or obtain an insurance stamp in case problems crop up later.

### CLIENT EXPECTATIONS ARE ON THE RISE

---

Both clients and consultancy employees agreed on this point. Many clients had previously worked in the management consultancy sector and therefore had an intimate understanding of the industry and what they can realistically expect in terms of price, consultancy team and quality. However, firms who had extensive alumni networks had an advantage because they had established strong ties with clients and potential clients.

---

## THE LESSONS

---

**In practice, quality and reputation are by no means aligned.** One consequence is that firms with strong reputations, for instance, can get away with poorer quality service, and a strong reputation can buffer firms against mistakes. In contrast, firms with weaker reputations not only have to work harder but often over-deliver on the quality of projects. That said, quality and reputation can also diverge due to the conflicting interests of clients (who are looking for both high quality and low costs from consultancy firms) and consultancies (who are looking for high returns from their clients and simply satisfied with adequate quality).

**There can be damaging repercussions for consultancies whose reputation does not keep pace with their quality of service.** Our subject firm experienced great difficulties winning bids against competitors even though the client considered them in certain contexts as delivering the best quality because other competitors had a stronger reputation. Firms with strong reputations are able to expand into practice areas in which they are not necessarily strong, while firms with less strong reputations cannot diversify so successfully. One consequence is that firms with less strong reputations may lose the opportunity to bid for larger projects in which several practices are involved.

**Building and sustaining reputation is a many-sided, open-ended activity and demands continuous sophisticated management.** Consultancies need to decide exactly what reputation and, more specifically, what aspects of reputation they wish to communicate and then clearly project these to both their internal and external stakeholders through the three interrelated channels of signaling, networks and client relationships. Consultancies need also to focus on the functional as well as the technical aspects of their projects – the ‘how’ as well as the ‘why’ and the ‘what’. Trust and knowledge are key. So, in parallel with this they need to develop trust of two different kinds: ‘competence’ trust and ‘goodwill’ trust. And, on an individual basis, project by project, they must ensure they apply the types and levels of knowledge demanded.

---

## BUILDING AND SUSTAINING REPUTATION IS A MANY-SIDED, OPEN-ENDED ACTIVITY AND DEMANDS CONTINUOUS SOPHISTICATED MANAGEMENT

---

The Insights series aims to provide accessible summaries of recent research by members and associates of the Novak Druce Centre for Professional Service Firms at the Saïd Business School, University of Oxford. Each Insight focuses on a particular issue in the management of professional service firms and offers a fresh, up-to-date reading of this issue.

Derived from academic papers and books and written primarily for practitioners, the series is designed to be thought-provoking and challenging yet also highly readable.

**To obtain other titles in the series please contact the Centre Manager at [novakdruce.centre@sbs.ox.ac.uk](mailto:novakdruce.centre@sbs.ox.ac.uk)**

Series Editor: Peter Snow  
Design: SampsonMay [www.sampsonmay.com](http://www.sampsonmay.com)

---

BASED AT OXFORD UNIVERSITY'S SAID BUSINESS SCHOOL, THE NOVAK DRUCE CENTRE IS A HUB FOR ACADEMIC RESEARCH INTO THE MANAGEMENT OF PROFESSIONAL SERVICE FIRMS. ITS MEMBERS WORK CLOSELY WITH TOP PRACTITIONERS TO EXPLORE THE KEY CHALLENGES CONFRONTING THE PROFESSIONAL SERVICES SECTOR.

**THE NOVAK DRUCE CENTRE**  
FOR PROFESSIONAL SERVICE FIRMS

**Saïd Business School**  
University of Oxford  
OX1 1HP  
Tel: +44 (0)1865 288 949

[novakdruce.centre@sbs.ox.ac.uk](mailto:novakdruce.centre@sbs.ox.ac.uk)  
[www.sbs.oxford.edu/novakdrucecentre](http://www.sbs.oxford.edu/novakdrucecentre)