



THE DEATH OF THE PROFESSIONAL SERVICES FIRM & THE SPECIALIST CONSULTANT

Revised & Updated Paper - May 2024

In the wake of the Australian PwC tax leak scandal, we have reviewed much of the commentary surrounding the value, ethics and behaviour of professional services firms and argue that many are no longer fit for purpose or capable of creating value, at least, not for society at large. We have used the current landscape to revisit our paper of 2020 of similar title, and to update it here in significantly edited and revised form.



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Meaning and Purpose are our greatest currencies. Most professional services firms lack these – it is why many firms are ethically bankrupt and unable to create real value.

The lack of meaning and purpose leads to all manner of dysfunction and unethical behaviour, as anyone with the even the slightest curiosity would have witnessed over the past year; a global turmoil which has been staggering in scope, seriousness and frequency with worldwide headlines continuing to stack up:

New misconduct allegations at EY, investigation launched - The investigation comes on top of an announcement three weeks ago of a review into behavioural misconduct complaints made over the past five years. EY has already lost one contract and other clients are asking questions as a result of the ongoing issues – Stuff (New Zealand), 15 May 2024

PCAOB adopts tighter rules on auditors' quality controls - The Public Company Accounting Oversight Board is requiring audit firms to do more to ensure the quality of their work, a move aimed at improving the effectiveness of audits while updating decades-old rules (covering areas such as ethics, personnel management and audit-engagement performance) - The Wall Street Journal, 13 May 2024

'Big four' accountancy firms PwC and EY fined over LC&F audit failures - Firms fined millions after London Capital & Finance's 2019 crash wiped out customers' savings - The Guardian, 7 May 2024

Treasury questions the very nature of the big four consulting firms - Suggesting they are too big, incapable of governing themselves and have compromised auditing roles that are critical to the economy. The Treasury consultation paper on regulation of the big four consulting firms makes it clear that the current way the firms operate and are policed is not working effectively - Australian Financial Review, 6 May 2024

Big four consultants 'commoditised' - Big four advisory services have become commoditised and clients are increasingly seeking tailored advice from specialist firms – Australian Financial Review, 23 April 2024

Consulting clients look elsewhere as trust in big four plummets - Reputation is in tatters - Australian Financial Review, 16 April 2024

(PwC tax leaks scandal bites) EY cuts 148 jobs as consulting downturn deepens - Australian Financial Review, 16 April 2024

KPMG slapped with record \$38m fine for exam cheating - The US accounting watchdog hit KPMG Netherlands with a \$US25 million (\$38 million) civil penalty, a record for the regulator, in response to 'egregious' and widespread exam cheating - Australian Financial Review, 11 April 2024

The bloated management consultancy paying staff to languish on 'the beach' - How McKinsey became a bloated behemoth – The Telegraph (UK), 7 April 2024

EY boss Braden Dickson leaves Big Four giant after a 'historical behaviour matter' emerges - a year after a woman plunged to her death sparking review of 'toxic' workplace culture - Daily Mail (Australia), 21 March 2024

Samuel's big four fix: ban firms consulting to audit clients - Mr Samuel also said the government should bring partnerships under federal corporate law to ensure firm executives have the same legal obligations as senior company leaders - Australian Financial Review, 20 December 2023

'Thought they could do what they want': How PwC went from 'untouchable' to pariah - The fall from grace of accounting giant PwC was one of the defining stories of 2023, with the saga forever having shaped the public's understanding of the billions spent on consultancy - Crikey, 14 December 2023

Big four partners face 'career-ending' fines in PwC fallout - The big four accounting firms will be hit with penalties of up to \$782.5 million for breaching the tax agent code of professional conduct under an overhaul proposed by the government in response to the PwC tax scandal - Australian Financial Review, 10 December 2023

PCAOB releases flood of fines and sanctions - The Public Company Accounting Oversight Board released a number of settled disciplinary orders today for a range of violations - Accounting Today, 15 November 2023

Accounting firms hit with record US fines over audit failures - Financial Times (UK), 16 November 2023

KPMG given record fine for failings in audit of collapsed Carillion - Carillion's sudden collapse sent shockwaves through the economy 'causing significant cost to UK taxpayers, investors pension holders and employees, the Financial Reporting Council concluded - Sky News, 12 October 2023

PwC tax leak scandal has exposed partnerships as regulatory havens - Australian Financial Review, 5 October 2023

PwC tolerated poor behaviour, gave CEO too much power, review finds - PwC Australia oversaw a culture that tolerated the poor behaviour of partners if they were making the firm a lot of money, fostered a 'whatever it takes' approach and created a chief executive officer role that was unaccountable to the board, a new report has found - Sydney Morning Herald, 27 September 2023

Spain fines 'Big Four' consulting firms for 'marathon' working days - Euronews, 27 September 2023

'Morally bankrupt': Australia urged to cut ties with Big Four firms - Some Australian public figures and lawmakers are calling for Canberra to cut ties with the Big Four consulting companies as more evidence of the "immense" PwC scandal surfaces amid revelations the firm tipped off tech giant Google on confidential national tax laws - South China Morning Post, 7 July 2023

Profits over value: Profits over people: Profits over ethics – Profits over meaning and purpose

Without a rethink of the professional services sector we will be consigned to trite apologies like, "We are sorry our work did not meet the standards expected and that we expect of ourselves" (PwC London spokesperson referencing LC&F audit failure). Surely, we demand more. But, even when these firms comply with the law, their value is suspect. As British / American political commentator and television host, John Oliver rightly stated during October, 2023, "The bespoke advice of these firms is pretty straightforward and

frequently unremarkable and often they do unequivocally bad jobs!” This is unlikely to improve without a fundamental shift in the business model of these large professional services firms and indeed, in the very nature of their aims and objectives.

Former Australian sex discrimination commissioner, Elizabeth Broderick, told an Australian Senate enquiry into consultants that leaders of firms who cannot manage and develop their staff should not be promoted even if their financial results are strong. Broderick also said that the culture of long hours is based on a business model of selling time (rather than value) – clearly, it is also about putting short-term profits ahead of people.

These firms, first and foremost, need to redefine their purpose and their operating models. This is not a ‘gotcha’ moment. Nor are we claiming we were right, back in 2020, when we said that the business model of many professional services firms was moribund, rendering them incapable of creating real value for society or, in fact, for themselves. If anything, we underestimated the gravity of the dysfunction that characterised such firms. Yet, it is safe to say that the headlines at the top of this paper are the culmination of years of unchecked hubris. As we wrote back in 2020, the wake-up call has been coming for years – the reality being that these firms are selling commoditised products with little understanding of how to create true value in an accelerated change environment which demands a new and very different set of skills and mindsets. Left vulnerable to shrinking relevance, market share and remuneration, is it any wonder the ethics and ego of many, many consultants is tested? ... and found wanting.

In fact, the similarities with various governance issues identified by the (Australian) Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, are eerily stark and disconcerting: Short-term profit focus, untouchable ‘rock-star’ performers, poor people managers, inept leadership, bad news not making it to the Board table and people not willing to ask questions or challenge the status quo or the ‘rainmakers’. What is clear (and has been for years), is how reliant society is on the ethics, principles and emotional fitness of the executives in these firms and how frequently and systemically they are proven to be deficient. Perhaps, more than a witticism, we should regard, ‘Wherever there is power, greed, and money, there is corruption’ as a **truism** and establish laws to limit the likelihood of wrong-doing. This indeed, appears to be what the regulators around the world are trying to do.

Fundamentally, however, consultants in these firms do not truly ask themselves questions about what they do, and its value. As hard as it evidently is to face, the reality is that most professional services firms do **not** exist to create value but, instead, to make money while providing cover, compliance or validation for their clients – fixing real problems and making society better, clearly isn’t part of their true purpose. Even yesterday (20 May), we read: **Auditors failed to raise alarm before 75% of UK corporate collapses** - Three in four audit reports did not provide alerts that companies risked going bankrupt (Financial Times).

Henry Ford once said a business that makes nothing but money is, indeed, a poor business. If our large consulting firms ever did take heed of Ford’s warning, they surely, no longer do. “Why is this a problem?” it could be asked. Well, as Erich Fromm so eloquently put it: “Greed is a bottomless pit which exhausts the person in an endless effort to satisfy the need without ever reaching satisfaction.” It can be extrapolated from Fromm that, in the process, this avarice diminishes one’s creativity, agility, decision-making capacity and, ultimately, their humanity.

To be clear, when I speak of professional services firms, I am talking about organisations where consultants offer knowledge-based services, and where there is minimal capital infrastructure. By this definition my business, **People At Their Best**, works within this industry. As such, my intention is not to criticise but to understand the antecedents of the mess our industry is currently in. It is also hoped that by shining a light on the shortcomings of our industry, we can identify a better way to do business and to create value for all stakeholders.

That said, it is the behemoths of the consulting industry which are under the spotlight (think Big-4 accounting firms and the likes of McKinsey and Boston Consulting Group), and who we have given particular attention to in this paper, while not shying away from the possibility that smaller firms too, may no longer be fit for purpose and in need of a radically different operating model and more robust ethical compass.

The future will look very different

With the technical expertise of consultants in professional services firms being commoditised, automated and outsourced to cheaper suppliers, all that remains is the quality of the 'experience' a consultant creates for their client. It is in this experience where our value resides. For years, we have defined the criteria for positive client experiences as follows: Does the client feel understood; does the client feel valued; has the consultant helped the client make sense of the complexity around them; has the consultant helped the client to see a pathway to a better future? Today, consultants who are unable to hit this benchmark simply fail to create an experience which is meaningful or valuable.

This is because the future belongs to those who can create 'meaning', those who can take us on a journey of discovery and understanding, those who can help us make sense of the complexity around us. Unfortunately for most professional services firms, this is the antithesis of how they operate; it goes against their very *modus operandi*.

If the Industrial Age was about 'product' and the Information Age was about 'data', then this Concept or Connected Age will be about 'meaning'. It follows, that those who can help translate the world into something that makes sense, those who can help create understanding and connection to a better future, are the ones that will flourish. This is how *value* is created.

Meaning produces coherence in someone's world, it gives purpose and it indicates significance. It is critical to understand this: The making of meaning is an experience and it is in this experience that one creates value. More fundamentally (and worryingly), for professional services firms, value no longer resides in the products and services they provide but rather, it exists only in the experience their clients have.

While professional services firms might understand this, there is little evidence that they are ready or willing to make the leap into this new world. The upshot of this is that their relevance is being swiftly eroded.

Quite simply, these firms only exist to provide products and services to make profit. When these products and services have been reduced to commodities, ones which are being automated, democratised and outsourced at an exponential rate, then such firms will need to resort to all manner of self-serving and dysfunctional behaviour to maintain their once privileged standing.

Today, the products and services which these professional services firms provide are hygiene factors, a ticket to play. This means that to be relevant, one must create value beyond products and services, to the place where customer satisfaction is born: the experience.

Smart organisations know this and focus on delivering a better customer experience through uncovering problems, untapping latent demand and inspiring client action which helps the client move towards a better future. And, these organisations will not be afraid to charge a premium for the value they create. But to do this well requires a different approach, one that puts the customer at the centre of the relationship. This ought not be difficult, but the fact is that most professional services firms are focused on maximising profit, not creating value.

The future is here, but are today's consultants ready for it?

Organisations must now compete on their speed of learning; how quickly they can understand what customers truly value, and use these insights as an input to design meaningful experiences for the customer.

Founder and CEO of ***Mu Sigma***, Dhiraj Rajaram describes it like this: "Learning is more important than knowing and experimentation is more important than expertise." In this reality, businesses need to 'operate to learn' and use operations as an input to design; not as a pathway to profit. In this Concept Age, what matters is *how* we take people on a journey to discover what is currently unknown. This is the challenge of our age.

Today's consultant must strive harder than ever to understand customers and what they value – but this requires tremendous curiosity and a fierce empathy, and ultimately real humility. Another psychological handbrake for most firms is that empathy cannot be scaled, but without it, one cannot build the deep levels of trust required to connect with customers and engender meaningful experiences. On the other-hand, if today's firms could get this empathy quotient right, they would experience profound customer understanding and unlock all manner of revenue opportunities. In this regard, empathy is the true antecedent to future success and the antidote to the ego-centric mindset which besets so many consultants.

When 70 per-cent of the buying experience is based on how a customer feels they are being treated (and nothing to do with the product they are buying), a different operating model is called for.

What professional services firms need to develop is what we call the '7 Cs of Empathy': Customer-centricity, Courage, Curiosity, Connection, Care, Collaboration and Consciousness. At the centre of these is empathy. The reality is, however, that these are not front-of-mind for most firms. This makes it nearly impossible to achieve trust, commitment and engagement. Worse still, it makes it nearly impossible to generate creative, innovative ideas; ones that are fit for the customer's needs, contextually appropriate and valued by the customer.

Empathy and trust take time and they cannot be automated or scaled. This is a real problem for most professional services firms. Worse still, an empathic customer-centric model requires one that cares for the customer, first-and-foremost and this is simply not in the DNA of most firms.

Most professional services firms are not creating value; they are providing a product; they are a relic of the Information Age. Such firms win by selling more products and grabbing a greater share of the market. Smart businesses, on the other-hand, win by creating a better experience and by engendering greater customer satisfaction. This is a profound problem for the way most firms tend to operate. 'Operating to learn' is the radically different approach required but to make this shift, businesses need to listen more to the customer and subjugate their collective ego.

An unwillingness to learn and adapt will continue to drive poor behaviour

Einstein said that if he had a really difficult problem to solve and an hour to do it, he would spend the first 55 minutes thinking about the problem and the right questions to ask and only 5 minutes on the solution. Professional services firms have this 'enquiry/solution ratio' the wrong-way around and, as such, either impose what they (opportunistically) think the client needs or, more typically, push onto the client what they can expediently charge for. This self-serving behaviour is marked by hubris; an anachronism of an old world where the consultant could be paid handsomely for their specialist knowledge. In our 'brave new world', however, organisations will need to be far less 'sure' and much more humble; far less 'certain' and far more ready to learn.

Research finds that doctors, on average, interrupt patients after only 11 seconds. The frightening reality is that I hear consultants interrupt their clients in less than 11 seconds. Why? Because they still believe their value resides in their specialist knowledge or products. The hollowing-out of work, however, means that anyone who relies solely on their knowledge will find themselves irrelevant within the decade. It pains me to say it, but it is nonsense for anyone to think that they can create value without first understanding what a customer truly needs.

The truth is, we all face a complex, ambiguous and uncertain world packed full of novel challenges with little certainty as to the right answers. In this world, the commodification of knowledge into products makes no sense at all. Worse still, the desire to build market share and profit (and, in turn, consultant remuneration) based on a dilapidated business model drives many consultants to do the wrong thing; to take short-cuts, to allow their egos to get in the way and to compromise their own standards.

When 9 out of 10, American consumers say they would pay more for a superior customer experience, it ought to be a wake-up call that the only effective way to build an enduring, ethical business is by doing exactly that; creating meaningful and valued customer experiences.

Many people have heard of VUCA (Volatile, Uncertain, Complex, Ambiguous), an initialism to describe the topsy-turvy, chaotic world we live in. When applying the concept to the current environment in which consultants and their firms operate, we can make the following observations (all tremendous challenges for the industry) and perhaps, understand some of the wayward and headline grabbing behaviour:

- The pace of change today invalidates many established practices, products and solutions – they are not fit-for-purpose and consequently, subject to eroding relevance. In this case, it is not enough to be a learning organisation; businesses must maximise feedback and with great organisational flexibility, constantly re-invent their service delivery. As such, businesses must constantly translate

learnings into reimagined ways to make sense for their customers. To put it bluntly, in this amplified change environment, the future belongs to the quickest learner, not the one who knows the most.

- There is simply no, single right answer when it comes to complex situations – we cannot reliably know what an outcome will be and the inter-play of inputs affects outcomes in unpredictable ways. In this sense, consultants need to leverage diverse new ways of thinking. Without these skills, we face today's challenges with an over-reliance on redundant solutions and a lack of creative alternatives. What is needed is a bespoke, non-fixed, actively generated and emergent suite of skills, mindsets and approaches.
- It must be obvious by now that past solutions no longer work in a changing, amorphous world. Worse still, 'efficient' business models that rely on past systems of control are not flexible enough to deal with changes or sufficient to create meaning and sense in a complex landscape. To paraphrase Darwin: those that flourish are neither the biggest, nor the strongest, nor the smartest, but those which are most flexible; those that adapt most easily to changes in their environment. Unfortunately, these large firms of the consulting world are just too big and protective of existing ways of working to experiment with emergent business models.
- In this accelerated world, where disruption has rendered business models incapable of making sense of the noise around us, our core evolutionary requirement must be flexibility. That said, never has the prevailing paradigm and attitudes been so antithetical to what we need right now. The antecedent attributes which enable flexibility, the '7 Cs' of empathy, simply do not resonate with leaders of most professional services firms. This speaks to a lost opportunity because adopting a true empathetic, client-centric approach would enable firms to learn fast, to truly understand problems, to uncover latent demand, to imagine a better future and to suggest pathways forward that make sense for their customers - all the qualifications required for making meaning.

If consultants and firms could only stop competing for market share and concentrate on creating value, an expanding market of latent demand would soon open up before them. Without this, and with little organic growth in traditional products and services, these professional services firms can only achieve growth by winning market share from each other – a truly moribund operating model. In fact, this has all the hallmarks of a nightmare scenario - firms continuing to flog the same products and services and fruitlessly trying to differentiate themselves around quality and expertise. What is missing from their BD strategies is demand-creation through precipitating an emergent market. It is a paradox that if these firms could only put the customer first, they would create demand and actually exceed their budgets. What's more, identifying latent demand, facilitating insight and making sense of a complex world is where all the fun, excitement and interesting work ultimately resides.

Henry Ford was thought to have said: "If I had listened to what my customers were saying they wanted, I would still be trying to make faster horses." It's the same for us consultants - we need to get curious and uncover the real problems that need fixing. This is the antidote to poor customer satisfaction and high churn rates that most firms are facing.

In these times, the greatest organisational asset any business has is listening. Listening allows for signals to be detected and discerned, to distinguish between short-term adjustments and shifts in customer and societal behaviour. But these firms are evidently not listening or learning and treat their customer relationships as a conduit to sell products rather than create value - we rush to provide solutions far too quickly (because we want to be able to invoice our clients) and we typically end up solving the wrong problem. Will this change? Clearly not in those organisations where knowing is more important than learning and where self-aggrandisement is rewarded.

Quite simply, a firm's effectiveness ought **not** be measured by what they accomplish but by what their customers are able to accomplish. Ultimately, the test is: Does the client relationship create meaning and drive client behaviour? If nothing changes then the consultant probably didn't create anything of meaning ... and clearly there's no value in that.

What should consultants and professional services firms do?

First and foremost, firms and consultants must behave with integrity - Regulators will act to try to address shortcomings and, while firms and consultants will have to comply, it is more critical that people take it upon themselves to do the right thing. The test for us has always been: If I told someone I respect what I have done, what would their reaction be? If the action I have taken was to become public, how would it be reported and could it be justified?

In May, 2022, we published ***Ethical Decision Making in an Unscrupulous World*** and wrote: *It would be a mistake to assume that it is only the unprincipled that fall victim to ethical violation – we are all living in a culture which has become morally unhinged, with many of us living with the illusion that free-will ought to be unencumbered by considerations outside of 'self', a perversion that one has the right to do whatever they want. In this state, many of us have become disconnected from what is right and what is wrong.*

Years earlier, our article, ***The Cheating Cycles*** spoke of research which showed that many convicted cheaters complained that their behaviour was simply to keep pace with others or level the playing field. Intuitively, I suggested, people are more likely to 'cheat', when they feel that others around them are cheating. In short, I claimed that when we lower the bar, when leaders are not held accountable for indiscretions, it normalises poor behaviour and has a corrosive effect on our ability to recognise what is right or wrong.

While I was not implying that society is to blame, I did suggest that we live in a world that is obsessed with getting ahead and terrified of losing, and that this makes morally questionable behaviour far more likely, that the more normalised unethical behaviour becomes, the more we compromise our universal moral compass.

The upshot is a personal obligation for all of us do the right thing and reflect on Plato's maxim: *Good people do not need laws to tell them to act responsibly, while bad people will find a way around the laws.*

Consultants must lean into and redress the hubris and self-aggrandisement which distorts the perception of their own competence and ability to deliver. In our experience, many failings come from a consultant's over-reach and belief they have the capability to deliver work to clients. While this could be excusable if driven

by a desire to grow and learn and serve a client, all too often it is born of a self-serving arrogance, a wilful craving to 'win the bigger job', earn greater revenue, short-cut the promotion path or simply feed one's ego.

Consultants must be driven by learning; they must be deeply curious; they must operate to learn. Being a trusted advisor is a methodology and a mindset, not a suite of products. To be an advisor, consultants need to fall in love with problems and hold solutions lightly; they need to be prepared to relinquish control and they need to be prepared to build bespoke services that are contextually appropriate, each and every time. They must move away from products and services if the only thing they have going for them is that they are scalable.

Consultants must accept that clients don't really care how smart a consultant is or how much expertise and specialist knowledge they have. Clients care about their lives and their businesses and they care about how the consultant makes them feel. For this reason, it is imperative to make clients feel enabled and empowered to create the future they desire – this is how to have real impact.

Firms must appreciate that empathy cannot be automated or scaled and that it is our human birthright to be able to connect to other human-beings. By extension, conversations to unlock latent demand should not be scaled – they are the origin of meaning that drives all action and this is the only metric that matters. There's simply no way around this: If the customer has not changed anything, then you probably didn't create meaning or have an impact. It is a cruel fact but it does not matter how efficient these firms become if they are not able to create experiences that are meaningful and valued in the eyes of the customer.

Firms must measure the right things – If the Banking Royal Commission taught us anything, it is that when we measure the wrong things, we get perverted outcomes. Firms must start measuring and rewarding the right behaviours like: Ability to grow and develop others; willingness to have tough conversations; capacity to admit mistakes; willingness to collaborate; emotional intelligence; interpersonal diplomacy; grit and resilience; customer-centricity and; integrity. The infuriating quagmire we find ourselves in is that we know these behaviours actually drive sustainable and growing profit, yet firms continue to take the intellectually lazy short-cut of measuring (and rewarding) outputs like short-term revenue.

My last words go to the great American poet Maya Angelou and it is a cautionary tale for all specialist consultants and their firms: *People will not remember what you say or what you do but they will always remember how you make them feel*. If we want to create meaning and drive action that makes the world better, if we want sustained relationships based on trust and real value, then we must fundamentally change the operating model under which we 'specialists' function. The way forward must be: Help people to feel valued, to discover and learn and to understand and make sense of the world and then we will continue to be relevant and of value to our customers and to our society.

It is our genuine hope that this paper contributes to our mission of building purpose-driven organisations - helping all organisations to be their best is what drives us.

Please get in touch if you wish to explore any aspect of this paper.

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