The consulting industry is entering times of significant change. Whereas the traditional management consultant may have grown up believing that consulting is primarily a people's business, clients today demand increased consulting impact and reduced consulting costs. The reaction of consultants is increasingly to condense knowledge and experience into off-the-shelf products (like apps) which we call assets. As a consequence of this more technology-driven way of consulting, fees on an hours-times-hourly rate base are partly replaced by fixed price offerings (for one-off consultancy engagements) or monthly fees (for subscription-like consulting). What view does Paul Spaans, Advisory Risk Management Partner of KPMG in the Netherlands, take regarding these developments?

Risk Management and Independence in Times of Asset-Based Consulting

Paul Spaans

Paul, what keeps you awake at night?

A reliable Risk Management Partner never sleeps. If consultancies indeed tend to wrap their knowledge into software and license it to their customer base, interesting new risk management issues appear.

First of all, on the client's side. How will the consulting firm make sure that this software is an appropriate response to a client issue? Will it, generally speaking, be better for the client to combine asset-based delivery with in-person consulting or will areas appear where clients will be satisfied with the software as such? How can the consulting industry increase the quality of their software assets to a level where one can reasonably expect clients to give correct interpretations of outcomes of the software? How to solve the legacy issue of garbage in, garbage out?

Secondly, how can the consulting firm manage its own risks? How to prevent unintentional use of intellectual property of third parties without their consent? And how to protect the IP of the consulting firm itself – nothing as easy as copying software to reuse it elsewhere. And what about the liability of the consulting firm if clients draw suboptimal conclusions using the software assets – who is to blame? Last but not least, what is the impact of new (fixed or subscription) fee structures on consultant's bottom lines – are they selling out their knowledge too cheap of making exuberant profits on subscriptions?

You're only referring to licensing assets to clients. What about the use of technology by consultants themselves?

Ah, I thought we were discussing 10 to 30 years of developments. The extensive internal use of IT by consultants will be a reality much sooner. The efficiency of the primary process of consultants – and the same goes for financial auditors – will massively be supported by technology. What comes to mind is easier access to the knowledge base of the firm *and* of third parties, to benchmarking data bases, and further development of cooperation

A reliable Risk Management Partner never sleeps

tools. I'm sure all this is not going to take another 10 years.

Is that all?

Clearly one of today's buzz words is Big Data. Consultancies having the proper knowledge of Big Data techniques can add major value to their clients, so we believe. Apart from all relevant issues with regard to relevant algorithms and, again, IP-related issues in that context, I expect more hassle about the Data themselves. A major question of the coming decades is how future generations – or let's restrict ourselves to the Millennials – will address the privacy issue. Will they persist in keeping personal data really personal, or will a situation arise where people accept that Big Brother knows everything anyway? And will this discussion convert or divert in the global space that we are acting in?

Well?

My best guess would be that there will not be a global uniform outcome of this debate. In some regions, such as (Western) Europe, sensitivity relating to privacy issues will remain significant (also due to our history), whereas in other parts of the world data sharing will be considered more acceptable. If these views do indeed coexist, it will make contracting for Big Data engagements no easier, to use an obvious understatement.

More data issues?

Apart from this personal data issue, it is not unthinkable that the ownership of non-personal data will likewise be addressed in the next few decades. Where properly anonymized data is currently considered to be for the owner's use, I'm not so sure that this subject won't be reviewed by critics because properly anonymized data still contains lots of information about individuals, although we can't tell anymore which individual it refers to. And do we, world citizens, implicitly provide that information to some company for free?

I tend to believe that in 10 years' time we will laugh at the artificial border we now draw between personal data and other data – people who choose to hold on to their privacy, will also want to retain ownership of their data after it is anonymized, just as a matter of principle.

The impact of people's attitude towards privacy may have a serious impact on the viability of Big Data as a tool to address a diversity of issues. Especially if data ownership remains a major issue in our future world, I suspect it will be a significant impediment to the use of what we now call Big Data. How to track ownership of all parts of the applicable data sets? How to prevent claims from data owners? And how to react to requests from owners to list the information we have about them?

By the way, client and consultant are sitting on the same side of the table when it comes to addressing these issues.

You are asking more questions than providing answers...

I don't deny that – I believe there are interesting times in the offing.

You also refer to Independence?

Well, I was hinting at the auditor's independence. That issue is only relevant in this context for consultancies which are part of auditors' networks, as in today's Big Four Audit and Consulting firms.

Given the fact that, depending on region and country, laws tend to encourage companies to change their financial auditor every x years, chances are increasing that a Big Four-consultancy is licensing a software asset to a client on a subscription base, while the client is considering to appoint the same Big Four as his new financial auditor. The issue then is whether this licensing contract is causing an independence issue for the future auditor. Currently, national laws differ significantly on this theme. We can only hope that laws will be changed to enable a uniform answer to the question.

But what if the license contract does indeed impact the auditor's independence? The client's internal organization may be quite dependent on the asset. Will solutions be found? Or are we re-opening the discussion whether financial auditors and consultants should stop living in the same house?

Take a stand!

I couldn't agree more. Well, for reasons that we might discuss some other time, I predict that in 10 years' time consulting, tax and financial audit firms will still be part of the same network – and there will be more large networks than just the four we have today. Consulting firms that are part of these networks will offer combined technology & human consulting solutions. I expect that IT-only services will not be offered by these networks but by different market players.

Paul F. Spaans is a member of the MT of KPMG Advisory N.V. and is responsible for its Risk Management.