The International Guide to
MANAGEMENT CONSULTANCY
Second Edition
THE INTERNATIONAL GUIDE
to
Management Consultancy
Second Edition

Consultant Editors
Barry Curnow & Jonathan Reuvid

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Dedication

In memory of Paul Noboru Yamada (1948–2000), friend and supporter of ICMCI, who brought Zen-Noh-Ren and the Japanese Management Consulting community to membership in ICMCI in 1999. Paul will be remembered fondly by consultants all over the globe for his professionalism, his humour and his friendship.

Paul was honoured in Japan by over 1000 people who attended his memorial service, and in the United States where a portion of his ashes together with an ICMCI seal and CMC pin were placed in a crypt in San Francisco, California.

Dedication for the 2nd edition

In memory of Hedley Thomas OBE (1927–2003), soldier, sportsman, businessman and management consultant, past President of IMC UK, former Managing Director of Urwick Orr and Partners, and the second chairman of ICMCI (1989–1991), who did so much to infect others with his enthusiasm for international consulting standards. He was present at the launch of the first edition of this Guide in Sydney in 2001 and died as the second edition was being prepared. His memorial service on Wednesday 15 January 2003 was a sad and memorable one in the annals of management consulting history. Through the damp, grey, Berkshire countryside, 300 mourners made their way along the River Thames to the ancient Parish Church of St Michael, where the Vicar of Bray conducted a service for him.

This famous and substantial parish church was full, with every pew taken. The mourners had to queue (wait in line) to enter the church and to file out. It took almost 30 minutes to leave the church. It was a family and community occasion but the long procession of the great and the good of European management consultancy from the past half century among the mourners marked the passing of a pioneer and the profession’s debt and respect to him.
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About the editors

Barry Curnow is vice chairman of the ICMCI, past president of the British IMC and principal of Maresfield Curnow. He is a consultants’ consultant and Group Analyst based in London and specializes in strategic advisory work for professional service firms. He is first vice chairman of the International Council of Management Consulting Institutes (2001–03), principal of the Maresfield Curnow School of Management Consulting, a past president of the Chartered Institute of Personnel and Development in the UK and a former chairman of Hay-MSL. He was previously a worldwide partner and main board director of the Hay Group in Washington, DC, Chairman of Hay Pacific in Hong Kong and managing director of Hay UK. A graduate of the Universities of Exeter and London, he is the joint author of three books and numerous articles and is visiting Professor of Management Consulting at Cass Business School, City University, London.

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Li Yong is now the deputy secretary general of China Association of International Trade (CAIT). He worked in Hong Kong from 1988 to 1993 with particular responsibility for marketing services. Before he joined CAIT he had been the head of the Center for Market and Trade Development for seven years. He has extensive experience in market research in China and most of the research and services he has provided have been for foreign companies. E-mail: lycmtld@public3.bta.net.cn
Foreword

The growing acceptance of the CMC qualification as the profession’s global standard will provide reassurance to clients and the public in this post-Enron era, as management consultants are increasingly subjected to ever-greater scrutiny and increasing accountability.

National borders no longer contain the development and growth of management consultancy. Globalization has not hindered, but rather it is promoting the contribution of the CMC competency standard to developing common international frameworks and approaches for the delivery of management consultancy.

In many ways accountability for the performance of management consultants must be seen as a principle concern of national management consultancy institutes and professional associations which are tasked to assume and encourage the highest level of responsibility in relation to the delivery of services to the client. The spotlight is well and truly on the business community and the response from a well educated client to poor performance or substandard services, will continue to be challenging, making increasing demands, and with much higher expectations of management consultants.

What, then, is the role of the CMC in creating and sustaining the industry’s professional standards in response to the growing global acceptance of management consultants in providing a unique and valuable service to the business community?

This publication addresses some of the challenges facing the profession and provides insight and practical guidance on the ways in which the CMC is a means of implementing professional standards and ensuring quality and productivity in the delivery of services. Productivity, that is the achievement of goals through adding value (transferring inputs to outputs at the lowest cost), implies a concern for efficiency and effectiveness within a global standards framework.

All management consultants must embrace the principles that underpin the sector in the delivery of their services to clients, as outlined in the text in which Ethics and Best Practice run throughout as a central strand. A global standards framework needs to be adopted by all practising consultants to sustain an appropriate level of accountability and answerability to the community. An examination of some of the key consultancy fields identified in the text, such as Strategy, Marketing, Organizational...
Change, Leadership, and Knowledge Management, highlight the importance of adopting a ‘standards approach within a global framework’.

It is generally agreed that if an organization is to survive, it must respond to changes in its environment. In the same way, management consultants must respond and adapt when conditions change.

Trends in the business world are forcing organizations to accept a totally new reality in the operational mode they must adopt. Some of these include the impact of technology and its situation in the global market, but of more significance to the world of consulting is the emergence of service quality and its delivery as critical competitive weapons in the global marketplace. Clients are now far more demanding and certainly far more discriminating in the expectation of service.

From a client services point of view, national and economic boundaries will, become less important in the long term which will make the call for action irresistible and impel clients and consultants alike towards adopting the CMC as the global industry standard.

The future of management consultants is intrinsically linked to, and interdependent on, the performance of all consulting firms and individuals. This also implies improved an interface between consulting firms and consultants in the development and delivery of the standards and continuing professional development.

The Second Edition of the International Guide to Management Consultancy provides not only clients and the public with the rationale for setting global standards, but also contains valuable reading for the management consultant who is willing to support the adoption of the CMC as the framework for the industry’s professional standards.

Richard Elliott CMC FIMC
Chairman, The International Council of Management Consulting Institutes;
Fellow, Australian Institute of Management Consultancy; and Certified Management Consultant
July 2003
Foreword

It is a great honour to present the 2nd edition of the International Guide to Management Consultancy.

After over a decade of double-digit growth, the Management Consultancy market finds itself in an economic impasse since 2001.

Generally all European countries report a flat market, with the exception of the accession countries in Central and Eastern Europe, where privatizations and other preparatory work for the accession to the EU still provides for a reliable demand.

With respect to the accession, I think that the European Management Consultancy sector can be very proud of the result of the Copenhagen European Council, where it was decided that 10 countries would be allowed into the European Union in 2004. For it is for a large part due to the involvement of the management consultants in the preparatory work for the accession that these 10 countries are able to enter.

In these countries, a lot of work remains to be done for companies which are still in the process of being privatized and which will have to learn to operate and become competitive under normal market economy rules, without the help of subventions.

Although it is difficult to make predictions in the currently unstable global economic and political environment, the effect of the economic recession is likely to be felt until at least 2004 in Western European countries. It already has caused a considerable shift in demand: with companies looking to rationalize and cut costs, operations management has increased considerably. As the companies are reluctant to spend money on innovative projects, strategy consulting is in decline as well as the demand for IT services.

Companies can, however, not continue to be competitive without investment and will therefore be obliged to start investing once the situation improves. In my view, after such a long standstill, any economic improvement is likely to have an immediate positive effect on the demand of management consultancy services.

Until then, and in the light of the current situation, there appears to be a general need to rethink the industry, and each company has developed its individual strategy. Within this environment of each company strategically replacing itself, one general trend can be observed: the attention that is given to the consultant–client relationship and to client satisfaction.
It is not surprising that within this context terms like Codes of Conduct, Ethics and Best Practice often get mentioned, as service and quality, especially in economically difficult times, add distinction and a competitive edge. These terms, however, do not only apply to the consultant–client relationship, but to a much wider environment such as relations with colleagues, competitors, suppliers and partners. They also cover a wide spectrum of issues such as professional competence, seriousness, recruitment, effectiveness, objectivity, neutrality, responsibility, fair competition, confidentiality and conflict of interest. They form a voluntary business framework, which those who commit themselves abide by and respect. Clients are now increasingly demanding such codes. UK national authorities, for example, officially recognize certain codes of best practice, as being of ‘world class standard’ and require of tenderers to abide by such a recognized code for their procurement.

In my view it is important that we are at the forefront of these developments. Our market is polarizing, with very large consultancies on one side and very small, specialized companies on the other. Companies are increasingly on the lookout for reliable partners. Clients, rightfully, demand a personal, innovative approach, with proven results. At the same time, as a result of all the turbulent changes, our industry is increasingly in the public eye. Everywhere in this world, Management Consultancy is considered highly, an image we all helped build. It is in our common interest and our common concern to uphold this image. We should make it our primary task to protect our profession by safeguarding fair competition, quality and Best Practice.

This guide will assist consultants in establishing their own Best Practices in a wide array of areas of consultancy, as it does not limit itself to technical and economical aspects of successful consultancy; professional principles and the consultant–client relationship also get ample coverage.

I am convinced readers will find this Guide interesting and helpful.

Remi Redley
Chairman, FEACO
July 2003
Foreword to the 1st edition

It is a great pleasure to learn that Kogan Page, the UK’s leading independent publisher of business and management books, is publishing the new *International Guide to Management Consultancy* under the joint editorship of Barry Curnow and Jonathan Reuvid. I believe this is a very timely and proactive project that will greatly assist management consultants successfully to carry out consulting services in these times of accelerating globalization.

The main theme at the World Management Consultants Convention, held in Berlin last year under the sponsorship of FEACO and the joint auspices of AMCF, ICMCI and Zen-Noh-Ren, was ‘Management Consultancy in a Single World’. Mr Kienbaum, the chairman of the convention organizing committee and chairman of the BDU, made these impressive remarks in his opening speech:

*Rapid progress in IT is revolutionizing society, and the structure of the economy. It is enabling us to make business transactions wherever we may be, and the structure of the market is continuing to change with increasing speed. In this age, management consultants throughout the world are recognizing that human contact is becoming more and more important in sharing information, especially now that the exchange of information is accelerating on a global scale. Those who use information, ie we management consultants, are facing a new challenge and need to ask ourselves how we should respond to it.*

At the same time as the Berlin Convention, Zen-Noh-Ren, commissioned by the Japanese government, conducted research into corporations and consulting firms – both in Japan and overseas – in order to formulate a vision of the management consulting industry in the 21st century. This research was undertaken as part of an effort to create a base of competitive power in Japan to help it to cope with change in the business environment here and abroad.

The survey results showed that borderless market competition is the key factor affecting Japanese companies in these times of globalization, and that the competitive advantage of Japanese industry in terms of quality and cost has diminished. This has given rise to a new need for the services of management consultants.

As Mr Kienbaum points out, the shift towards globalization has confronted management consulting industry in Japan with a significant
challenge. Therefore, I am sure that *The International Guide to Management Consultancy* will be an essential read for management consultants and for those who aspire to be management consultants, and that it will be an indispensable handbook for everyone who aims to contribute to the peace and prosperity of the world through their profession.

Finally, I would like to express my hearty congratulations on this publication as well as my sincere respect to both esteemed gentlemen for their commitment to the edition.

*Akira Hattori*

*Chairman, Zen-Noh-Ren*

*May 2001*
We have prepared this book for a specific international readership of buyers and users of management consultancy in both the private and public sectors. We hope that The International Guide to Management Consultancy will provide readers with fresh insight into the practice of management consultancy and its key activities, as well as a deeper understanding of the professional standards which local institutes are establishing worldwide and, most importantly, of best practice in client–consultant relationships.

The world has moved on since the first edition of this book was published two years ago. The ICMCI Congress in Sydney at which it was launched convened on that fateful date of 11 September 2001 when delegates struggling to arrive in the wake of the collapse of the Ansett airline, were met on the airport television screens with devastating images of the explosion of the twin towers of the World Trade Center, followed shortly afterwards by the alleged ‘kidnapping’ of the New Zealand prime minister at Melbourne airport by jobless Ansett ground handlers and her ‘rescue’ by the NZAF. It was as though the world had gone mad. However, ‘moving on’ implies a positive development and a shift to a saner place, but looking back to 2001 it would be easy to confuse recent activity in global business with progress. It is too early to say as we go to press whether the world is learning any lasting lessons from the war on terror. Certainly the management consulting industry has gone through a revolution – has changed immeasurably and irreversibly, its radical transformation masked by the relatively modest reports and forecasts of only a 12-month blip in the growth of the industry, from 2001–02, and, if the figures are to be believed as comparable, given the extent of restructuring, even that fall in
revenues leaving net growth from the previous year with a positive number. However, the transformation of the consulting industry during this period warrants that over-used word revolution because the shifts in ownership, jobs, careers, lives, prospects and client relationships have been such that things will never, ever be the same again.

IBM has become the largest consulting firm in the world following its acquisition of PWC Consulting, almost half as big again at $15bn revenues as Accenture, itself a giant at $9bn.

International geopolitical developments over the period, together with the scandals and challenges facing business and the professions in many developed countries, have increased the importance of the fundamental issues with which this Guide deals. Most authors of the first edition have revised or updated their original contributions, reinforcing the two distinct but linked themes of the book: the accelerating development of professionalism in consulting, to which the International Council of Management Consulting Institutes (ICMCI) and all its member countries are dedicated; and the nature of an effective, interactive relationship between client and consultant as an essential ingredient of all successful consultancy engagements. As many of our contributors point out, the latter task has been made harder by what we have all learnt to characterize as the ‘Enron effect’. The collapse of one leading global accountancy practice and the fallout for major consultancy firms, some associated with their clients’ auditors, whose advice was seen as suspect, has tarnished the face of management consultancy and damaged client–consultant relationships internationally. The most effective ways to repair the relationship are through enhanced professionalism and by the qualification of consultants and consultancy practices through common standards of competence and ethics. Not surprisingly, a number of the authors have underscored their ethical discussions and drawn ever more attention to the trust and the probity – and the professional and ethical codes of conduct – that underpin successful and enduring client–consultant relationships. These twin pillars of qualifying professionals and building strong relationships on ethical and professional foundations have always been the priorities of professional bodies, in consulting as in other professions. And for many years now, certainly since the ICMCI was established in Paris in 1987, the national member countries of the ICMCI have been regarded as the setters and the source of standards, where standards have been held to be important. But until
things go wrong, until there is a major scandal or the public suffers badly, standard setting has been regarded as grey and boring – necessary but somebody else’s business and a minority activity.

What has changed in the past two years is that for the rest of our lifetimes, to be sure, the professional qualifications and ethical conduct of business advisers generally and management consultants in particular will be everybody’s concern, a majority preoccupation and increasingly an absolute prerequisite of a ‘licence to operate’, an entry requirement for the ability to do business at all.

Although primarily addressing users and potential clients, we believe that the contents of this Guide will also be of more than passing interest to professional consultants themselves, to students of consultancy in the burgeoning postgraduate programmes around the world and to the ever-broadening practitioners of consulting skills and competencies. This audience forms a strong and growing community of allied professionals, ranging from lawyers through executive coaches to corporate change managers, who deploy consulting skills as essential survival skills in advisory work and helping client change efforts in the post-employment labour markets of the international e-economy.

Part One sets out to identify the parameters and definitions of management consultancy. It then presents overviews of the industry’s origins and evolution, the present status of the leading multinational management consultancies and some of the global forces shaping the development of management consultancy. A range of alternative scenarios for the consulting market in 2010 is presented in the final chapter of this section, drawn from a recent study commissioned by the City of London Company of Management Consultants.

Part Two is devoted to ethics and best practice in management consultancy from a number of perspectives. Central to these discussions, and referred to in several chapters, is the international development of the Certified Management Consultant (CMC) qualification, pioneered by ICMCI members and now with academic accreditation in a number of countries and adopted by all ICMCI institutes worldwide. The final chapter, Pricing for Profit, reconciling commercialism with best practice, is an addition to this section.

Part Three, which forms the core of the book, scrutinizes the life of the client–consultant relationship from setting the guidelines for an assignment, selecting and appointing a consultancy, through to closing off on completion and any subsequent engagement. In describing this ‘soup
to nuts’ process (including post-prandial digestion) the authors focus on what clients can do to make the consultant’s role effective and their working relationship productive. The emphasis on client involvement throughout the engagement reflects a shift away from the era of top-down management (when companies commissioned consultancy, then sat back and waited for the delivery of a final report) to today’s more participatory styles of management.

Part Four comprises snapshots by leading practitioners of 13 key consultancy fields, ranging from strategy and marketing through change management, process re-engineering, management development, communications and customer relations to the newer disciplines of information and knowledge management, m-commerce, ERP and e-business. Included this time is a new chapter on Systems Integration. Each chapter is intended to give a sufficient understanding of the topic for the client to formulate a consultancy requirement and to manage the consultant appointed.

Part Five begins with three general chapters on consulting internationally: in developing economies and Third World countries, on management consultancy in the oil and gas industry, which complements Chapter 1.5 on sustainability, and on strategic collaboration. They are followed by profiles of 26 country-by-country management consultancy markets and regional overviews of Central and Eastern Europe, Scandinavia and the emerging South-East Asian consultancy markets. In the case of the USA overview we refer to the findings of the separate ethics surveys undertaken by ‘Consultants News’ and the ‘College of Certified Management Consultants’. In addition, we are indebted to József Poór, Professor Flemming Poulsen and Walter Vieira for their respective overviews of Central and Eastern Europe, Scandinavia and the emerging South-East Asian consultancy markets.

A number of books about management consultancy are referred to in the authors’ text. These have been written mostly for the general instruction of practising and aspiring consultants, as textbooks for students engaged in academic programmes or as handbooks to specific consultancy techniques and activities. For further reading by users of consultancy we commend Philip Sadler’s Management Consultancy: A handbook for best practice (Kogan Page, 1998, 2001), now in its second edition, which is addressed both to consultants and students of consultancy and is endorsed by the UK’s two industry bodies, the Institute of Management Consultancy (IMC) and the Management Consultancies’
Association (MCA) – both strong supporters of the task of the joint consulting editors.

As before, for the editors of *The International Guide to Management Consultancy*, working on this book has been both educational and enjoyable. To single out any of the 35 authors of complete chapters for particular thanks would be invidious. They are all busy practitioners or academics in the broad field of management consultancy and, in several cases, are used to performing the client rather than the consultant role. Individually, their contributions carry the weight of experience which ensures a rich blend of theory and practice. Collectively, their work represents a unique body of knowledge. We offer our grateful thanks to each of them for the insight which they have shared in their specific interests and specializations within the consulting field.

In conclusion, the editors express their appreciation to SchlumbergerSema for their generous sponsorship which has supported the publication of this second edition of our book. We are also grateful to Richard Elliott, President of ICMCI, Remi Redley, Chairman of FEACO and Akira Hattori, Chairman of Zen-Noh-Ren, the All Japan Federation of Management Organizations, for their supportive Forewords.

Endorsement by these bodies is testimony to the excellent co-operation between the management consultancy industry’s leading international organizations, confirming the truly international nature of this book.
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The Evolution and Practice of Management Consultancy Globally
This Handbook aims to help clients make the most of their management consulting advice and services through understanding consultants and consultancy better. There are five different perspectives or lenses through which clients can usefully examine their consulting people, relationships and prospects, five windows on the world of the global consulting community. Each window gives a deep insight into one of the major driving forces that make consultancy tick. It is therefore instructive to consider each viewpoint before major consulting appointments are made or decisions taken. The five perspectives are as follows:

- Consulting as a significant, competitive growing global industry with its economic scale and impact, markets, segments, brands and players – both firms and individuals who are salaried employees and self-employed
- Consulting as an international professional community with its standards, ethics, education, training, qualifications, codes of conduct and professional institutes and trade associations
- Consulting as the products and services that consultants provide, their activities and what they actually do in partnership with their clients
- Consulting as the perceptions of the role that consultants play, their image and reputation in the different cultures and communities on the world stage
Consulting as the universal skill of the professional adviser, the personal coach or the counsellor who gives guidance to people and companies. The art and craft of tendering consulting advice which recognizes consulting as a *life-skill and necessary competency* in the post-employment labor-markets of the digital economy.

Aspects of consulting as a professional community are debated in *Part Two, Ethics and Best Practice*. Consultancy products and services are featured in *Part Four*, while *Part Three* examines the roles that clients play in terms of client–consultancy relationships.

Consulting is both very old and very new. States and citizens have sought wise counsel throughout history, often depending literally for their survival on its skill and integrity. Yet the digital economy is revolutionizing consulting delivery and underpinning explosive growth in the consulting networks of international business. E-consultancies have been amongst the most rapid growth stories and the most spectacular failures of the dotcom episode in the electronic revolution.

**The global consulting industry**

The global consulting industry is estimated to be worth between US$100 billion and £100 billion in total fee annual revenues, depending on the definitions used. Until recently it has been a predominantly North Atlantic phenomenon with the UK and US combined accounting for more than half the world market and together with Western Europe a full two-thirds of the total worldwide industry as shown in Figure 1.1.1 overleaf.

However, these are mature markets. The fastest growing consulting economies are those described as ‘the rest of the world’, including Central and Eastern Europe, Asia Pacific, Latin America and Africa.

This is big business in any economic analysis and the giant brand name consultancies account for up to half of this revenue while representing approximately one-third of the employment. Yet the majority of consultancy firms are small, with nearly two-thirds of consultants working in consultancies with fewer than 10 employees. Consequently there are the few big brand name firms employing up to 10,000 employees each worldwide and then hundreds of thousands of consultants working from small units, often as sole practitioners.
There are between 250,000 and 500,000 management consultants in the world at the present time, depending on the definition used. The lower figure would approximate to the qualifiable group of potential certified management consultants eligible to put themselves forward for the competence-based CMC professional qualification, awarded in the 35 member countries of the ICMCI to a single global standard.

The higher figure would embrace a much wider catchment of professional advisers and sub-contractors and would include: technical specialists in IT who are using consulting skills as described above; consultants in professional areas such as public relations and communications and in non-managerial recruitment and training, where the management component of the advice is modest or the service provided is more of an outsourced facility (ICMCI 2001 estimates).

The growth of consultancy as an industry

At the 2001 IMC Consultancy Forum in London, Calvert Markham of Consultancy Skills Training Limited said:
It seems hard to remember a time when the large firms of accountants were not also major providers of consultancy. But 25 years ago, we debated whether the accounting firms would ever be serious players. And 10 years ago, the same question might have been asked of major IT companies.

The current status of the multinational management consultancies and their recent development is discussed in Chapter 1.3.

Markham went on to explain the growth of consultancy as follows:

Providing consultancy services is the result of a natural process of evolution [as shown in Figure 1.1.2]. Product enhancement requires increasing involvement with the customer; the reward is that the customer sees the provider as being of increasing value. So an IT supplier might start by providing a computer (level 1) but then help the customer to maintain and use it (level 2). They go on to help the customer use the computer to automate their existing systems (level 3). Finally — and of most value — they suggest some applications for the computer the customer hasn’t thought of, which will give competitive advantage (level 4).

Figure 1.1.2 Product evolution
Source: Calvert Markham CST

Markham recognizes that there are plenty of businesses that will not follow this evolutionary progression, but suggests that there are two drivers that have prompted many consultancies to adopt this growth path:
If a business is set up on the basis of having a differentiated and high-value product, it is difficult for them to make the transition to become a low-cost organization where they can compete on price alone. So they look to the evolution as a means of continued differentiation.

Many businesses see consultancy as a way of going higher up the client hierarchy towards the boardroom where higher value projects are authorized.

So the typical transition they want to make is that shown in Figure 1.1.3:

![Figure 1.1.3 Consultancy activities are a means of differentiation and increasing customer intimacy](Calvert Markham CST)

**The enlarging definition of ‘consultancy’**

Do these emergent consultancies represent the competition for the future? Markham says that the term ‘consultancy’ covers a far wider range of activities than it ever did in the past. The situation is now further complicated by the work that many firms take on – particularly larger projects. His impression of it is shown in Figure 1.1.4.

*Process outsourcing* clearly involves people undertaking different work from mainstream consultancy; *new projects* many involve consultancies taking on far more implementation work than they might have done 20 years ago. However, the job of the consultant in many circumstances has fewer degrees of freedom than it had previously – hence Markham uses the term ‘sub-contractor’.
He positions the various products in consultancy on a spectrum as shown in Figure 1.1.5.

<table>
<thead>
<tr>
<th>New</th>
<th>Subcontracting</th>
<th>Process outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>People's roles</td>
<td>Consultancy projects</td>
<td>Implementation</td>
</tr>
<tr>
<td>Traditional</td>
<td>Traditional</td>
<td>New</td>
</tr>
</tbody>
</table>

**Figure 1.1.4 An increasing product range**  
*Source: Calvert Markham CST*

<table>
<thead>
<tr>
<th>Problem</th>
<th>High value: customer intimate strategy</th>
<th>Value pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>We work with you to define the problem in the first place</td>
<td>Medium value: technical excellence strategy</td>
<td>Fees</td>
</tr>
<tr>
<td>Knowledge</td>
<td>Low value: operational excellence strategy</td>
<td>Low costs</td>
</tr>
<tr>
<td>We can provide the answers to your problems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We are better placed than you to provide the solutions needed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 1.1.5 Product domains**  
*Source: Calvert Markham CST*

Three domains are shown, with the highest value at the top. In the problem domain the client has a high trust of the consultancy; in the knowledge domain, the consultants have knowledge and abilities that the client doesn’t have, while in the commodity domain, the client has elected to sub-contract the work to an outsider. The dominant strategy for each
domain shows the area in which the business has to perform superlatively to compete effectively. The preferred pricing policy in each domain is a function of the perceived value.

This analysis illuminates consultancy competition. While many traditional consultancies have been extending their product range down the value ladder, emergent consultancies have been extending their product range in the opposite direction as shown in Figure 1.1.6.

![Figure 1.1.6 Modes of expansion](source: Calvert Markham CST)

This illustrates both the drive to standardization that comes with growth as consultancies mature, and the development of emergent consultancies wishing to diversify from providing standard products and services into higher added value, more tailored general management consultancy.

Emergent consultancies are to be found among the professional and business service providers who use consultancy skills to provide additional help and value in implementing solutions (see below).

**Consulting in developing and transition economies**

The playing field (or perhaps the goal posts) for consultants may differ in the developing countries referred to in Chapter 5.1, or in those countries in transition where command economies are transforming to open markets. Both types of market pose special challenges for consultants.

In the latter, management mindsets appear to lag behind the changing conditions and more sophisticated business environment. Sometimes this is because the transformation is by decree from the same regime as before
or from a para-democratic authoritarian government under which entrepreneurial values are espoused by edict.

More significantly, managers in transition economies find it especially difficult to change their approaches to HR and to take on board ‘non-command’ activities, such as marketing, product design and customer service where the customer has metamorphosed from vassal to king. There is a temptation to bolt new tools and techniques on to their established organization structures and management systems, turn on the switch and expect miracle improvements to flow through.

As a consequence of the IT revolution, the awareness of advanced technology and the focus of universities and technical colleges in absorbing the latest First World techniques and equipment, companies in transition economies – particularly state-owned enterprises – insist on taking quantum leaps rather than making incremental improvements. The transformation gap is wider than in developed economies and the consultant needs to recognize the scale of the task.

Finally, education is not enough. While universities and technical institutes turn out streams of graduates – highly qualified academically and technically – they have no practical field or shop-floor experience. Consultants must learn to address the problem of highly educated management teams which are dyslexic in the language and experience of practical business management. This is the opportunity for international professional management consultants in the ‘rest of the world’ sector of this global industry – the segment where the greatest future growth and opportunity to make a difference is to be found.

Management consultancy as an international profession

The Institutes of Management Consultancy around the world that are member organizations of the International Council of Management Consulting Institutes (ICMCI) recognize the following fields of management activity:

- corporate policy and corporate development
- financial management
- administration
- marketing and selling
Simply put, management consultants give guidance to those holding management accountability in the above fields of activity within business and not-for-profit organizations. A consultant is somebody, usually from outside the organization, often with special knowledge, who helps the client to achieve something that moves the business forward which could not be achieved if the consultant were not present.

The fields recognized by the ICMCI as management consultancy are:

- business administration and company organization
- capital projects, economic planning and finance
- operational research, industrial engineering and production
- marketing distribution and transport
- personnel management training and environmental planning
- systems and data processing.

The ICMCI's formal definition of management consultancy is:

*The service provided to business, public and other undertakings by an independent and qualified person or persons in identifying and investigating problems concerned with policy, organization, procedures and methods, recommending appropriate action and helping to implement those recommendations.*

It follows therefore that a management consultant is an independent and qualified person who provides a professional service to business, the public and other undertakings by:

- identifying and investigating problems concerned with strategy, policy, markets, organization, procedures and methods
formulating recommendations for appropriate action by factual investigation and analysis, with due regard for broader management and business implications

discussing and agreeing with the client the most appropriate course of action

providing assistance where required by the client to implement these recommendations.

The international management consultancy profession is organized by its professional institutes, which work closely with its trade associations in each country and region. In many countries the professional institute and the trade association are part of the same organization with Chinese walls to ring fence the independence of the standard-setting, qualification-awarding professional institute activity from the business winning, commercial representation role of the associations.

ICMCI, as the umbrella organization for professional standards works closely with its sister bodies such as FEACO, AMCF, Zen-Noh-Ren.

What consultants actually do

This view of consulting studies what consultants actually do and the goods and services they provide. It seeks to understand consulting activity by appreciating the client–consultant relationship and the joint work that they do together.

There are also clearly discernible roles that the consultant undertakes. Research by Williams and Woodward (1994) identified the ‘1 + 7’ model whereby the consultant is primarily recognized as being an ‘expert’ in a particular field. This role as ‘expert’ is central to the consultant but of equal importance to and dependent upon the other seven roles identified by the authors; this is what they actually do, the roles they perform for clients with the expertise that they have:

- Executive: the managerial role a consultant must assume when carrying out a project for a client
- Researcher: demands a high level of skill in communication, presentation, interviewing, recording and interpreting quantitative and qualitative data
- Tutor: in the role of counsellor a consultant helps a client to explore and understand a problem by skilfully questioning, answering, listening and understanding
Educator: the educator/trainer enables individuals to acquire new knowledge or skills through clear learning objectives to use in solving an immediate work problem.

Powerbroker: sometimes in order to achieve objectives a consultant must facilitate change by mobilizing and harnessing sources of power in the client structure.

Conciliator: getting people to work together effectively who have not done so previously.

Synergist: enabling individuals to work together and use their talents in new ways.

The consulting idea, image and reputation

The idea of the consultant is a powerful and evocative one in the media. Perceptions of what people think consultants do and represent in different cultures and communities create a strong image of the sort of work and thinking that consultants are associated with in the press and on television and the Internet. This is often an evocative image but sometimes misleading. Several years ago a UK television programme referred to management consultants as ‘Masters of the Universe’ and this, together with books entitled Dangerous Company and The Witch Doctors, fuelled a popular view of consultants as influential, powerful and somewhat shadowy figures exerting far-reaching influence over companies. The leaders of some of the more fashionable consultancies have even been quoted by social scientists and opinion pollsters as among the most influential people in different societies and within the international business community.

Yet the advisory role makes the management consultant an easy target for scapegoating. Professor Colin Coulson-Thomas (1992) found in his research that consultants are the necessary evil that company leaders love to hate. He reported a dilemma that en masse the collectivity of consultants and business schools were regarded as parasites, whereas the individual consultants whom chief executives used as advisers were seen as facilitators and trusted helpers: the image and idea of the consultant attract opprobrium, while the individual people are recognized for their consulting skill and competency.
Consulting skills

And it is consulting skill and competency that drive the global consulting networks of the international community. Consultancy is still (after the dotcom bubble burst) a first choice employment for the brightest business graduates from the leading business schools of the world. The brand name consultancies still compete fiercely for the intellectual horsepower that is the raw material of the consultancy process. However, there is an important sense in which we are all consultants now, that consulting competency is no longer the magical secret of the chosen few in the top firms but an efficient management housekeeping skill necessary for the support of making everyday business operate effectively.

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The evolution of management consultancy: its origins and global development

Matthias Kipping

Introduction

Today, management consulting is a multi-billion-dollar business. Some of the largest service providers have more employees and higher revenues than most of their clients. Others, although of a smaller size, enjoy considerable influence on decision makers, not only in the economy, but also in politics and society. The objective of this chapter is to trace the evolution of this industry from its modest origins at the end of the 19th century until today. The chapter will try to show that there were several major waves of development in terms of the focus of consultancy work and in terms of the major service providers and their features. It will also examine the international expansion of the major consultancies – most of them of American origin – during each of these waves and their influence on the development of the industry outside of the USA. While describing evolution and change, the chapter will also attempt to identify a number of characteristics of the consultancy business that remained the same during most of the 20th century.

From a long-term perspective, the evolution of the consulting industry and of its pre-eminent firms is closely linked to the development of management practice and ideology. Consultancy can therefore be understood as a reflection of prevailing managerial problems and
Thus, when there was a major shift in the role of managers and in the focus of their attention, the kind of consultancy they used also changed. This means that consultancies are ultimately dependent on the evolution of management. However, as not all companies changed at the same moment, the related changes in the consulting industry were neither clear cut nor radical. Consultancies with a different focus often coexisted for a considerable time. Examining the lifespans and growth rates of the pre-eminent service providers nevertheless makes it possible to distinguish three different, albeit overlapping, waves in the evolution of management consulting since the beginning of the 20th century.

Scientific management and the emergence of a consulting industry

The large-scale managerial enterprise originated with the second industrial revolution in the last half of the 19th century. This meant that in many industries the ‘visible hand’ of management took over part of the economic coordination function from the invisible hand of the market. Almost from the outset top managers in these enterprises asked for outside advice. A number of different actors, including bankers, advertising agents, auditors and engineers provided such services – initially on an ad hoc basis. Consulting to managers became a clearly recognizable business activity carried out for financial gain, with the development of scientific management.

At the end of the 19th century, the engineer Frederick W Taylor (1856–1915) developed a new approach towards the management of workers on the shop floor – later extended by others to office work – based on the systematic observation, optimum organization and stimulation of individual activities. He presented his ideas in meetings with colleagues in the engineering profession and in a number of publications, including his well-known book *The Principles of Scientific Management*, first published in 1911. He also installed his system for a fee in a number of companies.

Some of those who developed similar but competing approaches became much more involved in consulting activities. Harrington Emerson developed his own method of payment-by-results and established a consultancy in 1899. This consultancy expanded and within 20 years had offices in New York, Pittsburgh, Chicago, Philadelphia and Tacoma.
These early management consultants were known as industrial engineers or efficiency experts. Probably the most successful among them was the consultancy established in the American Midwest by the French immigrant Charles E Bedaux (1886–1944) in 1916. According to a survey carried out by the National Industrial Conference Board in 1930, the Bedaux System had become the most widely used method of payment-by-results in the USA. At that time, Bedaux had offices in New York, Boston, Chicago, Cleveland and Portland. Among his American clients were a large number of well-known firms such as Eastman Kodak, BF Goodrich, DuPont and General Electric. The consultancy also expanded to Europe and other parts of the world from 1926 onwards, when it opened its first foreign office in London. Expansion was particularly rapid during the 1930s and the 1940s, in part prompted by the need for rapid efficiency improvements during the Second World War.

In the UK, Bedaux became the progenitor of the emerging consulting industry, when some engineers left the consultancy to set up their own firms. These included Production Engineering and Urwick Orr & Partners, both set up in 1934, and Personnel Administration, established in 1943. Together with the original Bedaux consultancy, renamed Associated Industrial Consultants (AIC) in 1938, they became known as the ‘Big Four’. In 1956, when they founded the Management Consultants Association (MCA), they employed over 800 consultants and accounted for more than three-quarters of a total market estimated at £4 million. In its annual report for 1961, the MCA estimated that the revenue of its member firms had increased by more than 10 per cent per annum over the previous decade. It should be noted that these consultancies were not successful in all countries. In Germany and Japan, for example, scientific management methods were disseminated mainly by associations and through the exchange of experiences among firms.

From the 1950s onwards most of the first-generation consultancies diversified their activities, but without losing the central focus on efficiency enhancement. The post-war period also saw the emergence of more sophisticated approaches to measure and reward worker performance. The so-called ‘methods time measurement’ (MTM) system became particularly prominent and widely used. It allowed managers to establish optimum motions and ‘normal’ times under laboratory conditions rather than on the shop floor. One of its inventors, Harold B Maynard, also disseminated it through a consultancy, which expanded rapidly in the USA and abroad. By the end of the 1960s, it had offices in eight European
countries, employing approximately 330 consultants, making it the largest American service provider in Western Europe at the time.

From the late 1950s onwards, however, these consultancies were increasingly displaced by a new generation of service providers, which focused on issues of corporate organization and strategy.¹

Organization and strategy

The second wave of management consultancies first emerged in the USA during the 1930s and came to worldwide prominence from the late 1950s onwards. Its rise benefited from the changes in the size and structure of companies as well as more competitive environments. In the 1920s and 1930s, following rapid growth, increasing diversification and higher market pressures, a number of US companies such as General Motors and DuPont developed more decentralized organization structures with relatively independent divisions controlled and coordinated by a corporate head office. This structure has subsequently been termed the multidivisional or M-form.

Consultants played an important role in spreading the M-form in the USA and, from the 1950s onwards, abroad. They also came to offer all kinds of other advice to the top management of the new corporations. However, it was not the efficiency engineers who took advantage of these new opportunities, but a wide range of new service providers with rather diverse origins, including contract research, psychology and accounting. Among the early movers were Arthur D Little, Booz Allen & Hamilton, and McKinsey & Company. By the end of the 1960s, Booz Allen had become the largest US service providers with more than 1,200 consultants. However, the consultancy that came to epitomize what some scholars term ‘modern’ management consulting was McKinsey.

McKinsey’s founder, James O McKinsey, had been teaching accounting at the University of Chicago from 1917 and published a

¹ The human relations consultants, most of which originated during the 1930s or 1940s, are in a certain way an extension of this wave, because they evaluate performance at the managerial level. Today, leading service providers, such as the Hay Group, Watson Wyatt Worldwide and William H Mercer, have reached a considerable size (Mercer was estimated at employing around 12,500 consultants in 2000). However, none of these consultancies ever achieved the same prominence as Bedaux or, subsequently, McKinsey. This might be due to their focus on benefits, compensation and remuneration consulting, which makes them something of niche players. Most of their efforts to diversify into other areas have so far had only limited success.
large number of books and articles on the subject, including an influential volume on *Budgetary Control* in 1922. In 1926, he established a consulting company based on the idea that budgeting was a way to obtain in-depth insight into the whole organization and a means of business administration. It was quite successful in providing business surveys, initially to financial institutions, but increasingly to large companies such as US Steel.

In 1935 McKinsey himself joined one of his clients, the Chicago-based retailer Marshall Fields, as chief executive officer. When he died of pneumonia less than two years later, the consultancy effectively split between the two offices in Chicago and New York, which agreed not to compete with each other. The split was formerly consummated in 1946, when the New York office purchased the exclusive right to use the McKinsey name for an undisclosed — but apparently substantial — sum, which also removed any constraints on competition between the two. At that time, Marvin Bower, a Harvard-trained lawyer, was running the New York office. The Chicago office took the name of its senior partner Tom (AT) Kearney to become AT Kearney.

Under Bower, McKinsey & Company grew relatively fast and by the early 1960s employed more than 200 consultants. Subsequently, it surpassed both the scientific management consultancies and the first movers of its own generation, such as Arthur D Little and Booz Allen, in terms of employees and visibility. McKinsey was particularly successful in its international expansion, opening its first foreign office in London in 1959. By the end of the 1960s, it already had six offices in Western Europe, which accounted for more than a third of its revenues at the time.

The success of this new generation sparked a number of spin-offs from the existing consulting firms in the 1960s and 1970s — similar to what had happened with Bedaux and other scientific management consultancies some three decades earlier. Thus, in 1963 Bruce Henderson left Arthur D Little to set up the Boston Consulting Group (BCG), which focused on corporate strategy using a number of innovative tools. Former BCG consultants in turn were at the origin of several other important firms. They include Roland Berger, who left in 1967 to set up his own consultancy, which is today the largest service provider of German origin. William Bain started another important BCG spin-off in 1973.

From the 1980s onwards, new challengers emerged to the organization and strategy consultancies in the form of large accountancies and
some information technology (IT) firms. Once again this was related to a change in the organization and management of companies themselves.

**A new generation of information and communication consultancies**

From the late 1970s onwards, the large diversified corporations came increasingly under pressure, following the arrival of new competitors from Japan and other Asian countries with leaner and more focused structures. Subsequently, the increasingly global financial markets have continued to force companies to concentrate on their core competencies and adopt leaner management structures. As a result, the coordination of activities both within companies and with suppliers and customers has become a crucial competitive advantage. The role of managers has also changed, focusing less on corporate organization and strategy and more on the management of the value chain as well as internal and external relationships. At the same time, the development of IT has enabled managers to obtain the necessary data to maintain control over such a networked organization.

The first to exploit these opportunities for new types of consulting were the large Anglo-American accounting firms. Auditors and accountants had been offering consultancy-type services from the 19th century onwards, eg in cases of restructuring and bankruptcy. Most of the accountancy firms established separate units to provide management advisory services after the Second World War. When the revenues in their main accounting and audit business became more or less stagnant from the late 1970s onwards, they responded in two different ways. On the one hand they enacted a series of mergers that gradually reduced their number to five at the end of the 1990s (Arthur Andersen, Deloitte & Touche, Ernst & Young, KPMG and PricewaterhouseCoopers), while on the other they expanded their services in other areas, such as tax, as well as legal advice and consulting to management. Revenues from these activities began to reach significant proportions during the 1980s and there was an even more rapid growth thereafter: soon these divisions were exceeding revenues from their more traditional activities.

For these accountancies, much of the growth in consulting services resulted from IT-related assignments. In this respect, the big accountancy firms had significant competitive advantages: they were among the first to become familiar with large-scale IT systems, because accounting and
auditing had increasingly relied on computer hardware and software. In addition, audits, which are a legal requirement and a relatively guaranteed source of income, were a convenient entry for consultancy.

However, this source of business strength was also at the origin of a conflict of interest: audit partners were not always happy to introduce colleagues from the consultancy division to their clients. They were concerned that a failed consulting project might lead to the loss of the audit contract and therefore pose a significant risk for future revenue streams. This is, in addition to the differences in growth potential, led to increasing strains between the accounting and consulting arms of these large firms. It has prompted some of them to split completely (such as Arthur Andersen and Andersen Consulting, now Accenture) even before pressure from the regulators in the USA accelerated this trend.

Some of the work taken on by this new generation of consultancy firms consisted of IT operations outsourced by companies wanting to concentrate on their core activities. In this particular area, these consultancies competed with other large IT services organizations, eg Electronic Data Systems (EDS) and Computer Sciences Corporation (CSC). Both of these organizations also expanded into consulting activities through acquisitions; thus in 1995 EDS acquired AT Kearney, one of the oldest second-generation consultancies. More recently hardware manufacturers, such as IBM, have also expanded into consulting because it is seen to offer much higher margins than their traditional business. Another company to enter the outsourcing and consulting business on a very large scale over the last decade is the French computer and software services firm Cap Gemini. It grew almost exclusively through acquisitions. Its merger with the consulting division of Ernst & Young in 2000 propelled it into the top 10 worldwide consultancies.

As Table 1.2.1 shows, the consultancies mentioned above managed to establish themselves firmly among the largest service providers in the world during the last decade of the 20th century. In most cases they displaced or acquired the larger national firms. American organization and strategy consultants of the second generation were able to remain among the top 10 or 20 firms; however, although still growing in absolute terms, they clearly lost market share to the newcomers.
Table 1.2.1 Revenue of the top ten consultancy firms (1991 and 2000) (US$ million)

<table>
<thead>
<tr>
<th>Top ten ranking</th>
<th>Company</th>
<th>1991 revenue</th>
<th>2000 revenue</th>
<th>Revenue multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Accenture</td>
<td>2,260</td>
<td>10,300</td>
<td>4.6</td>
</tr>
<tr>
<td>2</td>
<td>IBM Global Services</td>
<td>–</td>
<td>10,200</td>
<td>n/a</td>
</tr>
<tr>
<td>3</td>
<td>Cap Gemini Ernst &amp; Young</td>
<td>862*</td>
<td>7,800</td>
<td>9.0</td>
</tr>
<tr>
<td>4</td>
<td>PricewaterhouseCoopers</td>
<td>1,685</td>
<td>6,600</td>
<td>3.9</td>
</tr>
<tr>
<td>5</td>
<td>Deloitte Consulting</td>
<td>685</td>
<td>5,400</td>
<td>7.9</td>
</tr>
<tr>
<td>6</td>
<td>Computer Sciences Corporation</td>
<td>–</td>
<td>3,570</td>
<td>n/a</td>
</tr>
<tr>
<td>7</td>
<td>McKinsey &amp; Company</td>
<td>1,100</td>
<td>3,400</td>
<td>3.1</td>
</tr>
<tr>
<td>8</td>
<td>KPMG Consulting</td>
<td>802</td>
<td>2,370</td>
<td>3.0</td>
</tr>
<tr>
<td>9</td>
<td>Mercer Consulting Group</td>
<td>894</td>
<td>2,135</td>
<td>2.4</td>
</tr>
<tr>
<td>10</td>
<td>Andersen</td>
<td>–</td>
<td>1,586</td>
<td>n/a</td>
</tr>
</tbody>
</table>


Note: *Ernst & Young only

Summary and outlook

This overview of the evolution of the consulting industry has identified three major generations of management consultancies during the 20th century. They could be characterized tentatively as scientific management, organization and strategy, and communication and information. The emergence – and also decline – of these different waves was related to major changes in the client companies in terms of size, organization and their management with regard to the role and attention of executives. Consultancies of the second and, even more so, third generation had been around for some time. These only began to achieve a significant size and prominence, however, when the type of consulting required by companies shifted from shop-floor efficiency improvements to corporate organization and strategy and then to IT-based network solutions.

As these shifts did not occur overnight, consultancies of the different generations usually co-existed for quite some time. New managerial solutions consultancies contributed to spreading these solutions further by promoting them as ‘best practice’ – thus fuelling their own growth. Table 1.2.2 summarizes the main results of the historical overview.
There is little doubt that IT has become increasingly central for management and therefore for management consulting today. It prompted the fast expansion of a third wave of consultancy services, dominated by large professional services firms. It seems that this is a shift similar to the move from shop-floor efficiency to organization and strategy and that, on the whole, the consultancies of the second generation actually started to decline in relative terms during the 1990s.

The rapid growth of the consultancy industry as a whole during the last decade of the 20th century obscured some of these developments. However, the crisis that has affected the sector since 2001 accelerated the developments examined above and made them more obvious. As such even the leading service providers in the second generation, focusing on top-level ‘strategic’ advice, are experiencing serious difficulties. Many of them stopped hiring people and even had to lay off staff – with serious, long-term consequences for morale among consultants and their image in the marketplace. The latter has been indicated by titles of articles such as ‘Consultant, heal thyself’ (The Economist, 2 November 2002, pp. 61–2). After earlier attempts to merge with the British consultancy PA had failed, the oldest of the second wave firms, Arthur D Little (founded as a contract research laboratory in 1893), almost went bankrupt.

Most of the other top strategy consultancies have so far avoided similar disasters. However, it has been reported that some of them had to make ‘cash calls’ to their partners in order to overcome financial shortfalls. Many of these partners probably regret not having followed the

<table>
<thead>
<tr>
<th>Wave</th>
<th>Key issues</th>
<th>Overall duration</th>
<th>Major expansion</th>
<th>Prominent consultancies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific management</td>
<td>Efficiency of workers and production</td>
<td>1900s–1980s</td>
<td>1930s–1950s</td>
<td>Bedaux, ‘Big Four’, Emerson, Maynard</td>
</tr>
<tr>
<td>Communication and information</td>
<td>Internal and external coordination</td>
<td>1960s–???</td>
<td>1990s–???</td>
<td>‘Big Five’, CSC, EDS, Gemini, IBM Global Services</td>
</tr>
</tbody>
</table>

Table 1.2.2 The different waves in the evolution of the consulting industry
example of AT Kearney in selling out to the ‘newcomers’ at a time when they could have received a significant premium for their shares in the firm. Even the icon of ‘modern’ management consulting, McKinsey & Company, has been seriously affected. It was widely criticized in the press for its role in several companies that went bankrupt during 2001, including Enron, Global Crossing and Swissair. Although McKinsey and other leading strategy firms are likely to survive in the foreseeable future, they are increasingly being confined to a market niche.

During the first years of the 21st century the consultancies of the third generation clearly asserted their dominance in the management advice industry. While some of them also suffered from the crisis, others continued to thrive based on outsourcing and technology-related advice. Earlier trends, namely the separation of the consulting activities from the accounting firms, entry into the stock market and mergers among the largest service providers, accelerated.

All of the ‘Big Five’ have now sold or at least partially floated their consultancy arms on the stock market. To signal their new-found independence, firms changed their names: Andersen Consulting became Accenture and KPMG Consulting became Bearing Point. Deloitte Consulting planned to change its name to Braxton, prior to ruling out a management buy-out in the spring of 2003.

PricewaterhouseCoopers was due to spin off its consultancy activities under the name ‘Monday’, but finally sold them to IBM Global Services in August 2002, which became the world’s largest consulting firm as a result. For a while it seemed as if Arthur Andersen was able to buck this trend by rebuilding its consultancy activities following the separation from Andersen Consulting. However, the legal consequences of the Enron case in the USA and the damage it caused to Andersen’s image everywhere cut short these efforts. Most of its partners sought refuge in other accounting or consulting firms, thus leading to further consolidation in both sectors.

The size of the newly dominant service providers in the third wave, which exceed most of their client firms in terms of revenues and employees, raises a number of issues, namely those regarding market dominance and the governance of these mega-consultancies themselves. Some of them will be addressed in more detail in later parts of this volume, but a few important ones should be mentioned here.

One issue that has so far largely escaped regulatory and public attention concerns the relationship between the large consultancies and
the providers of business software, such as SAP, Oracle and Microsoft. Although the consultancy firms tend to present themselves as independent, they all have close relationships with the software companies. These software companies are, in a certain respect, their real clients because it is they who often decide which of the big consultancies is asked to help with the implementation of new enterprise resource planning or e-business software. At the same time, the consultancies are likely to push the installation of new IT-based systems as a response to organizational problems. Their mutually beneficial relationship might come under some strain in the near future, however, because some of the software providers appear poised to enter the lucrative consultancy market on a larger scale, following a slowdown and the erosion of margins in their core business.

The second issue regarding the repercussions of recent shifts in the consulting industry goes well beyond the clients. It also concerns the business schools, which can no longer be assured that the biggest and most prestigious service providers will automatically employ a large share of their MBA graduates. The new mega-consultancies appear to provide most of the necessary training in house, rather than subcontracting it to the business schools as most of the firms in the second wave did and continue to do.

Finally, the changes are also affecting the organization and governance of these consultancies themselves. Given their size, it appears increasingly difficult for them to operate as a partnership. Following their initial public offering (IPO), these service providers are adopting more traditional forms of ownership and organization, which in turn will allow them to react more quickly to changes in the competitive environment and take a longer-term perspective in terms of the necessary investments. These will also make them less dependent on individual partners who decide to leave the firm. It would appear that in terms of size as well as recruitment, career patterns, corporate governance etc, consulting seems to be becoming increasingly similar to other service industries, loosing some of the special, almost ‘artisanal’ nature, it held during much of the 20th century.

This probably means that, unlike their predecessors from the first and second wave, the third-generation consultancies might not succumb to future changes in the market for management advice, but change their services accordingly and thus ensure their survival in the long run.
Further reading

The different generations

The emergence of the second generation

The emergence of the third generation

The main service providers of the different generations

International expansion

The developments in different countries and the ‘logic’ of the management consultancy industry
Multinational management consultancies: world market leaders

Mark Klein

Introduction

As we think back, just two years ago at the last writing of this chapter the consulting marketplace felt highly unsettled. The technology equity bubble had burst, e-consultants were being swept into history’s corporate dustbin, some of the ‘Big Five’ consulting practices (Arthur Andersen, Deloitte & Touche, Ernst & Young, KPMG, PricewaterhouseCoopers) were being sold or spun off and it looked like public ownership was fast becoming the model of choice after private partnerships had ruled the consulting landscape. Compared to the prior 30 years, the level of change in the consulting market was intense. Little did we know that those years (2000–2001) would feel like a walk in the park for what was to come.

What we referred to as the ‘perfect storm’ was, even back then, only intensifying, and at such a rate and force that it would shake the largest firms to their core and wash some away for good. As we sit here in 2003, the storm has not abated – it continues to rage and when the clouds do finally break, the consulting landscape will have changed to such a degree that it would be unrecognizable to the casual observer of just 10 years ago.

The backdrop (the first shoe drops)

The world’s global engine of economic growth, the USA, began to slow significantly in early 2001 and would technically be in a recession for the first three-quarters of the year. As US equity prices would continue their
descent, business investment was rapidly declining, specifically investment in information technology (IT). In fact, this was not a typical business cycle, but rather an adjustment to a post-equity bubble environment where everyone was searching for the real baseline. It was clear that the ‘over-investment’ in IT would take some time to burn through. The Europeans felt they were well insulated from a downturn in the USA and would still generate good or trend growth across much of the Eurozone. Japan had yet to show signs of a willingness to restructure its economy and was expected to continue its bout with low aggregate demand. Interestingly, Japan’s struggle with economic malaise would result in a greater appetite for consulting services.

As equity markets were still trying to find a bottom (it was a long way off) and corporate planners searched for demand levels, the world would experience a shock whose implications would be far reaching and to this day are still not fully known. On 11 September 2001, four jumbo passenger jets would be hijacked from airports on the east coast of the USA. Two would be used to topple the largest skyscrapers in New York City, one would be crashed into the Pentagon and one would crash land in the countryside of Pennsylvania – its ultimate target unknown, though some would speculate Camp David, the US president’s retreat. On that brilliantly clear day in New York and Washington, close to 3,000 people would lose their lives and the world would likely be changed for ever.

Aside from the incalculable human cost, the observable economic costs of ‘9/11’ were significant. While the US economy was trying to get back on track in late 2001, the ramifications of the new global terrorist threat would add to a level of uncertainty that was already fairly high with respect to economic activity. In the USA, while consumers continued to spend (driven by low interest rates and rising home values), businesses went on missing their growth targets and continued their retrenchment in business investment. By the end of the first quarter of 2002, consulting firms were beginning to feel the pinch.

A loss of confidence (the second shoe drops)

Approximately one month after 9/11 a new gale developed. In October of 2001, Enron released its third-quarter earnings report which included US$1 billion in investment writedowns and also announced the replacement of its chief financial officer. The SEC would then launch a formal investigation into Enron ‘partnerships’. We all know the outcome
of the debacle: Enron, one of the darlings of Wall Street, a favourite among institutional investors, heralded by McKinsey & Company as a model of corporate innovation, was a fraud. Worse still, its auditors, Andersen, were indicted as part of the hoax. Regulators quickly jumped on the fact that Andersen as an auditor could not have been objective because of the significant consulting fees they were generating at Enron. In the end, the spectacular crash of Enron would bring down, in a matter of months, the venerable, 100-year-old auditing and consulting firm known as Andersen. It would also lead to new regulation in USA that would significantly restrict the types of services accounting firms could provide to audit clients.

Enron didn’t cause a ripple, but rather a tear in the fabric of trust in the US capital markets. Stocks continued to plunge, while the cost of debt (as a premium to the risk-free rate) continued to rise. Investors were sceptical of the financial statements they were reading. Of course, the recent great technology equity bubble would invite quite a bit of fraud. In addition to Enron, accounting shenanigans were revealed at Tyco, Global Crossing and WorldCom, to name some of the bigger firms. Of course, Wall Street itself would soon be under the regulatory microscope, while investor losses continued to pile up as equity prices swooned.

Pricing power lost

During the 1990s consulting firms became intoxicated with rapid growth. The largest firms were taking share as annual rates of growth exceeding 20 per cent were not uncommon. A confluence of events would conspire to keep pricing strong until the summer of 2001. These included the enterprise resource planning (ERP) wave, the forthcoming year 2000 (Y2K), CRM and e-business. However, as these contracts were winding down an equally powerful but opposite set of events would conspire to cause billing rates to fall. The retrenchment in investment in IT was gaining momentum, so demand was falling. There was no ‘new’ technology wave to sell. Many companies who went public were now reducing rates to keep the top line from falling (under the assumption that this was what Wall Street wanted); competition was becoming cut-throat.

Perhaps most significant of all, however, was the rise in prominence and capability of Indian offshore firms. With names such as Tata, Wipro and Infosys, these outsourcing and systems integrations firms had cost advantages of roughly 3:1 over Western firms. These firms are called
offshore firms because they do much of their work in India, away from the
client site. It should be noted that India isn’t the only offshore service
delivery market; the term refers to any country that has a potential labour
arbitrage, eg Spain or the Czech Republic may be a source of service
delivery for projects in the UK.

The combination of a critical mass of an English-speaking, highly
educated and technically proficient workforce proved to be the right mix
at the right time. As previously mentioned, enterprises were having a
great deal of difficulty gauging demand and were looking for ways to
reduce costs. The offshore firms were filling a market need as US and to a
lesser extent European companies became comfortable with the Indian
model. The offshore firms would grow to the detriment of the traditional
‘full service’ consultancies (those offering a broad range of consulting
services from advisory to implementation services and outsourcing).

The phenomenon of offshore services delivery has been enabled by
the relentless push towards globalization and Internet-based tech-
nologies. It is interesting to note that the same factors that have moved
manufacturing from high-cost to low-cost markets are now at work in the
services sector, threatening knowledge-based workers in the West.
Building offshore capability is a top strategic objective for every major
consultancy in the West.

What goes up…

The year 2002 would mark the first year, in at least the last 30 years, that
the consulting industry actually contracted (we only have data going back
to 1970). Internal estimates would put the contraction at about 10–12
per cent. At the start of 2002 forecasters who follow the industry
predicted a return to growth and were looking for gains of approximately
7–10 per cent. By late spring it was apparent that the year was going to be
a bad one: as consulting firms continued to revise their forecasts down-
wards, the impact of oversupply would be fierce and widespread:

- McKinsey, it was reported, required a capital call of its partners.
- PwC Consulting couldn’t get their initial public offering (IPO) done
  at a price that was agreeable to their owners. As a result, they were
  acquired by IBM for approximately US$3.5 billion. That was in stark
  contrast to the US$17–18 billion Hewlett Packard had offered less
  than two years previously.
Cap Gemini Ernst & Young (CGE&Y) proved that adding capacity in a world already strained by oversupply was not a winning strategy. Cap Gemini acquired Ernst & Young’s consulting business at pretty close to the top of the market when demand was strong and rates were high. As the bottom began to fall out of the market, CGE&Y struggled to adjust their cost structure while net margins turned negative. At the time (February 2000) Cap Gemini announced its intentions of acquiring the consulting business of Ernst & Young, its stock was trading at approximately 256 euros per share. As of this writing CGE&Y was trading at approximately 23 euros, a stunning decline of 91 per cent! Since the start of 2001, CGE&Y has reduced its staff by 10,000.

Bearing Point, formerly known as KPMG Consulting, has found that being a public company can be difficult. The company went public in early 2001 at US$18 a share. Today their stock trades at approximately US$6.

It would be wrong to say that the movement towards public ownership as a model for consultancies has been a failure, for too little time has passed to make such a declaration. However, for the firms that used the public markets to acquire more scale at the top of the market or that needed the resulting offering proceeds to pay off owners as opposed to the corporate coffers, success will be elusive.

Outsourcing to the rescue

Like the businesses to which they consult, the consulting business is evolving. Consultants of one type or another have been around since the advent of modern business – what we call the ‘consulting market’, however, has been a more recent phenomenon, evolving significantly during the past 30 years.

1970–1980 marked the heyday of consultancies that earned their fees by advising clients on strategy. Consulting firms commonly devoted several months or more looking at the workings of a company before determining how its management could improve market and operating performance. Major changes in business and constant advances in technology during the 1980s and 1990s led to an ever-increasing need for advice on, as well as assistance with, the development and implementation of technology-based systems. This was the era of re-engineering, client server consulting and software packages like ERP and CRM.
Today, clients are asking consulting firms not only for help in implementing their advice but to actually run or operate the applications they recommend as well as the business processes they are improving. A number of underlying factors are driving this trend:

- a weak economic environment as a backdrop for cost-cutting;
- a desire to hold consultants more accountable for results;
- common technology platforms and Internet-enabled services;
- access to best practices.

Consulting firms are rushing into the outsourcing market. Outsourcing contracts are long term in nature, bring the client and consultant closer together and can also lock out other consulting firms during the life of the contract. Demand is also strong – quite a contrast to the current environment for traditional consulting services.

However, success in the outsourcing market isn’t necessarily guaranteed. The shift to more outsourcing business will have both cultural and financial implications. The outsourcing human resource model is very different from that of consulting. To be successful, firms will have to find a way to manage multiple human resource models under one roof. As Accenture seems to be successfully moving in the outsourcing direction, there have been many reports regarding the disenfranchisement felt by those on the consulting side of the business. Outsourcing also carries a different financial risk model and margins. Even if the outsourcing engagement doesn’t include significant fixed assets, greater amounts of capital are required to run multi-year outsourcing arrangements relative to typical advisory and implementation assignments. The jury is still out on just how many consultancies will successfully implement this expansion of the services footprint.

**Conclusion**

At the time of writing of this chapter, the USA has invaded Iraq after months of hand-wringing by the United Nations, and New York City is under a heightened security alert for possible terrorist actions. Military jets patrol the skies above Manhattan as heavily armed police patrol the streets in force. Traditional country alliances have frayed and globalism, once viewed as an important tonic for economic security, is under threat. These are the underlying geopolitical events a quarter of the way through 2003. Who could have predicted this?
The level of volatility is intense, both in markets and in world affairs. It is a difficult time to get through – but get through we must. This environment will separate the weak from the strong in the consulting industry. But that is precisely what is needed in a market currently noted by oversupply. In the last two years Arthur D Little, PwC Consulting and Andersen have disappeared from the landscape. We would expect, that by the time the clouds of uncertainty move on, some additional household names in the consulting and IT services world will be no more.

Consulting firms are not immune to business cycles. In fact, we would argue that as business has grown, they have become ever more sensitive to the same factors that influence clients’ businesses. In the USA and much of Europe, consulting has come of age as an industry – it is a big one, but also a maturing one. Entering a new phase in a life cycle, any industry experiences quite a bit of upheaval. That is what we are currently witnessing in the consulting business. But the good news is that consulting thrives in a complicated world and, if anything, the world is getting more complicated, not less so.
Introduction

It is hard to think of a factor that has had a greater influence on the development of the consulting industry than technology. The growth of the monolithic, American-style consultancies since the end of the Second World War can largely be attributed to the involvement of firms, eg Andersen, in the early application of mainframe computing in business.

This was a very different approach to the Taylorism of the first consulting firms. Projects tended to be longer and more homogeneous, making it possible for firms focusing on this area to grow more quickly. The intellectual capital required could be codified more easily into standard methodologies, thus allowing a firm to have a higher consultant-to-partner ratio than was possible in a strategy firm, where the variable nature of the work needed considerable input at partner level. Most importantly, working on technology projects meant that consultants moved beyond their purely advisory role to help in practical execution.

The first decade of e-business development

Successive waves of technology fuelled this trend and the task of correctly identifying emerging technologies has become one of the most important
strategic challenges facing any consulting firm. However its apotheosis came with the growth of enterprise resource planning (ERP) systems during the 1990s and the preparation for the date change in the year 2000 (Y2K).

Dominated by a small number of software vendors, the ERP market created an enormous opportunity for consulting firms: projects lasted years rather than months and could easily occupy more than 100 consultants at any one time. Such large-scale systems work also required process redesign and organizational change; thus ERP projects, valuable in their own right, were also the entry point for a whole host of other consulting services. While less pervasive in scope, Y2K preparations – at their peak – provoked such a level of demand that the traditional consulting firms were unable to handle it by themselves and a new breed of company – the offshore development company (ODC) – grew to take their place.

Despite the changing technology, the precepts of success remained constant: quality, consistency and an ability to deliver on time and within budget were what mattered most. Culturally, the consulting firms servicing this sector had to be cohesive and hierarchical; mistakes could be enormously expensive and the potential risks involved were colossal. This was in marked contrast to the culture of non-technology related consultancies, notably the strategic consultancies that continued to stress innovation and diversity. From time to time, technology- and non-technology-related firms would try to cross the boundary and move into the others’ space, but most of these experiments failed, leaving the industry just as polarized as it had always been.

In the late 1990s, several things happened to challenge this status quo. Sudden recognition of the potential of the Internet and Web-based technologies for business together with the high levels of returns being earned by Internet-based companies on the world’s stock markets combined to produce a sudden spike in client demand for consultancy. This demand, however, was very different from that for ERP-type consultancy. Clients were concerned about time to market: taking several years to implement a system was unacceptable in an environment in which opportunities came and went in a fraction of that time. They were uncertain about what technology to choose; hundreds of new suppliers had entered what had become a much more fragmented market.

Moreover, the incumbent consulting firms were themselves in the same boat: they, too, were having to adapt to a world of almost instant
gratification and were poorly equipped to pick the technology winners from what was now a much wider field. And clients knew this: it is hardly surprising, therefore, that they were more than happy to welcome in a whole new generation of ‘e-consultants’ who had emerged specifically to fill the gap. Interviewed in 1999, Chris Lochhead, the Chief Marketing Officer of one of these new entrants, Scient, summed up the situation:

*We believe that e-business represents the biggest transformation in the economy since the Industrial Revolution. Two years ago, when we set the company up, we identified a Cisco-like gap in the services market, and one about which existing consulting firms seemed completely oblivious. Traditional service firms had a ‘pig-with-lipstick’ approach to the Internet: they focused on some aspects of strategy and Web site design, but the services they offered were fragmented, reflecting fundamental division in their internal organizations. Rather than offering individual services, we wanted Scient to focus on building complete e-businesses, and we became the first movers into a marketspace which we term ‘systems innovation’... What Scient does is bring everything together: we don’t decouple strategy from delivery, we don’t write a report and walk away. We either build an e-business with a client or we don’t work with them, we either engage with the CEO or we walk away. It’s the only way we are prepared to work.*

### Adapting to market demand

The incumbents had to adapt. According to Tim Mead, the senior vice-president of marketing at Cambridge Technology in 1999:

*our traditional methodologies didn’t work well with these clients. We had to develop a framework which was in effect a superset of these methodologies, one that rigorously eliminated all the inessential elements.*

But they also came out fighting. Ron Farmer, responsible with several other partners for the launch of @McKinsey, argued that:

*our critics claim that our way of working is too analytical for an environment that’s constantly shifting, but their solution is to set up a Web site and see what happens. But you can’t defy gravity for ever – there has to be something to leverage internally if you’re going to gain and keep a competitive edge. E-business has underlying – inescapable – economic rules, just like every other area of business, but people are spending*
The stock markets eventually reached the same conclusion. The latter half of 2000 saw billions of dollars being wiped off the value of the e-specialists and, for most of these firms, retrenchment has become the order of the day. For the incumbent consulting firms, by contrast, the change offered new possibilities; the world was going their way. While dotcom failures dominated the headlines, large corporations – those behemoths of the ‘old’ economy – had begun to invest millions of dollars in e-business projects. Many were internal (e-procurement projects offered – and continue to offer – enormous savings), most had a very low public profile, and all of them offered opportunities for consultants, especially those firms that could demonstrate that they could bring the best of the new and the old together – innovative thinking implemented with ‘old’ economy discipline. ‘People thought that the new economy heralded the death of process’, commented one consultant, a beneficiary of this sea change, ‘in fact, e-business projects are so complex and the technology involved is so new that process matters more than ever.’

The future relationship between technology and consultancy

The big question now is: what next? Has the 1998–2000 e-business boom had any lasting impact on the relationship between technology and consultancy? And what form will this relationship take in the future?

It’s tempting for the incumbent players to write off the impact of the e-consultants as a passing fad, but revolutions have a history of devouring their own children. Philip Evans, a senior vice-president at The Boston Consulting Group and co-author of Blown to Bits argues that:

just because we now know that all those kids in garages aren’t going to replace large corporations doesn’t negate the fact that the pace of technological change is increasing… the recent carnage shouldn’t make us underestimate the significance of what’s going on.

Few people deny that e-consultants have had quite a profound effect on the way consulting firms are organized: the integration of strategy, creative and technology consulting skills – something pioneered by the
new entrants – is now widely recognized as being key to success in an environment where strategy is becoming increasingly bound up with technology. Moreover, the relationship of a consulting firm to the technology its clients choose to implement is something that will have an impact on its long-term survival. The reason for this lies in the increasing ‘technocratization’ of consultancy: for example it is not just that we know that you cannot draw up a supply chain strategy without thinking of the systems required to support it, but that we also need complex computer modeling tools to optimize it. Similarly, can you prepare a really credible marketing strategy that is not based on exhaustive analysis of data on consumer behaviour? Even in the highest echelons of strategy formulation the software now exists to evaluate scenarios and to calibrate systems thinking diagrams.

Perhaps the most significant change of all, however, is the growing sense of visible, articulated identity among consulting firms. Ten years ago, the majority of consultancy happened behind the scenes: what e-business and e-consultancies have done since 1998 is to bring consultancy out into the open – in books and newspapers, on stock markets, as investors, at the launch parties of new ventures. This is a far cry from the kind of cloak-and-dagger consulting of popular myth and it is something to which consultancy is now committed.

Further reading

Sustainability and management consultancy

Adrian Henriques

Sustainability is a business issue
From outside left field, ‘sustainability’ seems to have become a significant issue for businesses. Customer demand, new regulations, non-governmental organization (NGO) campaigns and investor pressure have all played a part. For example, in 2000, Market and Opinion Research International (MORI), on behalf of CSR Europe, interviewed 12,000 consumers across 12 European countries on their attitudes towards the role of businesses in today’s society. They found that most people do not think business pays enough attention to its social responsibilities (Figure 1.5.1).

In 2002, the situation had got worse, at least in the UK, with 73 per cent of the public feeling that business did not pay enough attention to its social responsibilities. The 2000 survey also found that 70 per cent of European consumers believe that a company’s commitment to social responsibility is important when buying a product or service; one in five would be very willing to pay more for products that are socially and environmentally responsible.

Much has been written about the increasing power of civil society groups and NGOs: the history of Shell in relation to the Brent Spar incident is often quoted. The incident centred on the issue of how to dispose of an oil platform. Shell wished to dispose of it at sea but Greenpeace, a major environmental campaigning group, opposed this
Industry and commerce do not pay enough attention to their social responsibilities

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<td>European Average</td>
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<td>Finland</td>
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<td>Great Britain</td>
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Figure 1.5.1 Business and social responsibility

with dramatic direct action and much media coverage. The result was not only that the company changed its plans for disposal, but that it embarked on a much more energetic change programme to encompass sustainability within its approach to business.

More recently NGOs have challenged governments, the World Trade Organization (WTO) in Seattle and the World Bank in Prague. Other NGOs are engaging with companies in less confrontational ways to achieve change. The lesson from all this is that the pressure from NGOs and civil society on companies to take more responsibility is increasing.

Laws and regulations are also changing. In the UK there have been changes to the Combined Stock Exchange Code, by which all major UK listed companies have to abide. The areas in which change is occurring include directors’ remuneration and the management of risk, including social and environmental impacts. In addition there have been changes to pensions law, requiring pensions schemes to state their policy on social and environmental issues in relation to their investments or whether they have one at all. Clearly this will feed through to companies, so that all major companies will have to pay greater attention to these issues.

There is pressure for legal change all over the world: bills have been introduced in legislatures from California to Canberra. The courts are also interpreting existing legislation more stringently. For example in the
USA, Montana’s Supreme Court found in a ruling in 1999 that the state cannot allow activities to continue that have the potential to poison the environment. In 1999 a Brazilian federal court ordered the government to compensate a remote Indian community after it ruled that a road built through tribal territory had caused the death of most of its members.

In relation to the investment community, over US$2 trillion in the USA is in ethically managed funds. In the UK, a pension fund executive recently estimated that of the £800 billion under UK pension fund management, from a third to a half would be managed ethically over the next few years. New indices have been developed with which to monitor the performance of companies. The Dow Jones Sustainability World Index is shown below in relation to the general index (Figure 1.5.2). It has been shown that for significant periods, those in the DGSI do better. Recently the International Stock Exchange in London has launched the Financial Times Stock Exchange (FTSE) 4Good index, with more rigorous criteria.

**Figure 1.5.2 Performance comparison of DJGI with the DGSGI**

*Source: Mercer Investment Consulting*
So what is sustainability?

‘Good business is all about honesty and fair dealing – if you can fake that you’ve got it made!’ Groucho Marx

Sustainability is a big issue, possibly the biggest there is. It is about whether there are birds singing in the trees, about getting asthma on a sunny day and about rioting in the inner cities. It matters. And yet, although it has caught the attention of some big companies (eg Shell, BT and BP Amoco), it is not something that chief executives tend to wake up to worry about in the middle of the night.

So what does sustainability mean? A few years ago over 140 different definitions of the word were counted – really the only thing on which everyone agrees is that, whatever it is, it must be a good thing. Nowadays, everyone shies away from trying to define it; it has become like the elephant in the corner of the room, which everyone is too polite to mention. However, there are two broad approaches to defining ‘sustainability’ – one draws on the sense of the word ‘sustain’, so that sustainability means to be able to continue over time. This understanding, however, doesn’t capture the sense of unease or urgency that most people feel over anything labeled ‘unsustainable’. Another type of definition is all about activities that enhance human development in the broadest sense.

A further source of confusion is that the terms ‘sustainability’ and ‘sustainable development’ were first used in relation to the natural environment. They are now used to refer to the social and economic dimensions of our activities as well as the environment. So we now have a corporate ‘triple bottom line’, rather than simply a financial one. Perhaps the reason why it only keeps a few people awake at night is that it is very confusing and so it is hard to see what to do about it – and there is enough to do simply trying to keep the company afloat. Most of us, after all, have a ‘too big, switch off’ mentality.

It is perhaps obvious that if natural resources run out, as they are doing, and the market does not provide early enough warning for new technologies to be developed in time, there will be big problems for many companies. It is even more obvious that if economies become too volatile, as they have been in Asia recently, then the impact can be very serious for all companies. What is less obvious is why the social dimension is important and what companies can actually do to help, while sticking with their core business.
An important trend in most countries, and certainly in the UK, is that the gap between rich and poor is getting bigger. Apart from any moral aspect, the reason this should concern business is that business requires stable social conditions and a functioning infrastructure (from contract law to electricity, telephones and roads) if it is to thrive. A divided society will become increasingly unstable and the cost of doing business will therefore rise.

There are also other social trends that are impacting adversely on business. These include a declining level of trust coupled with an increasingly powerful media industry. Taken together, this means that any mistake on the part of companies is always a good story. And the exposure can be as global as it is merciless. Corporate misdeeds can be known throughout the world in minutes, thanks to the Internet. Sectors particularly at risk are those with high-street brand names and long supply chains, stretching through the Third World. Under these conditions, confidence in a company can collapse very rapidly, as the cases of Marks & Spencer over the use of child labour in manufacture and, a few years earlier, Shell, in the case of Brent Spar, demonstrate.

Yet social trends are not simply things that happen to a company. It is entirely possible for a company to work with society, rather than despite it. One of the practical ways in which this is possible is for a company to work with its stakeholders. Stakeholders may be thought of as all those groups that either affect the company or are affected by it.

Managing sustainability

Jim Wolfenson, the President of the World Bank, declared a few years ago that he could tell when a project had been successful by the smile on a child’s face. That may be a good indicator, but it is also one that raises the question of how you can systematically understand how well you are doing as a company. Financial accounting has been around for perhaps several centuries, yet accountants will tell you that there is no full agreement about the details. Environmental accounting has been around for several decades and it is clearly still under development. ‘Social accounting’ has only been practised seriously for a few years and is currently working with its first set of standards. Bringing it all together to look at sustainability performance is tremendously challenging and yet there is one initiative that is attempting an important part of that job—reporting on performance.
The Global Reporting Initiative (GRI) is a network of companies (including BP Amoco and General Motors), NGOs, academics and professional organizations such as the Association of Chartered Certified Accountants. In March 1999, the GRI released guidelines for the construction of a sustainability report and a revised set was issued in June 2000. The GRI format will encourage companies systematically to collect information about their main impacts across the three dimensions of sustainability – the environmental, the social and the economic. Currently companies from every continent are working with the guidelines.

As such sustainability reporting formats emerge, it will be important to ensure that the measures and indicators chosen reflect the views of stakeholders as well as reflecting comparisons between different companies. Perhaps most important is to ensure that you are measuring not just the end result of your activities, but also the process by means of which you produced them. So it is vital to measure how you manage pollution, as well as the amount you actually produce. This approach has been incorporated into environmental standards, such as the International Organization for Standardization (ISO) 14000 series, and it is perhaps more important for the social dimension.

What are the success factors of managing for sustainability? One of them is knowing what is happening across all three dimensions of sustainability. However that is only part of the job. It is also necessary to develop:

- tools to support sustainable decision making;
- a culture of making sustainable decisions;
- a governance structure to ensure that the overall direction in which the organization is moving is towards sustainability.

Currently there are tools, eg net present value (NPV) analysis, that analyse part of the economic impact of corporate decisions. But how many organizations look at the social impact of their projects and do so in advance of making a decision to proceed? Similarly, environmental assessments are often a poor relation of financial analysis. Although companies are now beginning to explore environmental issues in the name of eco-efficiency, how many companies integrate the social considerations into new product development?

Of course to have the tools is necessary, but not sufficient. It is also vital to have a culture that nurtures sustainable decision making. It is important to note that sustainability is received wisdom at the top of an
organization – it will not help such a culture if senior executives simply ignore the whole matter. Also, it will be important to establish incentives for all staff to take account of social and environmental issues when making their day-to-day decisions. Finally it is central to evolve a governance and management structure that supports movement towards sustainability. It is necessary to ensure that sustainability is embedded in the management processes that maintain the overall direction of the organization. It is also necessary to ensure that the risks and rewards of pursuing sustainability are built into its fundamental management.

Management consultancy and sustainability
Currently the major professional services firms and many smaller consultancies are offering services related to sustainability. Examples include:

- environmental management systems advice;
- ethical management systems development and training;
- assistance with stakeholder dialogue;
- public relations and reputation management;
- social and environmental auditing;
- due diligence on the social and environmental aspects of transactions.

Although it looks as if the field is well provided for, it should be borne in mind that sustainability is new to consultancies too. Some will undoubtedly be stepping outside of their core expertise. Beyond that, sustainability involves working successfully with possibly critical stakeholders. So a key question in a potential buyer’s mind should be not only ‘what experience does this consultant have?’ but also ‘what sort of legitimacy will this firm bring to sustainability work?’

Sustainability is obviously a big issue and one that is important to get right. If enough companies get it wrong, it means there will be more asthma, fewer birds and fewer smiles on the faces of children. And perhaps fewer companies too.
In 2000 the UK Company of Management Consultants undertook a Delphi study into alternative scenarios for the consultancy market in the year 2010. This study was undertaken with the assistance of Kate Griffiths, who is now consulting with PricewaterhouseCoopers. Five possible scenarios emerged:

- the ‘high-tech, high-touch’ scenario;
- the ‘doomsday’ scenario;
- hybrid consultancy;
- commodity consulting;
- the ‘small is beautiful’ scenario.

The definitions of these scenarios are given below. They are not the only possible scenarios for the European market and there may be other alternatives around the world for both developed and developing markets. Indeed, it is highly unlikely that there will be a homogeneous global management consultancy market by 2010. These alternatives are the ‘crystal ball’ gazing of some management consultants whose practices are based in Europe.

A broader and more diverse set of scenarios might emerge from a survey within industry and commerce of buyers and users of consultancy
internationally – in other words, the intended readership of this book. Therefore, you are cordially invited to study the alternative scenarios and to contribute your responses by mail, fax or e-mail to the addresses given.

The ‘high-tech, high-touch’ scenario

As new technology is introduced, there is a counterbalancing human response. The Tomorrow Company’s Report, the balanced scorecard approach and the stakeholder view will become much more important. Equal emphasis will be given to financial and value-based success. Both clients and consultancies will need to take the views of employees and customers into consideration as well as the bottom line.

There will be an increase in environmental audits and ‘triple bottom line’ reporting as businesses are required to report financial, environmental and societal matters. This scenario highlights the increasing significance of reputation management as a priority issue for firms in 2010 and the likelihood that consultancies will develop their value systems as a means of differentiating their product offering. ‘High-tech, high touch’ is reputation as a function of client relationship quality and productivity.

The ‘doomsday’ scenario

Despite the opening up of new markets in Asia and South America, the consulting industry will not see the same levels of demand in 2010. Large consultancies will increasingly focus on business services provision for global clients and taking equity in start-ups, and, as such, become more focused on non-consulting services. The double-digit growth of the 1990s will be a thing of the past as margins become tighter. There will continue to be new entrants in the market but there will be fewer ‘second-generation’ players with the reputation and the client list.

The major recession in the early years of this decade started in the USA, then spread to Asia-Pacific and Europe and stayed. Of course, there is a cyclical downturn in every decade, but historically, consulting demand has picked up again in a different form. The doomsday scenario goes beyond the necessary restructuring to allow the consultancy industry to adjust to environmental changes and suggests a future in which consultancy as the archetypal business service industry will be in terminal decline much in the same way that manufacturing was 20 years ago.
Hybrid consultancy

It is not so much specialization that will be the key but the fact that as customers become more sophisticated, they will expect more and more value for money. Consultancies will need to offer a range and a depth of services. There will be a deepening of the offering to clients. Process consultancy will continue to be in demand. However, with transient competitive advantage, clients will also seek the more analytical approach of business schools and strategy houses for new ideas. Outsourcing will continue and interim management will come of age. This would lead to management consultancy losing its identity and becoming just another arm of management. In such a scenario, the distinction between giving consultancy advice, implementation (support/action) and interim management would disappear.

It is possible that real breakthroughs in artificial intelligence could automate large chunks of the skill transfer role of consultants. This is really the ‘no change’ scenario. This is what many consultants think they are doing now; the scenario given below, however, highlights what many brand name consultancies are doing in actuality.

Commodity consulting

There will be little change in the management consultancy industry in the next 10 years. The business environment will continue to become more complex and competitive, as the 24-hour time zone becomes commonplace. Consultancies will continue to be successful, many demanding high fees because they are able to adapt to any change in the environment as the kings of impression management.

SAP may be dead but consultants are already repackaging a solution, which is likely to become the next fad: managers offer consultants a captive market hungry for the latest recycled idea. Elements of consulting are already a commodity, such as some aspects of information technology (IT) consulting and outsourcing. Furthermore consultancy will continue to be a people industry, as clients will still want to see a consultant’s face. The bedside manner will not be replaced by the e-approach. The drawback of this is that it is not exciting for intelligent people. The key to consultancy is exciting work for bright and curious people.
The ‘small is beautiful’ scenario

Professional organizations work best with relatively small communities. This would suggest that even the global consultancies would form loose associations and federations of small partnerships. The global brands would still be important, primarily as a measure of quality, but the size of the organization or unit would be smaller than that offered by the consultancies today.

As clients become more sophisticated, and as they understand knowledge-based businesses more, they will look more for communities of competence that are not too large. Of course, working with such communities gives large consultancies a big problem in maintaining efficiency, and potentially reduces their competitive differentiation from medium-sized consultancies. Potentially there will be a situation in which a large consultancy, made up of linked partnerships, will be competing on equal terms with small to medium-sized consultancies that are networked together. This is really glasnost and perestroika through redistributing the power of knowledge; the challenge is that the corporates are trying to go in another direction, ie brand to brand.

In order to assist in evaluating the five alternative scenarios which practising management consultants identified, or to construct your own scenario, you might wish to study the trigger thoughts (Box 1.6.1) that were provided to the participants in the original survey with the intention of stimulating their thinking.

Box 1.6.1 Trigger thoughts

The following provide some indicators of the ‘current’ situation. They are intended to stimulate thinking about the future and to help predict the consulting environment in the year 2010. It is suggested that you add any points that come to mind as you read through the list.

**Strategic thrust**

- growth;
- alliances, mergers and takeovers;
- a move from diversified business activities to focus more on the ‘core’ business;
- globalization;
lean ‘strategic business units’ rather than conglomerates with centralized control;
less bureaucracy, fewer levels of management and best practices;
pressure from competition, fewer true USPs and shorter period of competitive advantage (competition mimics quickly);
decline of manufacturing, increase in service organizations;
privatization;
effective technological exploitation of natural resources;
corporate governance.

Mainsprings of performance
- logistics and supply chain;
- re-engineering;
- quality;
- excellence and corporate competence;
- marketing;
- benchmarking, regeneration;
- innovation;
- suppliers as partners;
- entrepreneurship and intrapreneurship;
- customer service/care, loyalty;
- learning organizations;
- the balanced scorecard.

Ensuring the fundamentals: finance
- pressure for greater financial performance of plc companies;
- deregulation in the City of London and greater competition;
- some moves away from ‘quoted companies’ to private ownership to ensure appropriate valuation;
- greater availability of venture capital/private equity funding;
- more management buy-outs;
- more active institutional shareholders and also individual (and vociferous) shareholder groups;
strong pound; future role of euro;
employee share participation schemes.

Ensuring the fundamentals: general
- administrative infrastructure – processes, procedures and methodologies;
- physical structures – locations, property and land;
- transportation.

Marketing the message
- branding;
- media;
- product evolution;
- internal and external communication.

Organizational realities
- greater accountability;
- women breaking through the ‘glass ceiling’;
- end of ‘careers for life’ and employability, and a return to looking at the retention of talent, career development and succession;
- from transactional/command and control to transformational, consensus building and a participative type of leadership;
- knowledge working and intellectual capital;
- increased rate of organizational and other change;
- stress;
- increased demands for skilled workers, especially white-collar workers.

Wiring the organization
- mainframes, PCs, notebooks, networks;
- Internet, intranets;
- databases;
e-commerce;
communications – telephones, video discussions/conferences, mobiles, fax and e-mail;
computer-aided design/CAM;
increased productivity through computers, communications and telecommunications;
call centres and databases.

Power to the people

outsourcing;
part-time and full-time working, core and peripheral workers;
supply management;
demand requirements;
utilization, performance management;
‘psychological’ contracts;
self-managed learning;
‘third age’ working;
greater self-employment and also home working.

The social context

breakdown of the family unit, single-parent families;
more home-owners;
increased demand for housing, pressure on the ‘green belt’;
greater availability of further education;
greater leisure and overseas travel;
increased crime;
isntiable demands on the National Health Service (NHS), day surgery etc;
ageing population, pensions issues etc;
pop stars.
### Wider governmental and world affairs

- increased influence of the European Union through legislation, individual rights through the Court of Human Rights and workers’ rights through the ‘social chapter’;
- war and trouble spots, eg Northern Island, Yugoslavia, the Middle East, Indonesia;
- breakdown of communism;
- opening of China and Far East economies, difficulties in Russia;
- devolution to Scotland and Wales;
- ‘convergent’ politics;
- global warming;
- environmental and other pressure groups.

The findings of this survey will be based on the self-selected sample of those who read this book. If you do respond, you are sure to be interested in the ratings and opinions expressed. The results will be published in mid-2004 and made available on the Web sites of the Company of Management Consultants (www.comc.org.uk), International Council of Management Consulting Institutes (ICMCI) (www.icmci.com) and Kogan Page (www.kogan-page.co.uk).
Ethics and Best Practice
Although audit firms have been the focus of the recent debate on corporate governance, it may only be a question of time before their consulting counterparts come under the spotlight. So what is the future for those offering advice and support to the world’s biggest organizations?

Many of the changes attributed to Enron were already underway before the scandals hit the headlines. These included:

- the separation of the audit and consultancy services in multidisciplinary firms;
- a growing number of niche players in the consultancy market;
- a move towards new-style contracts based partly on payment by results.

Most of the ‘Big Five’ audit firms (Arthur Andersen, Deloitte & Touche, Ernst & Young, KPMG and PricewaterhouseCoopers (PwC)) had already taken steps to separate their consultancy business from their audit services, partly due to the SEC scrutiny in the USA but also to raise capital for investment in technology and staff. Cap Gemini’s acquisition of Ernst & Young’s consultancy arm in 2000 and KPMG Consulting’s flotation in the USA in 2001 were the first stages in what was to be a dramatic restructuring of a major part of the consulting industry.
Many of the world’s largest consulting firms owe their origins to the audit profession. Accenture was once part of the Andersen Worldwide group, but following a painful divorce from the audit-based business (Arthur Andersen) in 2000, it was forced to rebrand. What started out as a profitable sideline for the audit firms became a multi-billion-pound business in its own right, particularly as technology became a key competitive differentiator for clients in the 1980s and 1990s. Management consultancy was much more attractive for bright young graduates than accountancy, which had a somewhat staid image.

Following the Enron revelations there has been worldwide scrutiny of corporate governance and audit practice. Some very big purchasers of consultancy were getting increasingly nervous about potential conflicts of interest and were starting to reallocate their audit and consulting contracts. As Andersen disintegrated, three of the former ‘Big Four’ responded to growing client concern by taking steps to separate their Information Technology (IT) consulting and audit operations. In some cases this separation resulted in new names being adopted: Atos Origin acquired KPMG Consulting’s UK operations; KPMG Inc rebranded as BearingPoint; IBM acquired PwC’s consulting arm and Deloitte Consulting prepared for a management buyout.

The debate on conflicts of interest is not confined to audit and consultancy services; many of the global consultancy firms have alliances with a number of IT vendors, calling into question their independence and objectivity on issues such as technology specification. The growth of outsourcing and private finance initiative contracts has lead to new style relationships between consultants and their clients, the sharing of risks and rewards, and in some cases the creation of joint ventures. Where does this leave the role of the consultant as an objective outsider?

What is management consultancy?

At the Management Consultancies Association (MCA) we felt that our own definition of management consultancy was long overdue for revision. After considerable debate internally, we came up with the following words, still far from perfect, but a more accurate reflection of today’s consulting industry:

Management consulting is the creation of value for organizations, through the application of knowledge, techniques and assets, to improve
performance. This is achieved through the rendering of objective advice and/or the implementation of business solutions.

Let’s look at one aspect of that definition more closely, the ‘rendering of objective advice’. The MCA now recognizes that this is no longer the primary activity of many consultancy firms. In addition, few consulting firms can claim to be truly ‘independent’ these days; however if a client requires advice from his consultants, we believe that advice should be objective or fact-based.

A large chunk of the consulting industry is not in the business of offering advice at all, but exists to implement the strategies and programmes agreed in the boardroom, often with other professional advisors. It is not possible for a consultancy firm to provide in-depth knowledge of a particular technology, global teams to implement it and to be technologically ‘agnostic’. Indeed many clients do not regard this as necessary; they are looking for world-class suppliers and speedy implementation across borders; in such situations objectivity is not an issue.

However, the truly independent firms can provide the necessary checks and balances in a market dominated at the top end by a decreasing number of global players. The MCA’s role is to ensure that clients know exactly what they are buying when they engage a firm so that they can make informed choices about their consulting partners. The Statement of Best Practice, which the MCA has published together with the Institute of Management Consultancy and the Office for Government Commerce (OGC), recommends that consultants should ‘explain the pros and cons of various approaches, explaining in broad terms the range of approaches available’.

Collaborative working between client, consultant and other partners is increasingly seen as key to the success of consultancy projects. The overall winner of this year’s MCA Awards was SchlumbergerSema for their work with the International Olympic Committee on the 2002 Olympic Winter Games in Salt Lake City. SchlumbergerSema led a consortium of 15 technology partners who developed and implemented the entire IT infrastructure for the games.

There are considerable advantages for clients, consultancy firms and IT vendors in establishing formal or informal alliances. The IT vendors see the big consultancy firms as key influencers in client markets. That influence is based on the trust established between the consultancy firm and the organizations with which it works.

The consultancy firms in turn can pass on economies of scale and speed to their clients by establishing links with world-class technology suppliers.
They can help the IT vendors to develop their offerings to suit different clients and different sectors. They also have a better understanding of the human and organizational implications of technological change, which, if not properly understood, can result in the failure of large IT implementations. The relationship between IT suppliers and management consultancy is totally symbiotic and the client should ultimately benefit by receiving better solutions more quickly and cost effectively.

Those who purchase consultancy are, for the most part, highly experienced individuals, often with a consultancy background, who have a good understanding of the offerings within the consultancy market. They buy the services of a particular consultancy firm because they expect it to deliver the best solution for their unique set of circumstances. That may well be one of the consultancy’s preferred partner solutions and the client may feel that this is the most effective way forward. On the whole, global consultancy firms tend to work with the world’s leading IT suppliers – it is in their interests and their clients’ to do so.

Clients are maturing, alongside the consultancy industry that assists them. Many are former consultants who are not afraid to ‘cherry pick’ the services they need from a range of suppliers. At the same time, the economic environment is forcing them to focus on core capabilities, to cut costs and to add value. If they are going to spend money on consultants, they need a return on investment very quickly. However, both clients and consultants need to be wary about taking too simplistic an approach. Payment by results is easier for some consulting projects than others; clients cannot wholly abdicate responsibility to their professional advisors.

There is certainly no evidence to suggest that clients are feeling ‘duped’ by the big firms. A recent survey by the MCA into the purchasing of management consultancy services showed that 88 per cent of those questioned would use their present consultancy firm again and 79 per cent expect to benefit from the consultancy investment within one year.

The consultancy industry has never stood still; it is always evolving to meet the changing needs of its clients. The MCA’s job is to help consultancy firms and their clients to respond to these changes in a positive way; this will allow them to work effectively for the benefit of their own organizations, the economy and society as a whole.
Professional standards through best practice: qualifying consultants and demonstrating competence internationally

Caroline Barker and Barry Curnow

Management consultants who clearly understand the business needs of their clients, who can meet and match the changing demands of the sectors they work in and who demonstrate high levels of engagement in their profession will have the edge. The Institute’s new competence framework for management consultants is a great foundation from which to develop this.

Marks & Spencer plc

Introduction
The two years since the publication of the first edition of this guide have seen a dramatic transformation of the management consulting market and some of the most turbulent times the profession has ever encountered. What was historically the commodity or so-called ‘down market’ has become the ‘new market’. This new market has been formed as a result of large-scale amalgamations such as those of IBM and Pricewaterhouse-Coopers (PwC), Atos KPMG, Hewlett Packard and Compaq, and Logica and CMG. These new firms combine traditional consulting services with information technology (IT) and outsourcing to form major solutions
providers. Alongside this, established providers such as Accenture, Cap Gemini Ernst & Young (CGE&Y) and EDS have held firm along with many established strategy houses. The market has seen the demise of Andersen Consulting — which had grown to become one of its largest players — following the demerger of Accenture, and the dotcoms have largely disappeared.

The testing economic environment has seen a transfer of skills into niche consultancies, sole practitioners and networks. As competition becomes tighter, partnering and innovation have increased — as has the emergence of unlikely partnerships, such as that with BT, Schlumberger and CSC who have come together to create new solutions for their clients.

In the medium term it is expected that there will be a re-emergence of audit firms in the consulting market. This is especially so in the UK following a relatively favourable government response to the Enron scandal in deciding not to outlaw consulting work by audit firms, although quoted clients must declare any such conflicts of interest and get shareholder approval. Among the larger consulting firms, downward pressure on fees is heavy and new organizational models are being introduced to respond to the challenges of the changing market; organizations are actively seeking efficiencies and alliances as a survival tactic. These trends are discussed in more detail in Chapter 1.3.

In the emerging markets, consultancy is increasingly at the center of developing economies. After the Berlin Wall came down in 1989, consultants, supported by aid agencies, flocked to the new democracies of Eastern and Central Europe. Many of those countries now have impressive social and professional infrastructures, including institutes of management consultants affiliated to the International Council of Management Consulting Institutes (ICMCI), the umbrella body of certifying organizations around the world that administers the Certified Management Consultant (CMC) qualification. This qualification reflects a single global standard observed by some 40 member countries of ICMCI, many of whose consultancy industries are profiled in Part 5.

For many years now economists have been predicting the polarization of the consulting market and the disappearance of medium-sized firms. Already over 70 per cent of consulting firms employ fewer than 10 people and 25 per cent employ more than 50. Following a study of its own, Arthur D Little predicted that the middle market would disappear, but that has not happened and now seems unlikely. It is true that the popu-
lation of the middle market is continually changing and renewing itself as consulting practices move through their life cycles. On average it takes seven years for a major shift in ownership, structure, business, products and long-term client relationships to come about; the same time period seems also to apply to the underlying cycle of consulting careers.

It is highly likely that there will always be a middle market because that is where client relationships are forged and all-round consulting competence is enhanced through learning and development as a joint, collaborative activity between consultants, clients and colleagues. Keeping consultant learning and competence up to date is the key challenge in this fast-moving electronically enabled world, where sole practitioners and giant firms alike have equal access to the marketplace of the Internet. The fundamental question arises of how consultants keep up to date when know-how becomes obsolete so rapidly and when even blue-chip firms, such as McKinsey & Company, have been criticized for making client recommendations that were ‘not quite the state of the art’ electronically. The answer, of course, must be through continuing professional development that is appropriate to the electronic age. It is no accident that McKinsey, which has invested heavily in consultant training and development throughout its entire history, still goes from strength to strength, while many of the dotcom firms are no more.

Against this background, the need to demonstrate professional standards has never been greater. For developed countries in highly competitive markets, the onus to demonstrate value to clients is high; having qualified consultants and adhering to professional codes of conduct are prerequisites. For those countries where consultancy is emerging, there is a desire to tap into developed practices and standards.

**Education and training**

It comes as no surprise that there has been an explosion in consulting education and qualifications in the past few years. The Institute of Management Consultancy (IMC) in the UK now recognizes some 30 approved training providers and has established links with a wide range of academic bodies. Other countries within the ICMCI network are developing their own educational and training initiatives within a shared international learning and development philosophy. From traditional classroom-based delivery, to blended learning solutions using virtual
teams and Internet technology, the choice of learning styles and range of content continues to expand.

Both the American and British Academies of Management have set up consultancy special interest groups (SIGs) to discuss the state of the art in consultancy learning and development and to review the progress of the revolution in consulting studies in higher education. The British group has undertaken a survey to map the provision of consulting courses in European universities. This study by Sally Woodward of London’s City University Business School has identified over 40 substantive postgraduate courses that include consultancy as a major subject in the UK and several more that exist across the EU; further information is given in Chapter 2.4.

Many of these courses deliver relevant content for the CMC qualification awarded by Institutes of Management Consultancy through ICMCI. The 40 ICMCI institutes are committed to a programme of peer audits to ensure that the standards of the CMC qualification are maintained, based on an agreement known as the Amsterdam Standard. This international competency model, launched in Amsterdam in 1999 and updated in Sydney in 2001, is based on lifelong learning and practical, job- and client-based assessment. Individuals may apply and demonstrate their readiness for the CMC qualification by submitting evidence of their competency in the four quadrants of:

- management know-how;
- functional specialist expertise;
- consulting skills;
- socioeconomic and political awareness.

From this established and internationally recognized basis, member countries are continuously adapting and updating their models to meet the ever-changing requirements of the market in order to promote and develop skills for tomorrow’s emerging consultants.

Independently awarded and internationally recognized, the CMC qualification continues to be at the fore in setting expectations across the profession. It aims to define the ‘fully competent consultant’ and is targeted at those who:

- have approximately three years’ experience as a consultant;
- are experienced in all elements of the consulting life cycle;
can take full ownership for delivery of a project or a major work stream;
- have experience in managing others;
- make contributions that are highly valued by clients.

Examples of leading practice based on the international standard are emerging from different parts of the world. In Canada, a comprehensive CMC evaluation process is in place requiring formal examination alongside a case study assessment and interview. A blended learning foundation course, *Essentials in Management Consultancy*, is a prerequisite to the CMC qualification. Blended learning combines traditional study methods with Internet technologies using virtual teams to deliver a case-based project.

The Austrian Institute for Management Consultants and Information Technology Experts (INCITE) has established an Academy of Management Consultancy to prepare candidates for the formal CMC hearing. This aims to provide intensive training in all fields of management consultancy (as opposed to functional expertise) and to exchange case experience with experienced colleagues. An intriguing innovation in this venture is that the programme participants, ie all the candidates, rate each other as well as receiving ratings from the academy faculty at the hearing.

The South African Institute has linked the CMC qualification to a comprehensive national framework of vocational and educational qualifications based on functional analysis and competency assessment techniques. Switzerland, Germany and Austria have produced a German-speaking version of the *Common Body of Knowledge* (the international syllabus for the CMC qualification) and signed a concordat committing them to adhere to that fundamental platform of the international standard – the underpinning common body of knowledge in management consultancy.

In the UK, the IMC has recently developed the CMC qualification into a broader, competency-based framework. This Management Consultancy Competence Framework (MCCF) (Figure 2.2.1) sets out clear development routes for individuals working in the profession. A six-month piece of work, it has been welcomed as a significant application of the international standard to the contemporary marketplace and is the culmination of research and consultation involving members of the profession, academic bodies, clients and other interested parties. It builds on the international CMC qualification to capture leading practice and define the standards required and demonstrated by the profession.
The MCCF presents the knowledge, skills and behaviours required of today’s management consultant, all of which are supported by a code of conduct and ethical guidelines. It sets out a standard for those in the profession and is relevant to individuals in large and medium-sized consultancies, niche players, internal consulting departments, networked groups of consultants and sole practitioners. It can also be used as a benchmark for clients in developing their expectations of consultants as well as by academic bodies and training providers to align their educational offerings to the market.

Although primarily researched in the UK, the MCCF has captured input from many of the leading global consultancy players, eg IBM, Shell and PA Consulting. It is being made available to all members of ICMCI under the provisions for the sharing of best practice and the knowledge transfer of intellectual property between member countries. Richard Elliott, ICMCI Chair (2001–03) welcomed the publication of the UK framework, stating that ‘in adopting this framework as an external benchmark, the UK institute has provided a vehicle for our members to demonstrate clearly to our clients our very high standards of professional competence.’

Part of the UK work included a profession-wide definition of management consultants as ‘those organizations and/or individuals that

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**Figure 2.2.1** The *Management Consultancy Competence Framework*
participate in the process of management consultancy within a framework of appropriate and relevant professional disciplines and ethics designed for the activity of management consultancy’. In this context, management consultancy is:

\[
 \text{the provision to management of objective advice and assistance relating to the strategy, structure, management and operations of an organization in pursuit of its long-term purposes and objectives. Such assistance may include the identification of options with recommendations, the provision of an additional resource and/or the implementation of solutions.}
\]

The framework recognizes a suitably qualified and experienced management consultant as an individual who will be engaging in providing change management solutions to a client. The necessary competence will include demonstrating:

- technical and business knowledge;
- business understanding;
- change management skills;
- ownership, management and delivery of solutions to clients;
- project delivery and risk management;
- high-level interpersonal skills;
- the ability to transfer skills to others;
- creative and analytical thinking;
- adherence to a code of conduct and ethical guidelines.

This work on definitions has been welcomed by the profession as capturing the broad nature of consulting and its diverse portfolio of services in today’s modern world.

Within the framework, three categories of competences have been identified:

- market capability and knowledge: the application of fact-based knowledge, bringing together the combination of technical skills, business understanding, sector insight and external awareness;
- consulting competence: this defines the core consultancy skills, tools and techniques that are essential in delivering consultancy services;
- professional behaviours: these are the entry-level professional behaviours and attitudes that act as ‘enablers’ in achieving market capability
and consulting competence. Examples of these are shown in Figure 2.2.2.

**Professionalism and ethics**

Operates with professionalism and integrity in all aspects of the role including conduct, appearance, adherence to codes of practice and working in the best interests of the client

**Demonstrated behaviours**

- Adheres to the Institute of Management Consultancy’s code of conduct
- Deals appropriately with ethical issues within the code of practice
- Ensures professional advice given is technically sound and relevant to client needs
- Sets high personal standards
- Acts with integrity
- Values diversity in terms of culture, religion, race and gender
- Is courteous, reliable and responsive in dealing with others
- Respects confidentiality
- Engenders trust
- Is respected by professional colleagues

**Figure 2.2.2 Professional behaviours**

Each category has three levels – development, independence and mastery – all underpinned by generic behaviours. This can be used as a platform for ongoing development. These levels are illustrated in Figure 2.2.3 in relation to the competency of achieving sustainable results.
The competency model has been welcomed across the marketplace by clients, internal consultancies, brand name and accredited practices (listed below) and sole practitioners and institutions of higher education. Abbey National highlighted its importance in stating that it ‘… places professional competence in the right context of consultancy processes, as never before…’.

### Accredited practices

*We welcome the new model, which provides an updated and comprehensive framework for professional development (Atkins Management Consultants).*

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<table>
<thead>
<tr>
<th>4.0 Achieving sustainable results</th>
<th>Development</th>
<th>Independence</th>
<th>Mastery</th>
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<tbody>
<tr>
<td>4.1 Planning &amp; Management</td>
<td>Manages own delivery under the guidance of more experienced colleagues</td>
<td>Manages client projects effectively ensuring objectives, deadlines and budgets are met by team members under own control</td>
<td>Ensures realistic objectives</td>
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<td></td>
<td>Plans and manages own time ensuring own deliverables are completed to required timescales and budget</td>
<td>Competent use of project planning, tools, milestones appropriate for the size and scale of the project</td>
<td>Advises on delivery design and implementation</td>
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<td></td>
<td>Works in one or more stages of project delivery</td>
<td>Demonstrates the ability to assess, form and allocate work streams, managing own time and that of others to meet deadlines</td>
<td>Reviews and advises on project plans</td>
</tr>
<tr>
<td></td>
<td>• Competent use of project planning, tools, milestones appropriate for the size and scale of the project</td>
<td>• Operates competently in all areas of project delivery</td>
<td>• Operates competently in all areas of project delivery</td>
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Figure 2.2.3 Levels of competence in achieving sustainable results

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We firmly believe in the value of our competency framework, developed from the Institute’s blueprint. It assists staff in managing their own careers, provides a path towards professional recognition and gives an element of portability in the job market. It also enhances the professionalism and effectiveness of what we do by setting standards and benchmarks by which we can compare ourselves with others (Shell Information Technology International Limited).

The CMC qualification is increasingly being adopted by accredited practices. The international designation of ‘accredited practice’ (still known in some countries as certified practice) can be awarded by a national institute to any management consultancy practice that has demonstrated to the institute, by undergoing a systematic audit, that ‘its professional standards for the training/development and assessment/qualification of its consultants, and the internal systems which assure these, are of at least the same level and rigour as those required to meet the ICMCI CMC standard’. The continued conformance of the practice to this standard is monitored by periodic checks.

Practices awarded the designation are accredited so that they may put forward candidates for the CMC qualification from their practice to the national institute. In recognition of the audited standards demonstrated by the practice, these candidates will be subject to more limited scrutiny, examination and checks than are required of other candidates.

The accredited practice arrangement gives benefits to the practice, to the consultants within it and to the national institute. For the practice, this external independent accreditation of its training and professional standards helps it in recruiting high-quality consulting staff and in demonstrating its professionalism to them and to clients. For consultants within the practice, the arrangement gives readier and simpler access to the portable, internationally recognized CMC qualification. For the national institute, the accredited practice designation gives it relevance and a basis for relationships with large and medium-sized practices and a means of recruiting into membership the consultants within these practices. The accredited practice concept was approved by ICMCI at the Amsterdam Congress in 1999, within the framework of ICMCI’s CMC Standard (of which it now forms a recognized strand).

Since 1999, the momentum has continued and several national institutes have included the concept within their own countries (eg the UK, Denmark, USA, Germany). In the UK the majority of large international
practices (as well as many of the better medium-sized ones) are already accredited practices of the UK institute. Interest from large practices in having a more formal international recognition of accredited practice status across the ICMCI community has grown significantly: an international protocol to enable this was agreed at the September 2003 Istanbul Congress of ICMCI.
Yes! But can you trust them?

The question that many clients asked themselves over the years has been compounded with the increasing level of integration of management consultancy firms with information technology (IT) companies. Questions raised in Europe and in the USA were suddenly answered with the revelations of the conflicts of interest ignored by Enron and its auditor, Arthur Andersen. Arthur Andersen was billing US$50 million for these services, divided roughly equally between audit and consultancy. The collapse of Enron lead directly to the demise of Arthur Andersen and to the US regulatory authorities requiring the separation and divestment of consulting arms from audit work.

Separating audit and consultancy is only part of the story – what about IT, human resources and other outsourcing services? Are these services really advisory? Or are they process engines delivering services for a contract value?

Within the context of global business, another question arises: ‘does size matter?’ For some clients a consistent approach across various geographies is not only necessary, but critical. But that begs yet another question: ‘how can consultancies build cross-cultural teams to deliver consistently these services to clients anywhere?’

Ethics are founded in culture, and cross-cultural teams may contain members with diverse views on integrity and workplace ethics. As you will read later, the introduction of a code of professional conduct, complemented by ethical guidelines, is a key part of encouraging client confidence.
Often the easiest part of engaging management consultants is finding those with relevant competence and a demonstrable track record of success with other clients. However, almost certainly there will be some more questions at the back of your mind, such as:

- Will they provide impartial, independent advice? If not, will they declare their interest so I can form a valid judgement on the worth of their advice?
- Is their previous experience really relevant to my situation?
- Will the management consultants assigned to my company deal with my staff with respect and sensitivity?

The answer may come down to your instinct and your observation of their behaviour, supported by personal references from someone you know and whose judgement you trust. However, the million-dollar question still is ‘can you trust them?’

The result of an informal survey of regular clients conducted a few years ago by the head of practice of a small 40-person consultancy revealed that approximately 70 per cent of clients approached the firm first because they trusted the head’s judgement. If his own firm hadn’t the competence, he would refer them to another firm that could satisfy the client’s needs. Clients knew this, and always asked him first – even though they knew his firm couldn’t carry out the work! So here are some essential questions that you should ask yourself:

- Do I feel I can trust the consultants?
- Can I trust them to treat confidential matters sensitively and securely?
- Can I trust them to report honestly to me the real needs of my organization without fear or favour?
- Can I believe that conflicts of interest are being addressed properly?
- Is my company being treated impartially, objectively and fairly, without regard to the consultant’s personal gain or that of his firm?
- Are the consultants assigned to my organization really experienced in implementing the solution?
- How can I know all these things?
A short history of management consultancy

Management consultancy originated in North America and seeds of this new approach to business travelled across the Atlantic in the early years of the last century. Engineers and accountants were the main ambassadors of this wonder of the New World – ‘scientific management’. Much of their original work was based on introducing rigour to the process of observation, objective analysis of the alternatives and design of a new ‘best’ way to carry out tasks. Frequently they were driven by the need to produce more for a burgeoning market, but the Second World War added urgency to the need for greater production from limited resources. Management consultancy was used extensively to achieve greater volumes of output. After the war, those management consultants who had enjoyed the challenge of developing innovative solutions during a time of national crisis turned their skills to peacetime production.

The arrival of large American firms of management consultants in the UK during the 1950s spurred on the development of UK firms, who formed the Management Consultancies Association (MCA) as a trade body to protect their interests. The backgrounds of UK management consultants meant that individuals were often qualified by their original engineering and accountancy institutes. These institutes were rooted in the 19th century, with its concepts of service and trustworthiness. Their rules of conduct were modelled on the selfless ethic of those engaged in medicine, nursing and teaching, which required their members to observe high standards of personal conduct and behaviour befitting their public responsibilities.

It was natural, therefore, that when a few of the larger UK firms sponsored the formation of the MCA, they resorted to a model that was familiar to them. However, the MCA soon realized that trade interests did not sit easily with clients’ needs and in 1962 it sponsored the establishment of a body whose aims included the ‘traditional’ ideas of high personal standards of behaviour, a culture of service to the client and the avoidance of conflicts of interest. That body is the Institute of Management Consultancy (IMC), whose name changed from the Institute of Management Consultants in 1998.

The IMC was originally modelled on a 19th century exclusive club but has evolved into a radical, inclusive 21st-century body now playing a leading role in the International Council of Management Consulting Institutes (ICMCI). This helps the IMC to provide assurance to clients of
the quality and behaviour of its members on a global basis by means of the international Certified Management Consultant (CMC) qualification. As an important service — directly for IMC members and indirectly for clients — the IMC established an ethical helpline to complement its legal helpline. This aims to go beyond mere compliance and assists consultants to recognize dilemmas and identify their solutions. Many of the questions telephoned in relate to real or imagined conflicts of interest. The legal helpline provides guidance, whereas the ethical helpline helps the member to arrive at his/her own solution.

The MCA itself has grown to represent 40 large UK consultancies and, with developments in the marketplace, they have addressed ethical issues more closely. The American and European authorities highlighted their concern regarding the impartiality of advice and the possible conflicts of interest arising from the growth of the large international professional firms. These firms, originally auditors, accountants and tax advisers had been attracted into the consultancy market. The attraction of enriched fee-income, allied to the respectability and competitive edge they lent to the service offering, made this an attractive proposition for clients who trusted their auditors and were unsure about the aggressive selling techniques adopted by the new management consultancies.

With increasing dependence on technology, the need to have access to the very best solutions became paramount for many clients. They were impatient with traditional consulting, which relied on the scientific, objective approach. They wanted their businesses to be the quickest to the market with new services and products, and sought the input of consultancies that had experience of similar implementation exercises. This enabled the ‘Big Five’ firms (Arthur Andersen, Deloitte & Touche, Ernst & Young, KPMG and PricewaterhouseCoopers (PwC)) to post year-on-year growth in double-digit figures. It also encouraged IT companies to enter the market more confidently on the back of standard solutions that worked. Very quickly the distinctions between these firms became blurred. The potential for conflicts of interest also increased as these firms competed to attract the brightest graduates and to commoditize consultancy solutions.

The worst fears of American and European regulators were realized when news of the Enron/Arthur Andersen scandal broke. Apparently the self-serving interests of senior Enron executives were allegedly condoned by the behaviour of the auditor, whose substantial annual audit fees were matched by the fees charged in consultancy, not least in respect of taxation advice which helped Enron to avoid income tax between 1995
and 2001. The impact on the reputation of the accountancy practice was devastating: multinational clients fled and Arthur Andersen disappeared as a presence on the world scene in less than 12 months. The Accenture consulting arm that had emerged earlier had established itself in the marketplace and was untouched.

Although there has been some disenchantment among clients about the large firms of consultancies, the focus of their disenchantment has changed. Clients had begun to mistrust the armies of young, highly educated, but often inexperienced consultants, who peddled standard process-based solutions. Now with the regulators fears realized and the evidence of conflicting interests laid bare, clients had to be more discerning and particular about their choice of consultancy; indeed they had to devote time and energy to ‘micro-manage’ the consultancies they retained. Among recent examples divulged to the writer are the following areas of concern about consultancy practices:

- lack of accountability on the part of individuals on the consultancy’s staff: the result is time booked to the job that cannot be fully justified, which pads out consultants’ fees;
- lack of accountability for reasonable expenses: five-star hotel bills, first-class or business air fares and *cordon bleu* meals can become the norm, with the client unknowingly paying the bill;
- lack of transparency on the part of the consultancy and its billing processes: this can lead to lengthy post-mortems, wasting clients’ and consultants’ time.

The sheer pace of business today, as global business takes hold, induces calendar bottlenecks. Electronic diaries are becoming so overloaded that maintaining continuity on a consultancy engagement is becoming a major challenge for both consultants and clients.

Another trend that is manifesting itself in the market is the move to outsourcing, as has been done with IBM and EDS in the technology area and Hewitt Associates and WatsonWyatt in the human resources area. These firms are driving a new business model that delivers teams of operatives that service the client under contract for several years. Traditional management consultancy engagements are more and more the province of medium-sized firms and specialist boutique consultancies. This is perhaps a positive trend, which parallels the accountancy profession’s experience. Hopefully, as with accountants, management consultants are returning to their trustworthy roots.
Competency of individual consultants

In an uncertain world, clients seek as much certainty as possible to protect market shares and margins. Obtaining the services of a consultancy firm whose staff can prove they have current competency in the services needed is an increasingly important factor in the choice of consultants.

In the UK, clients increasingly ask their potential consultancy supplier whether they are accredited with the IMC. The client can ask each member of the consultancy team assigned to them whether they are currently competent in the areas the client needs for his/her company. In order to reply in the affirmative, the individuals must have passed a rigorous assessment of their current capability. This is tested by the IMC on an annual sampling basis. Increasing numbers of consulting firms are applying for accreditation with the IMC scheme for practices, which requires the firm to pass an assessment of their education and training processes. If the firm succeeds, employees can ‘fast-track’ to the CMC qualification within three years, compared to the more usual five years that other practitioners require to qualify.

Individuals are tested within the following competence framework:

- professional behaviours: these define the entry-level professional behaviours and attitudes which act as ‘enablers’ in achieving market capability, knowledge and consulting competence;
- consulting competence: these are the core consultancy skills, tools and techniques that are essential to effective service delivery;
- market capability and knowledge: this is the application of fact-based knowledge. It brings together the combination of technical skills, business understanding, sector insight and external awareness.

The framework defines the competences required to be a management consultant. The competences are the behaviours, skills and knowledge that a management consultant is expected to understand, apply and demonstrate. There are three levels of attainment for each competency – development, independence and mastery – each underpinned by generic behaviours. The onus for proof of competency is on applicants, who must provide proof by reference to their work experience.

When an individual management consultant becomes a member of the UK IMC, he/she must formally agree to abide by a legally enforceable professional code of conduct and observe high personal standards of behaviour as set out in the ethical guidelines. For reference, both the IMC code of conduct and the ethical guidelines are given at the end of this chapter.
International dimension

The possibility for clients in other countries to seek confirmation of the qualification of the consultants will become more widespread with the formal adoption of the CMC qualification by the ICMCI, a body that has 40 members (36 full members and four provisional members) from different countries. Each member body is in the process of working towards common practices for qualifying individuals working within their geographical sphere of influence.

In some cases, global businesses are forcing the pace by seeking recognition for their global consulting practices (both internal and external consultancies); the UK practice accreditation process has been adopted as a policy by the ICMCI. Global practitioners will be able to give assurance to clients as well as enhance their attractiveness for the best candidates.

The ICMCI has taken these initial steps along with adopting a code of conduct that focuses on common features, but guidelines for ethical practice have not yet been adopted.

Legal basis for the work

In order to avoid some of the more alarming results reported in the press, it is always important for buyers to be aware of the potential risks. In any buying situation, the old Roman law adage ‘
caveat emptor’
roughly translated advises any buyer to be wary of unsubstantiated claims and of promises that appear unreasonable. In every case the consultant’s proposal will form the basis for sanctions or legal actions. It is vital, therefore, when buying a consultant’s services to ensure that their proposal clearly states the basis for the work. It should be as specific as possible – in particular it should state:

- the consultant’s understanding of the client’s requirements;
- the consultant’s approach to dealing with the client’s requirements;
- the number of consultancy staff involved and their relevant experience;
- the consultant’s assumptions as to the level of resources they expect from the client;
- the estimated lapsed time needed to satisfy the client’s requirements;
- the estimated costs involved.

This provides a sound starting point for the engagement work, during which it will be important for the client to manage the project along with the consultant. It also provides a fundamental means of measuring the
effectiveness of the consultants and, should relations ultimately break down, it will be vital in any legal action.

Sanctions, arbitration and redress

Some management consultancies have been guilty of poor practice, but upon investigation it transpires that the firm in question is not a member of any formal body and thus can escape professional sanction. Even the more normal redress open to a client, that of requiring the firm to commit resources to the correction of the inadequate work, can be unavailable. If a client feels it is necessary, and if the offending firm is a member of the MCA or IMC, then sanctions may be applied for through the appropriate body.

The IMC has moved to introduce a more transparent sanction against errant members by proposing that a prominent individual – not a management consultancy professional – be invited to play a part in the disciplinary procedures. This is seen as a matter of basic human rights as well as a means of protecting the public. In February 2002 Sir David O’Dowd, formerly Her Majesty’s Chief Inspector of Constabulary, was appointed to the post of Ombudsman.

In the rare event that a client suspects wrongdoing, contact with the IMC and/or the MCA can help them to determine what redress is open to them. An appeal to the IMC or MCA in UK law will not necessarily prejudice a client’s right to damages: it depends on the circumstances. In the event that arbitration is invoked, it would be normal for the terms of the arbitration to bind the parties to the outcome; otherwise contract or common law rights could apply.

The position will vary in other countries and clients should contact their local management consultancy body for guidance.

Conclusion

The post-Enron world has changed for ever the relationship between management consultants and their clients, and accountants and their clients. With new regulations and legislation being introduced and approved, corporate governance will change and greater accountability will be expected. This will spill over into the way in which consultants are perceived and trusted. There are signs in the marketplace that clients have read the future and are now more demanding.
Management consultancy is a comparatively young profession. It is populated largely by highly principled individuals who strive to deliver their best, honestly and professionally. The majority has nothing to fear from demanding clients with great needs and high expectations.

The capitalist-based economy needs management consultants to provide expertise and resources when needed at fair and reasonable cost. They have experience of a wide range of situations in public and private sectors, in large and small organizations, in different client cultures ranging from the bureaucratic and process-driven to the innovative and entrepreneurial, among others.

Three possible answers to the original question, ‘can you trust them?’, are outlined in Table 2.3.1. This chapter then addresses further concerns and provides a way ahead for any client or potential client.

There’s an old saying that seems apposite, ‘why keep a dog and bark yourself?’. You should trust a reputable consultant or consultancy to inject the knowledge, expertise and controls necessary to achieve your objectives in the desired time frame. You and your enterprise should not need to provide the resources necessary for control if you trust your management consultant. A checklist for building trust in a relationship with your management consultant is given in Box 2.3.1.

**Table 2.3.1 Can you trust management consultants?**

<table>
<thead>
<tr>
<th>Can you trust them?</th>
<th>Consequence</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>If you don’t trust them, you will be forced to set controls in place that virtually ‘micro-manage’ the consultancy engagement. Or even worse, you will be forced to reduce your use of management consultants as advisors. Either of these can be frustrating and counterproductive. At worst, you are missing opportunities to improve your business, and at best, you will secure the consultancy input you seek, but at greater cost and time delay than was needed. Worse still, it is possible that your lack of trust will result in higher costs as the consultants involved underwrite their own certainty.</td>
</tr>
<tr>
<td>I don’t know</td>
<td>If you don’t know whether to trust them, you will also be forced to incur the cost of supervision and unnecessary delays along with other negative results. It is human nature to lack trust – a situation hardly likely to be conducive to a successful partnership.</td>
</tr>
<tr>
<td>Yes</td>
<td>Trust grows from knowledge and experience and having invested time and resources in consultant selection, an atmosphere of mutual trust and respect will grow. The outcome of the engagement is more likely to achieve the success for which you are striving.</td>
</tr>
</tbody>
</table>
Box 2.3.1: Building trust with your management consultant

Have you received a clearly written proposal from the consultant containing:

- the scope of the work to be undertaken?
- the resources you are expected to make available to the consultant?
- a timetable or schedule that identifies important milestones?
- the CVs of the individuals assigned to your project?
- the total fees for the work and the timetable for invoicing?
- the estimated expenses and confirmation that they are in line with your own expense arrangements?

Have you met the individual consultants?
Are you satisfied that they have the necessary expertise?
Do you feel you can trust them?
Have you received satisfactory references from previous clients?
Have you a clear understanding of how the fees are calculated?
Have you a clear idea of the basis for expenses?
Have you a regular and structured review process in place?
Have you nominated a contact manager to maintain communications with the consultants?
Is there provision for a post-engagement review?
In recent years the perceived lack of individual ethical behavior has received increasing publicity and scrutiny in the media. The public response has been an increased level of expectations of higher standards from public servants, elected representatives and professional advisers.

The Institute has published these guidelines to assist members and to provide some tests which can be used to gauge the extent or otherwise of members’ ethical behaviour.

The Institute’s Code of Conduct is founded on three basic principles, namely:

- high standards of service to the client
- independence, objectivity and integrity
- responsibility to the profession

This guidance describes two additional principles which should attach to an ethical decision, and sets out a number of questions designed to assist individual members to gain an objective insight to their quandary. Having considered these questions, a member may feel the need to discuss the problem with someone else, and the Institute will provide access to a Confidential Ethical Helpline. This service, which is free and without commitment, and which is aimed at assisting the member to develop their own resolution, is described at the conclusion of these guidelines.

**Basic Guidelines**

A member should consider, with these guidelines, the interests of a wider number and range of ‘stakeholders’. ‘Stakeholders’ has become common usage in ethical circles to refer to those individuals or organizations who have an interest or stake in the situation. Stakeholders may include the general public and the national interest.

**Transparency**

1. **Can you discuss the problem with the client before you make the decision?**

The answer to this question indicates to what extent the principle of transparency is present. If there are any circumstances existing which
make such a discussion unlikely, you need to consider why this is so. Is it possible that such a discussion could perhaps expose something with which you are uncomfortable or even weaken your legal position?

2. **Would you feel comfortable explaining your behaviour to your family? Your friends? Your fellow workers?**
The purpose of this question is to explore the degree of comfort you have with your behaviour. If you feel uncomfortable with the answer, you must seriously question your behaviour.

3. **Would you feel comfortable if your actions were announced on television or printed in a newspaper?**
Although you may feel comfortable with handling your family and friends, you may still be uncomfortable when faced with the possibility of having to explain your actions in the media. Does this have a bearing on your behaviour?

4. **Would you feel confident that the action you propose to take (or not to take) would be viewed as proper by your peers?**
While you may be confident that you can rationalize and explain your actions to your family, your friends, the stakeholders and to the media, what about your professional peers? They are more likely to understand the issues involved and to be able to provide an informed point of view.

**Conclusion**
Members are responsible for their own action, and these testing questions are offered as guidance for members to help in forming their own opinion. The questions are not exhaustive or exclusive, and other questions may suggest themselves during the course of working through the process.

For further confidential advice, contact the Chief Executive of the Institute who may refer you to the IMC Confidential Ethical Helpline. If you decide to do so, the Chief Executive will ask you for the following information on a confidential basis:
- the names of the parties involved (to ensure that conflicts of interest are excluded)
- the nature of the work involved, and your role in that work
- an outline of the issue
- the time-scale involved (is it urgent?)
- what sort of guidance you are seeking
- confirmation that you wish the Registrar to approach the Ethical Helpline

The Chief Executive will refer the matter to the Helpline, if it is an ethical problem. An independent panel member will be selected who will contact the member to define the problem and offer assistance – usually by phone. Other panel members will be involved if required and subject to the member’s agreement. The panel will aim to help the member come to his/her own resolution of the matter, and under no circumstances can the Institute or panel member accept responsibility for the consequence of members’ actions.
**Box 2.3.3: IMC Codes of Conduct**

**Introduction**

The Institute has two Codes of Conduct, detailed below:

- the Code of Professional Conduct is binding on all members of the Institute practising as management consultants — including AIMCs, CMCs, FCMCs, Registered Practices, Certified Practices and those Affiliates in practice.
- the briefer Code of Conduct is binding on all those members not in practice as management consultants — including Affiliates not in practice and Organizational Affiliates.

The objective of the Institute of Management Consultancy is the advancement of the profession of management consultancy through the establishment and maintenance of the highest standards of performance and conduct by all its members, and by the promotion of the knowledge and skills required for that purpose.

**Professional Standards**

A management consultant is an independent and qualified person who provides a professional service to business, public and other undertakings, by:

- identifying and investigating problems concerned with strategy, policy, markets, organization, procedures and methods.
- formulating recommendations for appropriate action by factual investigation and analysis.
- with due regard for broader management and business implications.
- discussing and agreeing with the client the most appropriate course of action.
- providing assistance where required by the client to implement the recommendations.

In rendering such services to all levels of management, consultants carry a heavy burden of responsibility and an obligation to maintain the highest standards of integrity and competence. Recognizing this responsibility, the Institute embodies within its Code of Professional
Conduct those duties and obligations required of all members practising as consultants, which will ensure the highest standards of performance, and thereby enhance the reputation and public recognition of the profession, of the Institute and of all its members.

**Code of Conduct**

The Institute has some members not practicing as consultants – individual Affiliates and Organizational Affiliates. They are required to adhere to the standards set out in the brief Code of Conduct set out below:

*An Affiliate Member:*

- will further the objectives of the Institute in as far as they are able
- will not bring the Institute or profession of management consultancy into disrepute
- shall be a fit and proper person to be a member of the Institute of Management Consultancy
- shall at all times be of good reputation and character. Particular matters for concern might include:
  - conviction of a criminal offence or committal under bankruptcy proceedings
  - censure of disciplining by a court of regulatory authority
  - unethical or improper behaviour towards members or the general public
- shall not wilfully give the Institute false, inaccurate, misleading or incomplete information.

**Qualities of a Management Consultant**

The personal qualities required of a person to enable them to carry out these duties effectively and efficiently are:

- objectivity, impartiality and independence
- knowledge of management organization and techniques
- consulting skills
- practical experience
- technical expertise
Certified Management Consultants (CMC/FCMC) have demonstrated that they possess and are able to apply all these qualities. IMC Associates (AIMC) are required to demonstrate that they are undergoing approved training and development to this end.

Certified Management Consultants and Associates have a basic responsibility to:

- exercise independence of thought and action
- hold affairs of their clients in strict confidence
- deal with management problems in perspective and give well-balanced advice
- strive continuously to improve their professional skills and to maintain a high quality of advice
- advance the professional standards of management consulting
- uphold the honour and dignity of the profession
- maintain high standards of personal conduct.

In recognition of their obligations to clients, to the public at large and to the profession, all members in practice annually agree in writing to comply with the Institute’s Code of Professional Conduct, and to undertake relevant Continuing Professional Development activities.

The Code of Professional Conduct

The Institute’s Code of Professional Conduct is structured on three basic principles dealing with:

- meeting the client’s requirements
- integrity, independence, objectivity
- responsibility to the profession and to the Institute

These principles are underpinned by detailed rules, which are specific injunctions, and practical notes, which either lay down conditions under which certain activities are permitted or indicate good practice and how best to observe the relevant Principle or Rule.

The Council of the Institute may, from time to time, issue further Principles, Rules or Notes which will be promulgated in the Institute’s publications before being incorporated into a revised
Edition of the Code. Members in practice are expected to abide by all such new provisions from the date of their publication.

The Principles, Rules and Notes of the Code apply not only to the members personally but also to acts carried out through a partner, co-director, employee or other agent acting on behalf of, or under the control of, the member.

Definitions used in the Code of Professional Conduct

**member**: A CMC, FCMC or AIMC

**client**: The person, firm or organization with whom the member in practice makes an agreement or contract for the provision of services.

**declaration**: A written statement referring to and disclosing the facts relevant to the situations covered by particular Rules of the Code.

**independent**: In a position always to express freely one’s own opinion without any control or influence from others outside the (consulting) organization, and without the need to consider the impact of such opinion on one’s own interests.

**Institute**: The Institute of Management Consultancy.

Disciplinary action

All members are liable to disciplinary action, if their conduct is found, by the Disciplinary Committee of the Institute to be in contravention of the Codes, or to bring discredit to the profession or to the Institute. In accordance with the Bylaws, members may be required to make a declaration in answer to enquiries from the Institute concerning their professional conduct. A member failing to make such a declaration may be found in breach of the Principle to which the Rule or Note relates.

The Principles, Rules and Notes

**Principle 1 – Meeting the client’s requirements**

A member shall regard the client’s requirements and interests as paramount at all times.

**Rules**

**Competence**

1.1 A member will only accept work that the member is qualified to perform and in which the client can be served effectively; a member will not make any misleading claims and will provide references from other clients if requested.
**Agreement on deliverables and fees**

1.2 A member shall agree formally with the client the scope, nature and deliverables of the services to be provided and the basis of remuneration, in advance of commencing work; any subsequent revisions will be subject to prior discussion and agreement with the client.

**Sub-contracting**

1.3 A member shall sub-contract work only with the prior agreement of the client, and, except where otherwise agreed, will remain responsible for the performance of the work.

**Confidentiality**

1.4 A member will hold all information concerning the affairs of clients in the strictest confidence and will not disclose proprietary information obtained during the course of assignments.

**Non-poaching**

1.5 A member will not invite or encourage any employee of a client for whom the member is working to consider alternative employment, unless it is the purpose of the assignment.

**Due care**

1.6 A member will make certain that advice, solutions and recommendations are based on thorough, impartial consideration and analysis of all available pertinent facts and relevant experience and are realistic, practicable and clearly understood by the client.

**Communication**

1.7 A member will ensure that the client is kept fully informed about the progress of the assignment.

1.8 A member will encourage and take note of any feedback provided by the client on the performance of the member's services.

**Respect**

1.9 A member will act with courtesy and consideration towards the individuals contacted in the course of undertaking assignments.
**Principle 2 – Integrity, independence, objectivity**

A member shall avoid any action or situation inconsistent with the member’s professional obligations or which in any way might be seen to impair the member’s integrity. In formulating advice and recommendations the member will be guided solely by the member’s objective view of the client’s best interests.

**Rules**

**Disclosure**

2.1 A member will disclose at the earliest opportunity any special relationships, circumstances or business interests which might influence or impair, or could be seen by the client or others to influence or impair, the member’s judgement or objectivity on a particular assignment.

2.1.1 Rule 2.1 requires the prior disclosure of all relevant personal, financial or other business interests which could not be inferred from the description of the services offered. In particular this relates to:

- any directorship or controlling interest in any business in competition with the client
- any financial interest in goods or services recommended or supplied to the client
- any personal relationship with any individual in the client’s employ
- any personal investment in the client organization or in its parent or any subsidiary companies
- any recent or current engagements in sensitive areas of work with directly competitive clients
- any work for a third party on the opposite side of a transaction e.g. bid defence, acquisitions, work for the regulator and the regulated, assessing the products of an existing client.

**Conflicts of Interest**

2.2 A member shall not serve a client under circumstances which are inconsistent with the member’s professional obligations or which in any way might be seen to impair the member’s integrity; wherever a conflict or potential conflict of interest arises, the member shall, as the circumstances require, either withdraw from the assignment,
remove the source of conflict or disclose and obtain the agreement of the parties concerned to the performance or continuance of the engagement.

2.2.1 It should be noted that the Institute may, depending on the circumstances, be one of the ‘parties concerned’. For example, if a member is under pressure to act in a way which would bring the member into non-compliance with the Code of Professional Conduct, in addition to any other declaration which it might be appropriate to make, the facts should be declared to the Institute.

**Inducements**

2.3 A member shall not accept discounts, hospitality, commissions or gifts as an inducement to show favour to any person or body, nor attempt to obtain advantage by giving financial inducement to clients or client staff.

2.3.1 Payment for legitimate marketing activity may be made, and national laws should be respected.

**Privacy of information**

2.4 A member shall not use any confidential information about a client’s affairs, elicited during the course of an assignment for personal benefit or for the benefit of others outside the client organization; there shall be no insider dealing or trading as legally defined or understood.

2.5 When required or appropriate a member will establish specific methods of working which preserve the privacy of the client’s information.

**Objectivity**

2.6 A member will advise the client of any significant reservations the member may have about the client’s expectation of benefits from an engagement.

2.7 A member will not indicate any short-term benefits at the expense of the long-term welfare of the client without advising the client of the implications.

**Principle 3 – Responsibility to the Profession and to the Institute**

A member’s conduct shall at all times endeavor to enhance the standing and public recognition of the profession and the Institute.
**Annual Affirmation**

3.1 A member will provide the Institute with annual affirmation of adherence to the Code of Professional Conduct.

**Continuing Professional Development**

3.2 A member will comply with the Institute’s requirements on Continuing Professional Development in order to ensure that the knowledge and skills the member offers to clients are kept up to date.

3.3 A member will encourage management consultants for whom the member is responsible to maintain and advance their competence by participating in Continuing Professional Development and to obtain membership of the Institute.

**Professional obligations to others**

3.4 A member shall have respect for the professional obligations and qualifications of all others with whom the member works.

3.5 A member referring a client to another management consultant will not misrepresent the qualifications of the other management consultant, nor make any commitments for the other management consultant.

3.6 A member accepting an assignment for a client knowing that another management consultant is serving the client will ensure that any potential conflict between assignments is brought to the attention of the client.

3.7 When asked by a client to review the work of another professional, a member will exercise the objectivity, integrity and sensitivity required in all technical and advisory conclusions communicated to the client.

**Fees**

3.8 A member will negotiate agreements and charges for professional services only in a manner approved as ethical and professional by the Institute.

3.8.1 *Members are referred to the Institute’s ‘Guidelines on Charging for Management Consulting Services’.*

**Publicity**

3.9 A member, in publicizing work or making representations to a client, shall ensure that the information given:
is factual and relevant
is neither misleading nor unfair to others
is not otherwise discreditable to the profession

3.9.1 Accepted methods of making experience and/or availability known include:

- publication of work (with the consent of the client)
- direct approaches to potential clients
- entries in any relevant directory
- advertisement (in printed publication, or on radio or television)
- public speaking engagements.

Members are referred to the Institute’s ‘Guidelines on the Promotion of Management Consulting Services’.

Personal Conduct

3.10 A member shall be a fit and proper person to carry on the profession of management consultancy.

3.10.1 A member shall at all times be of good reputation and character. Particular matters for concern might include:

- conviction of a criminal offence or committal under bankruptcy proceedings
- censure of disciplining by a court or regulatory authority
- unethical or improper behaviour towards employees or the general public.

3.11 A member shall not wilfully give the Institute false, inaccurate, misleading or incomplete information.
Higher education opportunities in management consulting

Sally Woodward and Allan P O Williams

Introduction

The purchasing of management consultancy services involves significant investments by a corporation to help ensure a successful outcome. Yet, despite these investments, the selection and evaluation of consultancy remains a complex and uncertain process. Traditionally, legally defined entry barriers and quality control mechanisms have not been found in the industry (Kipping, 1999), although the relevant professional bodies are making considerable efforts for change, as demonstrated in this guide. What, therefore, can a corporation look for when selecting a service provider, and how can its management appraise the quality and value of consultants and their firms, where quantifiable criteria or indicators are sparse?

In seeking to address these issues and questions, we consider current ways in which higher education (HE) is contributing to management consulting. We propose additional avenues for future collaborative exploration by HE institutions, corporations, consulting firms and their professional institutes and associations, at both national and international levels.

Quality assurance mechanisms

Since the corporation is purchasing expertise – which is difficult to evaluate because of its intangible nature – institutions that can provide a form of quality assurance to client corporations have an important role to
Higher education opportunities in management consulting

play (Gallouj, 1997). Professional institutions alert purchasers to the fact that their members:

- apply skills based on a body of theoretical knowledge;
- have an extensive period of education and experience;
- have undergone a testing of their competency;
- have undergone institutionalized training and/or a period of internship;
- are certified practitioners;
- follow a code of ethics or rules of professional conduct.

This form of ‘signalling strategy’ demonstrates a move to organize an unregulated market where any individual can call him/herself a ‘consultant’, and to establish management consulting as a profession. It both helps to reduce purchasers’ uncertainty and raises the competence and expertise of consultants, thereby raising quality standards within the management consultancy industry. However, there are also associated costs (Abbott, 1988; Torstendahl and Burrage, 1990).

Many professional services, such as medicine, accounting and law, have largely succeeded in reducing client risk. This has been through regulating entry to their profession, by the application of compulsory qualifying exams and by concurrent developments of HE curricula and qualifications in aspects of theory and practice. Unlike these older professions, management consultancy has only recently established a fixed qualification benchmark. This professional qualification, the Certified Management Consultant (CMC), has been adopted in more than 35 countries and is described in detail in Chapter 2.2.

In the UK, the CMC qualification has been recognized by Napier University in Edinburgh, Scotland, which has granted 30 credits for the qualification towards the 120 points needed for a postgraduate diploma and the 180 points required for a Masters degree in Consultancy. The Institute of Management Consultants (IMC) in the UK is working with a number of other HE providers (University of Glasgow Business School, University of Central England, Leeds Metropolitan University, Aston University), to establish closer links through a proposed learning–teaching partner scheme. Here, the CMC competencies, code of conduct and ethical guidelines are made explicit in the course material. An alternative model is the inclusion of CMC and ongoing continuing professional development (CPD) activity in the portfolio of the Professional Studies degree programme at the University of Wolverhampton.
Both in the UK and USA, HE institutions are showing an increasing interest in developing curricula and programmes at postgraduate diploma and masters’ level in consulting. Similar programmes exist or are under development also in France, Germany and the Netherlands. They can build further on the work of the professional institutes and on an increasing body of research undertaken by academics and doctoral students. Special interest groups (SIGs) within both the American and British Academies of Management are communities of academics and practitioners that are also driving efforts to codify the practice of consulting and raise standards. There are, therefore, a variety of ways in which HE can contribute to the professionalization of management consulting through both teaching and research, which can be of direct benefit to corporate clients. Indeed, since the 1980s, education for the professions has become an increasingly significant aspect of HE in the UK (Goodlad, 1984). This is reflected, for example, in the mission statement of London’s City University: ‘to be a university for business and the professions’.

**Current provision of HE to management consultancy**

Milan Kubr (1996) has pointed out that consulting can be viewed both as a profession and a method that is applied by competent persons whose main occupation is not generally viewed as consultancy. Others have also drawn attention to the heterogeneous activities and organizations included within management consultancy: Sauvant (1993:2) stated that ‘its practitioners are large transnational and independent firms, but also certified public accountants, thousands of freelance practitioners, business school professors, in-house consultants, as well as software firms and computer manufacturers’.

Although we acknowledge the debates that question the boundaries of consultancy, by adopting this perspective we can usefully bifurcate the current provision of HE in management consulting into provision for management consulting professionals and others who use consulting as an aspect of their role. This means that corporate clients can benefit in a variety of ways from engaging with individuals who are educated and, in some cases, qualified in consulting, with consultancy firms promoting this.

The academic literature on education and training provision for management consultancy is currently sparse (exceptions are Gregory
Higher education opportunities in management consulting

(1994) for the UK and Adams and Zanzi (2001) for the USA). As part of the British Academy of Management’s SIG initiatives, one of the authors recently undertook a survey of consulting programmes, which revealed four types of provision in UK HE institutions:

- executive programmes;
- MBA electives or modules;
- masters-level programmes for specialists, with a strong consulting component;
- masters and postgraduate diploma-level programmes focused on consulting.

Of the Association of Business Schools, 41 members currently offer one or more types of provision. Each type is given in more detail below, drawing out its contribution towards corporate development and transformation in addition to an individual’s development.

**Executive programmes**

Executive programmes vary in length from short residential weekends or three to five weekdays, to a number of weeks spread over a period of time. Examples of providers include ESCP-EAP in France, with a four-week course in management consultancy offering accreditation towards a professional qualification, and the Roffey Park Management Institute in England, which offers courses of a week in consultancy skills for organizational change. The latter course has been devised for managers, professional developers and individuals seeking to control their own development. Learning outputs of the Roffey programme include:

- displaying a heightened range of interpersonal skills that will increase participants’ ability to influence more effectively as a consultant;
- being able to analyse problems and issues more rigorously and hence develop a clearer and deeper understanding of what is going on at individual, team and organizational levels;
- demonstrating increased ability to plan, facilitate and implement change in organizations – participants’ own or others as appropriate.

More generally, executive programmes aim at raising awareness of the complexities of consulting activities and at introducing participants to the key consulting skills and roles involved. Programmes vary in focus and tend to concentrate on either internal or external consultancy or both.
Some include knowledge and skills for managing and developing a consultancy firm. In cases where the programme spans a succession of weeks, participants are expected to put into practice the learning they have acquired on the programme and report back their reflections on practice in dialogue and discussion with other participants and the tutors.

As a result of time considerations, these programmes operate at a basic level of competence, but through building good foundations, participants can move towards developing their competencies further, where paths exist. As corporations must increase and improve their change management capabilities in order to survive in today’s competitive marketplace, these types of programmes can make a useful contribution towards building this resource through an awareness-raising process for appropriate personnel.

**MBA electives**

Management consulting is a popular career choice for MBA graduates and increasingly UK institutions have chosen to offer an elective in consulting (a minority may have it as a compulsory element). Whether an elective will run depends on the number of students showing an interest in taking it. Often, it will be competing with a range of other popular topics such as knowledge management, aspects of strategy, mergers and acquisitions (M&As), entrepreneurship and so on.

Our survey found that eight of the top 10 UK business schools offered their students an elective in consulting and, in addition, we identified another 15 schools offering electives. Many varied in focus, with elective titles including: strategy development and consulting skills; techniques for strategic consultancy; management consultancy interventions; consulting skills; and consultancy and research methods. Length and approach also varied, with some electives comprising from 14 to 30 taught hours, while others had participants undertaking a live project, with little teaching input. In major electives, students were expected to devote 100 hours and more to the required activities.

MBA electives were designed to meet a diversity of student needs. Some were crafted for existing consultants, others were designed for professionals who were seeking to develop consulting skills as part of their repertoire. In the main, however, courses focused on MBA students who might move into consulting. A key dimension on which courses varied was the balance of efforts given to developing students’ skills or factual knowledge and understanding and whether students had the opportunity of practice. For example, the Cambridge MBA incorporates
two corporate consulting projects as a culmination of the core course. They are undertaken in teams of four or five students and last for a month. Group projects are additional to an individual's dissertation project that is likely to have a consulting element.

We asked providers about their motivations for offering electives in consulting and, in addition to meeting student demand, we found two key drivers: academics with research interests in consulting, and networking and collaboration between academics and practitioners resulting in electives. In a few cases, electives existed because MBA programme directors felt that consulting should be part of the curriculum for credibility purposes.

Large consulting firms tend to attach little importance to such elective programmes, as they have traditionally preferred training consultants to their own mould. Students value electives for a variety of reasons, such as being able to make better career decisions by gaining insight into consultancy. Several of them will decide to utilize existing competencies and start their own consultancy, others will join consultancy firms, while many will decide the lifestyle is not for them. Corporates can benefit as MBA graduates move into management positions and utilize consulting knowledge and skills in their managerial role. MBA graduates can also add value when their corporation needs to select and manage outside consultants as their experience is likely to make them a better-informed client.

*Masters-level programmes for specialists, with a strong consulting component*

We found several institutions currently offering programmes with a strong consulting component. These are particularly suited to Kubi’s (1996) second category, namely that consulting is a method applied by competent persons whose main occupation is not generally viewed as consultancy. Included amongst these programmes are those developed for human resource specialists, such as an MA degree in Human Resources (Consulting) offered by South Bank University and an MSc in Human Resources Management with a specialism in consultancy from the University of Manchester Institute of Technology (UMIST). Programmes developed more recently include the MSc in Audit Management and Consultancy (UICE Business School) for internal auditors or the MSc in Information Technology (IT) Consultancy (London Guildhall University Business School) for IT workers.
South Bank University has run Masters-level degrees in consulting for nearly a decade. The consulting specialism has been developed in recognition of the changing nature of the human resources (HR) profession. The qualification is seen as particularly relevant for HR professionals, and human resources and organizational development consultants as well as senior managers who have responsibility for organizational change and a desire to deepen their strategic consulting skills.

For accountancy specialists the University of Reading has recently developed an MSc in International Consultancy and Accounting and Northampton Business School also offers an MA in Accounting and Consultancy. The University of Reading’s programme covers topics such as the structure and conduct of the industry, its evolution, the role of the consultant in the diffusion of new management know-how and patterns of consultancy work. This is followed by a case-based course on consulting practice, focusing on consultancy firms and their services. The course is for young people doing a Masters degree following a first degree and is designed to introduce them to various career options, as well as reflecting the business advice services of accountancy firms.

These examples illustrate that Masters programmes can be designed to meet the needs of people with fairly extensive or little experience of working. In cases of the former, the aim is to meet the needs of those already working in, or providing services to, a corporation. This can mean that specialists educated in consulting can add value to a corporation through their ability to adopt a more informed strategic role and through deeper level inquiry skills gained by undertaking project work required for a dissertation. In the accountancy example, an entry-level qualification into the profession meets the student’s need within a context to be determined in the future, yet, even here, corporations receive value when students make more informed career choices.

*Masters and postgraduate diploma-level programmes focused on consulting*

There are both well-established programmes and more recent programmes devoted entirely to consulting. Examples of the former include Sheffield Hallam’s MSc in Organizational Development and Consultancy and Ashridge’s MSc in Organizational Consulting (which is validated by Middlesex University). A more recent offering is Sheffield Hallam’s MSc in Knowledge Management and Consultancy, Leeds Business School’s MA in Management Consultancy and the Tavistock
Institute’s move to offering an MSc in Advanced Organizational Consultation (which is validated by City University), building on its previous well-regarded programme.

The main themes of the Ashridge MA in Organizational Consulting have been described by Dr Bill Critchley as threefold: organizations as complex processes, inquiry and a participative/constructivist world view with reflexivity as a stance. This is offered as a part-time programme, following the trend in HE to enable professionals to learn ‘on the job’ and concurrently apply what they have learned. It has a taught element lasting 18 months and a six-month period for research and the writing up of a dissertation. Each of three taught modules has a series of three day workshops and participation in one-day meetings between workshops in a consulting application group (CAG). The workshops have an experiential focus looking at ‘self in context’, a professional focus on developing consulting capabilities and a theoretical component, focusing on developing complex conceptual frameworks of the processes of organizing, learning, changing and consulting. The CAG provides an opportunity to integrate all the elements of learning into practice.

In addition to Masters qualifications in consulting, institutions also offer postgraduate certificates (eg in professional development in management consultancy, Strathclyde Graduate Business School, and in organizational consultancy, University of Durham) and diplomas (in consultancy practice, Civil Service College). CMC competencies and standards are now aligned with the CSCD diploma.

Formal academic qualifications are important signals of quality at the individual consultant level. Clients will be keen to examine the curriculum vitae of people who will be working on a day-to-day basis in their corporation, and evidence of both academic and professional qualifications in consulting can give a strong assurance of quality.

Yet, corporate clients need to be aware that the HE system itself is open to scrutiny and that there are league tables of institutions, which can signal the quality of the qualification attained. For example, the Financial Times publishes an annual MBA ranking of the top 100 business schools around the world. Since management consulting is the career choice of many MBA graduates, and some consulting firms only choose from among the best, such market information is of direct value to employing firms and to purchasers.

The quality of an institution and its qualifications are affected by the quality of the people it recruits and their interaction. Strong competition
to gain a place in a top business school ensures that a rigorous screening process has taken place. Schools’ emphasis on group working means that candidates have experience of working on assignments with internationally qualified people and develop broad cultural and language skills, which can complement their business knowledge. Additionally, they have to be experienced managers with industry expertise before they can be accepted on to an accredited MBA programme (eg those accredited by AMBA). Hence, some of the knowledge and skills mix required of consultants is already present.

Given the rising demand for management consultancy services in the long term, how can HE meet the need for more consultancy education in the future?

Future provision

In this section we look at opportunities for building on different and complementary strengths of HE providers and consulting firms together with the role of corporate clients. We start by drawing attention to the fact that the HE sector is undergoing massive change, with positive outcomes for corporations.

There has been a dramatic global move towards increasing universities’ economic and vocational roles (Etzkowitz, 1998). The basic requirement of universities today is to provide learners with knowledge and skills necessary to sustain a nation’s economy and to link with industries in contributing towards the development of a knowledge economy. In this context, HE institutions are already working with important stakeholders to provide knowledge and skills that will directly meet the needs of new emerging industries, such as biotechnology and ICT. Similar linkages have been proposed for management consultancy and a few already exist (Czerniawska, 1999).

As Gibbon et al (1994) have claimed, universities’ role in traditional knowledge creation (the pursuit of ‘scientific truth’ by scientists holding a Cartesian world view, labelled Mode 1 knowledge production) has been gradually overtaken by knowledge that is produced in practice (labelled Mode 2). While Mode 1 knowledge provides disciplinary education, Mode 2 knowledge results from its application in group working activities which tend to be transdisciplinary and often result in the generation of tacit, rather than explicit, knowledge.

University schools catering for business professionals’ education are already intentionally positioned at the intersection of theory and practice.
They can, therefore, usefully bring together the supply side of knowledge (ie HE institutions) and the demand side (ie corporations, professional institutes and consultancy firms) with the whole system depending for its effectiveness on the interaction between theory, research and practice. This can take a number of forms as the examples below will illustrate:

- HE institutions can provide management consultancy education within a structure that allows employees to accommodate their educational activities alongside their work commitments, but their employing firms need to partner such initiatives by acknowledging the additional demands. This type of education can be delivered through various interactive media, in different time packages, in open, customized or consortium programmes. Business and management schools can use established networks and alliances to provide programmes at postgraduate levels in European or global management consultancy.

- Professional institutes, corporate clients and consultancy firms can be actively involved in HE provision for consulting; for example strategic-level advisory boards can be established to provide inputs to the design, and curricular requirements for teaching/learning programmes in management consulting.

- Corporate universities can collaborate with HE institutions, perhaps within a virtual partnership, to provide management consulting qualifications that can focus on internal or external consulting – some large corporations with experienced internal consultancy arms now sell these services externally to other corporations.

- Corporations can collaborate with business schools to produce customized or consortium executive programmes that focus on how corporations can develop structures, skills and knowledge needed for acting as more effective clients.

- Corporations, professional institutes, consultancy firms and HE institutions can collaborate on research proposals; eg the Economic and Social Science Research Council (ESRC), the UK’s primary government funding agency for business and management research, has developed a grant program for work with significant academic and industry links.

- Academic researchers can work collaboratively with corporations and the consultancy firms they engage in inductive, theory-building studies, which apply methodologies such as grounded theory. This
would generate relevant and current data on which to build better theories of how to create more effective consulting outcomes.

Over the last 20 years or so HE has changed substantially with the move to focus on learning as well as teaching and on developing active learners. A variety of pedagogical perspectives exist that value action as well as theory and reflection, and traditional divides between academics’ body of knowledge and practitioners’ knowledge are breaking down with teaching/learning methods that encourage science–practice integration. We consider that HE institutions, especially business and management schools, can provide a valuable site for the development and accreditation of skills and knowledge needed by consultants in the contemporary context of highly competitive industries engendering increasingly complex corporate problems.

Conclusion

HE institutions can play their part, with interested others, in developing education and qualifications in management consulting. In spite of the relatively low importance accorded to external accreditation of consulting qualifications by many large consultancy firms, who rely on their reputation and in-company training (Penn and Holt, 2000), developments in teaching and researching management consultancy should benefit corporate clients both directly and indirectly.

It would enable clients to have an additional assurance of quality. Through collective endeavours the body of knowledge about the practice of clients in consulting could help improve the activity. More generally, clients would not need to rely largely on reputation and track record. Smaller consultancy firms would be able to recruit consultants who would be more eclectically equipped to cope with working in rapidly changing industries and in delivering the various products as they come into fashion. In addition, increased provision would also help reduce skill shortages as the pool of people from whom large consultancy firms recruit is quite small. It would also enhance career consultants’ prospects.

Bines and Watson (1992) identified three models of professional education:

- apprenticeship;
- technocratic
- post-technocratic.
In the apprenticeship or pre-technocratic model, professional education mainly took place ‘on the job’. Technocratic education was adopted by a large number of professions for many years, and was underpinned by the assumption that professional activities are predominantly rational, technical and morally neutral. The third model, termed ‘post-technocratic’, is currently evolving but its key feature is the recognition that people acquire professional competences in practice and move towards ‘professional artistry’ through continuous learning. This involves reflection in, and on, practice, which has been informed and enhanced concurrently by the deployment of perspectives embedded in models and frameworks, theories, methods and arguments. These are most effectively gained by exposure to HE and refined by exposure to particular political, moral, interpersonal, cultural and social milieux. Increasing interest is being shown in the pedagogy of consulting course design, with time being allocated at the American Academy of Management’s annual meeting of the management consulting division for papers on this topic, together with recent publications in business and educational journals (Smid, 2001; Dallimore and Souza, 2002).

Corporate management, management consultants and academics have different, yet complementary, skills and knowledge. The three constituencies can work together synergistically to meet competitive threats, improve business efficiencies and enhance corporate effectiveness. The fact that clients are co-creators, along with consultants, in the actual delivery of the consulting process means that clients can play an important role in helping support the professionalization of management consulting. Indeed, it has been argued that the client is the ‘moral centre of the professions’ – in order to exist the professions need to engender and maintain client trust (Koehr, 1995). We hope we have shown that HE can prove a valuable resource in this relationship.

References


Is there a case for regulating management consultants?¹

Ian Barratt

Almost the only thing people outside the business know about consultants is that they make good money and get a bad press. They are widely assumed to do little to justify the huge fees they command except offer common sense disguised as expertise. (Graef, 1999)

The clamour for professionalization is years out of date. A profession is a social construct (prestige, status etc), not a business construct, and it’s too late to try and grab for social status. (Maister, 1996)

We have a nucleus of a profession, but it needs another 25 years to mature. (Van Doren, 1996)

What is the difference between a management consultant and a vulture? The management consultant gets air miles.

These four comments encapsulate the background to the question that forms the title of this article: management consultancy gets a negative press. In addition, the shocks to the financial markets of well-publicized failures in corporate governance during 2001 and 2002 have thrown the role of all professional advisers into sharp relief. The Institute of Management Consultancy (IMC) believes that the damage done by

¹ This article is drawn heavily from the Institute of Management Consultancy’s position paper on self-regulation, published in November 2000 and revised in September 2002
accounting scandals to the confidence of the public and markets means that there is an element of urgency in the need to provide reassurance that extends across all professional services firms, including management consultancy.

The issue of self-regulation cuts across both issues. How is the negative publicity to be avoided and how is the client population to be encouraged to see management consultants as an integral part of business life, as opposed to an expensive commodity purchased in times of trouble? Is professionalization one route or, if this is not seen as practical or even necessary, is self-regulation a sensible option? Should the marketplace be the sole regulatory force?

There is a debate about whether management consultancy is a profession or, more simply, an industry. Indeed the Inland Revenue in the UK regards management consultancy as a trade, on the basis that there is no all-embracing code of conduct or qualification! Although the IMC has rejected the principle of detailed technical regulation of management consultancy, it continues to believe that the skills of consulting are primarily behavioral, stressing the importance of competences and ethical standards. These assumptions underpin the IMC’s new definitions of both management consultancy and management consultants contained in its revised position paper. Taking these threads into account the IMC believes that the sector-wide definition should be:

Management consultancy is the provision to management of objective advice and assistance relating to the strategy, structure, management and operations of an organization in pursuit of its long-term purposes and objectives. Such assistance may include the identification of options with recommendations, the provision of an additional resource and/or the implementation of solutions.

Some have raised the issue of whether, if the professional activity is defined, the role of the individual management consultant also needs to be placed within a definitional framework. The IMC has sympathy with this view and believes that:

Management consultants are those organizations and/or individuals that participate in the process of management consultancy within a framework of appropriate and relevant professional disciplines and ethics designed for the activity of management consultancy.
These definitions lie at the heart of a new sector-wide competence framework that the IMC launched in early 2003 with the help of member and non-member firms, clients and academics.\textsuperscript{2}

There is of course the background of change in all sectors of society and the economies of all nations. Globalization, technology, changes in business models, fluidity in the labor market and the blurring of boundaries within management consultancy between advice and implementation and internal and external consultancies are all influencing the nature and role of management consultants as individuals. They raise an issue with particular resonance for me as the chief executive of a professional body. As stated by Barratt (2000): ‘within this environment the place of the traditional professional institute with permanent values appears anachronistic. Are such bodies now redundant?’

There may be merit in the argument advanced by David Maister and quoted above that professions are a social rather than a business construct and, unsaid but perhaps implied, they might well wither like the Guilds in London into ceremonial or charitable bodies. Yet I am not sure that this view answers totally the proposition that some form of regulation is needed. Professional bodies do not seem to be going the way of Guilds and the International Labor Office (ILO) has put another case persuasively in saying that, ‘professional awareness and behaviour come when the early juggling with a little knowledge gives way to skilled application of a generally accepted body of knowledge according to accepted standards of integrity’.

Business takes place within a societal framework and the view that the market is the ultimate regulator is, surely, flawed and based on the notion that the market is a perfect mechanism. This notion is undoubtedly sound in theory but questionable in practice. Even among those who take the view that the market is the only mechanism needed there are those who have argued to the IMC that the provision of easily-accessible information from clients on the performance of firms and individuals is needed. The market can only be efficient if it is well informed. Clearly, this would have to be thought through and the issues of confidentiality, legal liability and the operational costs of any such system explored. That said, the IMC believes that the option of such a system should be considered carefully and in detail.

\textsuperscript{2} Available from the IMC. For details visit www.imc.co.uk
Before discussing the management consulting context, however, we must also remember that there is a greater air of scepticism about all established institutions. This has been recognized for some time in terms of state and governmental institutions. Trade and professional associations have not been immune from these pressures. Commentators have spoken of "increasing social and media pressures, sometimes fuelled by politicians and sometimes fuelling them, which generally take the form of demands that the "industry puts its house in order", with the trade association expected to be a quasi-regulator". In the case of professional associations, the view is similar:

"Traditionally the state has awarded associations of professionals the privilege of self-regulation in return for an assurance that members abide by a set of standards and an ethical code of conduct to ensure protection of the public interest... As increasing levels of education and social awareness give rise to greater expectations... traditional structures, rules and regulations are challenged and justification for privilege is questioned (Watkins, Drury and Bray, 1996a)."

The position of trade and professional bodies is also made more complex by the increasing demand from members for such bodies to defend them from these pressures. This representational role has to be balanced carefully against the public protection responsibility. The regulatory function itself is not without its pitfalls. They are centered on:

"ensuring that everyone in the market is covered, how any regulations are to be enforced and also possibly ensuring that restrictive trade practices legislation is not used against them. All such arrangements are potentially unstable and perhaps are held together predominantly by the fear of more onerous statutory regulation (Boléat and Association of British Insurers, 1996)."

These difficulties are compounded in an international environment. Developments of a single market within, for example, the European Union (EU) mean that ‘the developments of rules and regulations concerning two issues – competition amongst professionals and standardization of qualifications – are of particular concern’ (Watkins, Drury and Bray, 1996b). But the profession is also global in nature and regulation has to be seen against a shifting pattern of international trading and political structures. One driver for change is seen as ‘deregulation and privatization, combined with a gradual shifting of policy making to the
European, global or sub-national level’ (Trade Association Forum, 2000b).

The view of the UK government to date has been that good self-regulation coupled with high industry and people standards help companies compete in this global marketplace. As service sector companies of all sizes become increasingly global, the development of high industry standards and competencies for individual that are recognized internationally facilitates opportunities. When combined with effective self-regulatory systems, and where appropriate supporting mechanisms exist to encourage good practice and resolve cross-border disputes, this development will reduce barriers and realize a single market worldwide. The key questions are whether this assumption would be borne out in reality and whether any regime would serve only add to the competitive pressures.

In terms of professional expertise there are two sides to the management consultancy equation. Many consultants, certainly in the UK, started their careers as specialists in a technical field, eg accountancy or marketing, and are therefore members of other professional bodies such as the Institute of Chartered Accountants (ICA) or the Chartered Institute of Marketing (CIM) for their principal professional expertise. Our approach is based on the proposition that this technical specialism is not sufficient and that consulting skills, ie delivering technical expertise in a consulting context, requires separate assessment and qualification. This is an important concept in that it recognizes consulting skills as a separate discipline that is capable of specific testing and accreditation mechanisms. This brings with it, however, its own set of challenges.

The fact that members of the IMC also belong to other institutes means that any self-regulation for management consultancy needs to sit with the regulatory functions of other bodies. In the event of a complaint, which would take precedence? How would any self-regulatory system sit with any legal action based on, for example, contractual issues?

There are also complications introduced by the business need for large practices to form alliances, particularly with IT suppliers, in an environment where e-commerce is becoming all-pervasive. Do these alliances inhibit independence and objectivity, seen by many, including the UK IMC, as central to any coherent definition of management consultancy or are they best viewed as enabling practices to deliver the best solutions at the pace required by global competition?
Similar questions can be asked about the increasing tendency for practices to implement, as well as provide, solutions and to invest in, or even incubate, the businesses with which they deal. While consulting trade associations see escalating fee income as an undiluted measure of success, there is no reason why clients or society should. Like all overheads, expenditure on consulting services is subject to scrutiny as businesses seek to become more competitive. Management consultants must be seen as adding value and providing advice of a consistently high quality within an ethical framework.

The limitations of purely national approaches are clear. The global nature of consultancy means that the complexities of jurisdiction and applicable law need to be taken into account and the dangers of regulatory systems being used as restraints on trade or for the furtherance of the interests of trade blocs recognized. Conversely, it is likely to be the case that others, even if introduced for the best of reasons, may see any system of regulation as a restraint of trade. The danger is that the introduction of any self-regulatory system may also require an accompanying increase in bureaucracy and industry overheads and that the perceived failure of any such system may provoke a call for statutory intervention.

The reality is that management consultancy, like every other business, is immensely competitive. Any regulatory proposals must take into account the need for the consulting profession to retain flexibility to adapt to a new global and technology-driven world. In this global marketplace UK ‘Plc’ must be as competitive as the next nation. While global practices dominate the market, internal consultancies within UK companies are turning to external – and, hence, foreign – markets as business and small practices in niche markets are also competing on a European or global stage.

The key is responding to the needs of clients rather than a regulatory regime that will always be behind developments in the marketplace. The potential costs of any regulatory regime, however light its touch, are of concern when government does not seem to appreciate the costs, whether financial or those based on opportunity, that may arise.

Additional administration for practices and activities by professional bodies require resourcing and, in many cases, it is practitioners who have to bear the burden. The Certified Practices scheme is only viable because the IMC designed the concept and the certified practices themselves bear the burden of developing practices and procedures that demonstrate their compliance with the standard. The IMC believes that its position on self-
regulation represents the best balance between the interests of clients and the wider public and those of the profession.

Any self-regulatory regime must not fetter the ability of UK management consultants to compete for business and should give other UK companies the opportunity to follow in their wake. This implies that there should be no formal role for government. The issue is whether the government can lend its support to what the IMC is trying to achieve.

The IMC believes that self-regulation is best delivered through a modern, professional approach, i.e., through standards backed by disciplinary arrangements. This approach is currently delivered through the Certified Management Consultant (CMC®) qualification, which is backed up by external validation, a code of professional conduct and ethical guidelines. The IMC, through the IMC Consultants Register, actively encourages potential clients to discuss possible engagements with practices that are fully behind the CMC qualification. If the CMC qualification is to be of any significance, it must satisfy the needs of consultants for commercial advantage and those of clients for tested expertise, backed by disciplinary arrangements.

The IMC continues to support the aims of the ICMCI, which encourages the spread and development of the CMC qualification worldwide. This places our work in the UK firmly within an international context. The certified practices route, by which practices are able to propose individuals directly for the CMC qualification after a full audit by the IMC, has required the IMC to pursue bilaterally the issue of reciprocity of recognition in other countries where individuals have achieved the qualification by means of a certified practice. The increasingly multinational and global nature of consultancy has only served to increase the need for this international, portable qualification for the profession.

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1 The IMC was founded in 1962. Its mission statement is “to promote excellence in management consultancy by qualifying, supporting and regulating individual management consultants and providing a forum for all management consultancy stakeholders”. The IMC is not, however, now solely concerned with individuals as its membership base. It currently has a membership of 4,243 individual members, together with 25 audited Certified Practices (which are audited and able to nominate individuals for the CMC) and 162 registered practices as part of a client referral service.

2 The CMC® qualification is the only career qualification for practising management consultants. It is portable and international in that it is recognized in the countries with national institutes belonging to the International Council of Management Consulting Institutes (ICMCI). The IMC is the only UK awarding body for the qualification. The Certified Management Consultant is seen as someone who has demonstrated competence against an agreed standard.
A partnership approach with other representative bodies in the field, other professional institutes, government and the ICMCI will encourage and support stakeholders in management consultancy, including clients and other institutes, to develop a system that protects users and enables the UK profession to compete in a global market.

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Developments in management consultancy: from stagnation to evaporation or condensation?

Hans de Sonnaville

Introduction

Over the last two decades the management consulting industry has grown considerably and developed into big business. In 1988 approximately 100,000 people worldwide were estimated to work full time as management consultants (The Economist, 1988). By 1998 more than 100,000 people were employed by the top three consultancy firms alone (Financial Times, 1999) and the total revenue of the top 20 consultancies had reached US$43.5 billion dollars. In Europe the industry has an annual growth of 15 per cent and the European Federation of Management Consultancies Associations (FEACO) foresees this trend continuing in the coming years (FEACO, 1999).

Simultaneously with this growth, the management consultancy business has become more heterogeneous. All kinds of specialities and other professions are now defining themselves as management consultants. The ‘Big Five’ (Arthur Andersen, Deloitte & Touche, Ernst & Young, KPMG and PricewaterhouseCoppers (PwC)) have brought about enormous changes in the consultancy world and it seems that the information technology (IT) companies, eg IBM, Cap Gemini and Hewlett Packard, will play an even bigger role in the consultancy sector in the coming years.
At the same time, we see an increasing growth of sole practitioners and small firms, while the medium-sized firms seem to be in decline. All kinds of different services are now offered by the consultancy firms. Naturally, the more traditional services like corporate strategy, operations management and human resource management are included. However, during the last decade Information and Communication Technology (ICT) services have become a very important new product and in the last three years consultancy firms have not only offered advice but have also advertised themselves as venture capitalists by participating financially in client organizations.

With the growth of the management consulting industry there is increasing criticism of the quality of work and sometimes also of the consultant’s integrity. Criticisms such as ‘too little added value’, ‘too expensive’, ‘too superficial’, ‘too much power’ and ‘too much business’ are common from clients and commentators.

The question of what management consultants actually do arises more and more frequently and forcibly. Is it possible to give a clear-cut definition of management consultancy? What can be expected from this professional group with regard to knowledge, skills, content and ethics?

Some years ago, it was written in *The Economist* that ‘activities of management advice givers are little understood’, claiming that the management consultancy business is a fairy tale of mystery and illusion, and that this fairy tale is one that is deliberately perpetuated by the consultancy sector. There is a growing need for clarity about what can be expected from a management consultant. It is becoming more and more obvious that the growth of management consulting as an industry is far outrunning the developing perception of management consultancy as a profession.

Some believe this is a logical consequence of economic and financial success. If a group of professional workers is successful they automatically turn into an industry with standard solutions for diverse problems. Others believe that expansion into an industry also implies growth as a profession. This would involve agreements on a body of knowledge based on scientific theories and concepts, along with generally accepted quality criteria and codes of conduct that should be communicated to clients.

We do not know a great deal about the management consultant as a professional. For years a number of individual management consultants together with the Institute of Management Consultants (IMC) and many clients have pleaded for more transparency of this booming industry.
sector. Is management consultancy a method or a trade, or is it a profession, albeit a ‘young profession’? Or is it simply a real business, an industry with products, standard solutions, commoditization, advertising campaigns and leverage? Or does it have elements of all of these and should the sector split up into well-defined groups of different kinds of professionals, each with their own view of the profession? There are many questions and few answers about the development of the management consultancy profession, even after so many years of discussion. It would be interesting to know why these questions are being asked and why it has proven so difficult to give answers. The same themes keep returning and conclusions are rarely drawn. The debate has reached a stalemate. In management change this phenomenon is called ‘stagnation’, in cycling it is called ’sur place’: it costs enormous energy but there is no movement. This chapter will attempt to contribute to the debate.

Management consultancy on its way towards becoming a profession?

A management consultant can be seen as an example of a professional. A professional possesses a comparatively high status level among all employees in an organizational setting. This high status is rooted in his/her extensive formal education, degree of expertise, altruistic orientation and autonomy. A group of professional workers that has become such an important part of our social and economical market and is still expanding in that market is, from time to time, called to account about the content of its discipline and the role it fulfills for its clients. These clients, and not only them but also other professional workers such as accountants and lawyers, and those who develop knowledge – the universities – ask the group of professional workers calling themselves management consultants for clarification. There is a process of social legitimization of a group of professionals, in this case the management consultants.

But the process of legitimization is a difficult one for management consultants. As previously noted, the more fundamental question has been put regarding whether management consultancy is indeed a profession and whether professionalization of this group is at all possible, what professionalization would mean for management consultancy and whether this could contribute to social legitimization. The status of management consultancy is weak. There are several reasons for this: first of all, the discipline of management consultancy does not have a well-
defined, generally accepted basis in academic knowledge. However, there is a huge variety of university educated people working successfully as management consultants.

Recently the *New York Times* published an interesting article entitled ‘A matter of degree? Not for consultants’, about professionals who were being retrained as management consultants in a 20-day programme. The author, David Leonhardt, stated that currently more than half of the consultants working with the big consultancy firms, such as McKinsey or Boston Consulting Group, are not MBAs but derive from a totally different discipline. In a period of three weeks, lawyers, philosophers, physicists and astronauts were instructed in the basic consulting techniques and in practice appeared to function no better or worse than their colleagues with MBA backgrounds.

Besides the fact that there is no uniform academic basis for management consultants and there is no well-defined and generally accepted academic programme for those who want to become a management consultant, there are more reasons why – in comparison with professions such as law, accountancy and psychotherapy – the status of the profession is not very strong:

- There is no unequivocal basis for the group, no body of knowledge.
- It is estimated that the greater part (75 per cent) of management consultancy work consists of implementation advice, bordering on temporary employment work.
- Clients are not dependent on the consultant’s unique knowledge but can make use of various disciplines and often are themselves just as knowledgeable.
- There is no exclusivity for management consultants with regard to specific problems and issues. Many other professions and/or disciplines, eg accountants, IT consultants, public relations agencies, attempt to draw management consultancy work into their own field, more or less successfully.
- There is no culture among management consultants to carry out or publish research into developments in their own speciality; only a very few are involved in discussions about the development of the profession.
- Less than 20 per cent of the individual management consultants in the world are members of a professional institute.
Many people describe themselves as management consultants. But they will not accept each others’ status. The Economist (1988) stated that defining consultancy is rather like defining the upper class: every possible candidate draws the line just below him-/herself. So the big-strategy advisors rule out the accountants, both groups exclude executive recruiters and headhunters, all three dismiss computer software houses as glorified salespeople in poor public relations agencies—yet all are offering advice to managers.

In daily practice we see many descriptions of the management consultant: confidante, process guide, change agent, coach, support, trainer, knowledge worker, external expert, director, arbitrator, conscience, extension of the management, problem solver etc. There seem to be as many definitions as there are consultants. The definitions of consulting can be distinguished by two different approaches.

The first approach considers consultancy as an activity in which a person attempts to change or improve a situation, although this person does not have any direct control over this activity. In this definition of consultancy everything is in fact ‘consulting’ as long as there are no direct competencies involved. According to this view, any person can be a kind of adviser in a certain position or role. For instance, a manager coaches his staff, which could then be called consulting. Peter Block (1981) adheres to this philosophy: ‘an advisor is someone who is in a position to have influence on an individual, a group or an organization, but who has no direct influence to carry out changes or implement programmes.’ As soon as direct influence is exerted someone acts as a manager.

If consulting is directed specifically at organizations and management, a second approach can be distinguished. Consulting is seen as a special professional service with certain requirements that this service must meet. Greiner and Metzger (1983) provided an example:

*Management consultancy is an advisory service, contracted for and provided to organizations by specially trained and qualified persons who, in an objective and independent manner, assist the client organization to identify management problems, analyse such problems, recommend solutions to these problems and help, when requested, in the implementation of solutions.*

A much quoted and widely accepted definition is Kubr’s (1996):

*Management consulting is an independent professional advisory service assisting managers and organizations in achieving organizations’ purposes*
and objectives by solving management and business problems, identifying and seizing new opportunities, enhancing learning and implementing changes.

The International Council of Management Consulting Institutes (ICMCI), the global umbrella body of more than 35 national IMCs, has adopted the following definition:

Management consulting is the rendering of independent advice and assistance about the process of management to clients with management responsibilities.

Therefore, the conclusion must be that, apart from the fact that there is no uniform definition of management consulting, there is also no consensus on the question of whether management consulting is a method or a profession and whether it can reach the status of a profession comparable to that of doctors, lawyers or accountants.

Stagnation in the debate

The management consultancy world is very diffuse and, many believe, not transparent. For years not only individual consultants and firms but also institutes and associations have been at work to create a recognizable identity along with professional recognition. However, in spite of these efforts there has been little progress towards a generally accepted full professional status. Up to now discussions have been too introspective between the professionals themselves, mostly organized within the IMCs and/or the associations of management consulting firms. After many years of discussion it seems that the arguments, analyses, assumptions, routines, role conceptions and so on have remained more or less unchanged. This has caused stagnation in discussions about the profession.

A well-known statement in change management literature is that ‘organizations fight like hell to stay the same’. The same could be said for management consultants. During the last two decades this professional group has been highly successful, considering the enormous growth it has undergone. But as success increases, the ‘comfort zone’ tends to become greater.

Many professional sociologists (Abbott, 1988; Whitley, 1992; Kubr, 1996) maintain that this insight is indispensable for management consultants to carry on the debate. Historically, professional workers (doctors, lawyers, the clergy, professors etc.) have always developed
themselves towards a certain level of general acceptance, and groups of professional workers are always focused on defining the characteristics of their work in order to become a profession and to obtain status. Management consultants do the same. But the new modern sociology of professions is not only focused on defining the profession but concentrates more on the differences between professions.

**Some theories about professions**

In order to get a better understanding of what goes on in such a pluriform group of management consultants, it may be interesting to find the underlying reasons why an individual worker strives after a more mature level of professionalization and how he/she achieves that goal. Once again it is useful to look at the history of those established professions which have already reached a generally accepted level of professional status: the medical and legal professions.

Abbott (1988) studied the rise, growth and fall of several professions and he classifies four different visions on the development of professions:

- **The functional vision:** the profession is a means to control the asymmetry between client and professional worker who is an expert in a certain domain. The fact that there is a gap between the client’s knowledge and that of the professional makes it necessary to bridge that gap. The way the professional ‘protects’ the client is by defining values and norms that are an important part of the relationship between client and expert.

- **The structural vision:** the second view on professions and professionalization is based on a structural view that professional workers want to control their own work and want to develop standard solutions for specific problems. This view emphasizes the need for a body of knowledge and for a standardized education programme to be undertaken in order to become a professional. The traditional professions are examples of this.

- **The monopoly vision:** the reason one puts effort into professionalization is because the individual professional is proud of his/her work and knowledge and wants to get recognition in the world. This reason is based on a desire for dominance and authority. Abbott (1988) called this vision ‘the monopoly school’ because status and power become important drives of the professional worker.
The cultural vision: professionals want to give added value to the market and society and they consider themselves unique in their way of working. A profession is a specific group of professionals with their own norms and values who hope to give a contribution to society.

It seems that all these visions of professions and professionalization argue that there is a general concept in professionalization. There are five basic assumptions:

- The development and change of professions are unidirectional. The assumption is that there is one given ideal structural and cultural form.
- The development of a profession can be treated case by case: the evolution of an individual profession, independent of the other professions.
- The social structure is more important than the work undertaken by professions.
- Professions are homogenous units.
- Professionalization as a process does not change with time.

The debate in the world of the management consultant is frequently characterized by these assumptions. If we conclude that the discussions about professionalization show repetition and have become stagnated, we must investigate the validity of these assumptions. Abbott (1988) showed in his research that these assumptions are not always correct:

- There are varieties in directions for development: strong control is but one of them.
- Professions are interdependent of each other; there are many inter-professional relations.
- Work must be the focus of a concept of professions, because it has an enormous influence on the way the profession is structured.
- The development of internal differences is bound directly to the development of professionalism.
- The increasing or decreasing influence of the government reshaped professionalization. So it is not a general process without a history of its own.

The nature of the debate about professionalization in the management consulting industry can only be understood by analysing the different
assumptions or approaches that influence the debate. We need another framework that can help our strategic thinking in the development of the profession of the management consultant, because the old, traditional model of the ‘ideal’ profession is not sufficient and does not seem to be supported by research.

Four different views on professionalization of the management consultant

As noted above, the professional group cannot agree on a uniform description of the content of the profession. Looking at the theory and practice with regard to the development of professions, I distinguish two dimensions as to how professions can be regarded: self-interest and society’s interest.

The first key dimension is interest: the strategic orientation of a profession is to protect the self-interest by gaining status, power and influence and, in doing so, to protect its own position and income. Professionalization is a condition of staying in business. The opposite of this key dimension is the assumption that a profession has to give added value to society. This is called the interest of society. A profession has to play a role in society by developing solutions for important problems or issues. This is a more idealistic motivation.

The second dimension concerns the way control is gained: market control and inside control. The more traditional view of professions is that of ‘inside control’, which assumes that a profession is an orderly, well-controlled group organized by the professionals themselves. The crucial concepts are unity and consensus. The strategy is to define and control the profession by standardization. The assumption is that there is an ideal phase or form of professionalism and the group of professional workers has to bring order into the group by setting rules, codes and standards. The assumption is that a profession is an objective, definable institute and is more or less static and stable. In this sense it is a somewhat mechanistic view of organizing the profession.

The other extreme of the axis is ‘market control’. A group of professionals is seen as a collection of several kinds of professionals, and development and movement from the market are considered more important than a mechanism coming from inside the professional group. Here the assumption is that a profession is an evolving social construct strongly influenced by what clients expect from the profession. It is impossible to
define the profession and ambiguity is the norm. The definition of the group of professionals by Abbott (1988) is a good example of this view: ‘professions are exclusive occupational groups applying somewhat abstract knowledge to particular cases’. A profession is an ever evolving system and in order to understand what a profession is, one has to focus on the work the profession does.

When both dimensions are combined four ideal types of professions appear. These four ideal types of profession can be characterized as the ‘castle’, the ‘church’, the ‘industry’ and the ‘academy’ (Figure 2.6.1). It is important to realize that these types are different views of the reality and they can help us to understand the complex reality better. These types are not concepts and this is not a model, but it may help to explain the movement and discussions in management consultancy.

![Figure 2.6.1 The four ideal types of professions](image)

There are management consultants who view a profession as:

- a castle: an elite group of like-minded professionals who have situated themselves on a hilltop and defend themselves against those who are not professionals. A good definition of the profession is very important. This concept of a profession uses ‘entry barriers’ and wants ‘to be seen as an elite’. Certification of the professional is crucial for establishing status and a good position. If a professional does not meet the standards he/she has to leave. Legal legitimation is the ultimate goal to be reached.

- a church: a group of like-minded professionals who try to give added value to clients by means of standardization of the work in case of specific problems. Independence is a key word in this view of the
profession. A code of conduct and a uniform body of knowledge must protect the weak position of the client. These professionals are keen on the ritualization of their work and they often work with protocols. Legal legitimation is also important to them.

an industry: these professionals consider themselves to be commercial service providers who have to work hard to get a position in a very competitive market. They work with a variety of standard products and standard solutions which have proved to be successful in daily practice. They do not work with a code of conduct but with terms of delivery and they have a results agreement with their clients. To stay in business, one must be qualified instead of certified.

an academy: these professionals see themselves as a community interested particularly in the ‘professional encounter’. Unity and meeting other colleagues are essential. The concept of the learning organization is a characteristic of this view. Competition does not exist and there is an open exchange of knowledge, insights and experiences between each other. Continuous personal development and interpersonal consultation are important methods for professionalization.

These four ‘ideal type’ concepts play an important role in discussions among management consultants. It follows that the large commercial firms view management consultancy more as an industry than a profession, although there are also consultants in these firms who consider their professional group an ‘academy’ or a ‘church’. It is remarkable that boards of management consulting institutes tend to organize the profession as a ‘castle’ and/or ‘church’. However, even within the institutes there are numerous members who think these discussions are not expedient because they would define the profession more as an ‘academy’ or as an ‘industry’.

Conclusion

Within the management consultancy sector there are many perceptions about what the profession is or should be. There is no uniformity in definitions, standards or codes of conduct. There are occasional discussions between the boards of professional institutes and/or associations about professionalization. Consultants of large firms often hold essentially different views on the profession from sole practitioners. Discussions like these are characteristic for the management consultancy sector, but these
are devoid of meaning because, as confirmed by consultants involved in the discussions, there seems to be no change in the manner of arguing or arguments. Without any insights into the different assumptions about the concept of a profession or definitions about standards and codes of conduct, discussions like these may be futile.

It may be preferable to maintain that the profession of management consultancy does not exist or to say that ‘a profession is a body of thought, thought by thinking thinkers’ (adapted from Weick (in Choo, 1998)). The focus should be on what consultants do instead of what they are. It is more effective to discuss the different ways of professionalization instead of what a profession stands for or should be (see also Weick and Quinn, 1999).

If we refer to the diagram of the four ‘ideal types’ of profession previously outlined, we have to realize that professionalization has an entirely different meaning in each of the four dimensions. In ‘industry’ it would mean the development of new products and/or effective dispersal of skills, whereas in the ‘church’ dimension it is the process towards a codification of professional requirements and the fulfilment of obligations in agreement with those requirements. Professionalization in a ‘castle’ concerns the process towards accreditation of organizations and/or persons connected with designations like the CMC qualification. In an ‘academy’ setting it would mean philosophizing about different ways of continuous learning.

The time has come for management consultants to realize and admit that uniform definitions in this area do not exist and that it is useless to compare this sector with classical professions like the medical or legal profession – the sector has to differentiate itself from them. The quartet of definitions described in this chapter may be helpful in this respect.

The consequences of this framework are that we have to abandon the idea that a profession is an institute with ‘traditional and collective patterns of behaviour (of acting, thinking and feeling) which “existed” before we were born, and in all probability will continue to “exist” after we have died’ (Zijderveld, 2000). The profession as an institution is not a goal in itself. As we have seen, there are different views on the concept of a profession.

An important competence of management consultancy is change management. It makes sense to use the theories and concepts of change management to formulate a new way of organizing the profession. In the new economy we see a reduction of the classic vertical integrated concept of organization. Also among clients we see a process of de-institutionalization.
of the organization into a network of specialized companies. The profession of management consultancy should be organized more as a network with all kinds of different views on the profession. Management consultants actively involved in professionalization processes (the board members of the bigger firms, the IMCs and associations, and the management of the management consultant schools), and therefore those directing the further development of the profession, have to be more aware of this.

The basis of every profession lies in the fact that a person is dependent on certain expertise for essential issues in his/her life and that person does not have access to that expertise. The person is dependent on the professional who possesses the expertise. The profession of management consultancy should not lose itself in discussions about the content and regulation of the profession because this leads to evaporation. The development of the profession is a process. It is a permanent contest between all kinds of other collegiate professions (Abbott, 1988). The profession has to develop a more intellectual tradition through which we can find all the different views on the profession, together with a strong link to the world of academic knowledge. After all, in seeking solutions for his/her problems, the client requires assistance and support which should be based on, among other things, academic and abstract knowledge.

References

The country’s economy depends on the drive and efficiency of its companies. Thus the effectiveness with which their boards discharge their responsibilities determines Britain’s competitive position. They must be free to drive their companies forward, but exercise that freedom within a framework of effective accountability. This is the essence of any system of good corporate governance. (Cadbury, 1992)

What is corporate governance?

Corporate governance is a relatively new term to describe a process that has been practiced for as long as there have been corporate entities. Before the 1980s the term was not in popular use; serious study and research on the subject has only flourished over the past few years.

Although the use of the term ‘corporate governance’ is now commonplace, both in media coverage of corporate activity and in specialist journals, it is still difficult to find a clear, universally accepted definition of what is meant by it. A basic definition of corporate governance in the UK context was provided in the first of the major UK governance reports, the Cadbury Report (Cadbury, 1992) and endorsed by the Hampel Report of January 1998. The latter said that ‘corporate governance is the system by which companies are directed and controlled’ (Hampel, 1998).

The term ‘corporate governance’ has been used in a variety of contexts in recent years, particularly in relation to the boards of
companies listed on a stock exchange. Many of the issues involved can have implications for boards of privately owned companies too. Indeed, governance is at the heart of the role that all boards of directors play, so an understanding of what it is about and the issues involved can provide useful insight for management consultants.

The UK and European corporate governance models

In the UK corporate governance model, with its unitary board structure, directors owe their fiduciary duties to the company. This means that they are required to act in good faith in the best interests of the company, exercise their powers for the proper purposes for which they were conferred and not place themselves in a position where there is conflict (actual or potential) between their duties to the company and their personal interests or duties to third parties. Their duties are owed to the company, not the shareholders or stakeholders – although they are accountable to the shareholders for the stewardship of the company. The statutory duties of directors towards other parties besides the company are minimal; indeed there is no explicit duty (in a solvent company) to stakeholders such as employees, customers, suppliers and the wider community.

In continental Europe, the situation is somewhat different. In Germany, for example, which has a two-tier board structure – a supervisory board and a management board – the duty of directors to the company is more widely expressed than in Britain and includes employees and the public interest. In France, split boards with employee participation have been introduced as an optional alternative to the traditional single board.

The effective board of directors

*Every listed company should be headed by an effective board, which should lead and control the company.* (London Stock Exchange, 1999)

Renton’s *Standards for the Board*, published by the Institute of Directors (IoD), states that the key purpose of companies is to maximize the efficient creation of wealth, while observing the law and seeking to minimize the negative impacts of corporate activity on participants and society generally (Renton, 1999). It follows therefore that the key purpose of a
board of directors is to seek to ensure the prosperity of the company by collectively directing the company’s affairs while meeting the appropriate interests of its shareholders and relevant stakeholders and taking into account the law, relevant regulations and commercial considerations.

In pursuing this key purpose, a board of directors faces a uniquely demanding set of responsibilities and challenges. It also faces a range of objectives that can sometimes seem contradictory. The board:

- must simultaneously be entrepreneurial and drive the business forward while keeping it under prudent control;
- is required to be sufficiently knowledgeable about the workings of the company to be answerable for its actions, yet able to stand back from the day-to-day management of the company and retain an objective, longer-term view;
- must be sensitive to the pressures of short-term issues and yet take account of broader, longer-term trends;
- must be knowledgeable about ‘local’ issues and yet be aware of actual wider competitive influences;
- is expected to be focused on the commercial needs of its business while acting responsibly towards its employees, business partners and society as a whole.

Each board member is expected to recognize these challenges and ensure that they personally contribute to finding the right balance between these various competing pressures.

Tasks of the board

It is, of course, impossible to list every task that each individual board of directors has to carry out. Each board has to consider its own situation and circumstances. For example, small privately owned companies might not be concerned with many of the issues that preoccupy large listed companies.

However, Renton’s *Standards for the Board* does attempt to highlight the broad tasks that are pertinent to every board and also the indicators of good practice that can help boards of directors reflect on how they are fulfilling those tasks. Hence, it is argued that boards can be helped greatly by focusing on four key areas:
- establishing vision, mission and values;
- setting strategy and structure;
- delegating to management;
- exercising accountability to shareholders and being responsible to relevant stakeholders.

Each board should decide what it needs to do in order to achieve its overall purpose and identify any gaps or deficiencies in what it is already doing. The board is also encouraged to focus on those tasks that it must, or wishes to, undertake itself and to decide which should more properly be carried out by senior management. Many boards of larger companies devise a schedule of reserved powers that explicitly distinguishes between those tasks that are to be the sole responsibility of the board and those than can legitimately be devolved to senior managers.

**The effective board**

Within a company, the board of directors is the principal agent of risk tasking and enterprise, the principal maker of commercial and other judgements. Discharging these responsibilities means thinking not only about particular tasks but also about ways of working as a board and ensuring that individual directors can be fully equipped to play their part. Again, there are four particular areas worthy of time and energy:

- determining board composition and organization;
- clarifying board and management responsibilities;
- planning and managing board and board committee meetings;
- developing the effectiveness of the board.

These activities are usually undertaken by the chairman of the board, part of whose role is to manage the board’s business and act as its facilitator and guide. In cases where the managing director is also the chairman, it is important that these two distinct roles are properly separated and that sufficient attention is given to carrying out the chairman’s role effectively. The board should not be just an executive team.

The non-executive directors play an important part in assisting the chairman to fulfil his/her role by regularly and rigorously assessing the effectiveness of the board’s processes and activities. Given their outside perspective, they are sometimes best placed to ensure that the board focuses its energies effectively on meeting the demands described earlier.
The context for the non-executive director

Each board of directors is faced with unique problems and circumstances that must be addressed for the company to be truly successful. There are, however, some universal challenges that are faced by all boards and a number of strategic tasks that any board must perform if its central purpose is to be achieved.

Legally speaking, there is no distinction between an executive and non-executive director. UK company law does not see the roles as distinct and therefore does not distinguish between their responsibilities. Yet there is inescapably a sense in which the non-executive director’s role can be seen as balancing that of the executive director, so as to ensure that the board as a whole functions effectively. Where the executive director has an intimate knowledge of the company, the non-executive director may be expected to have a wider perspective of the world at large; where the executive director may be better equipped to provide an entrepreneurial spur to the company, the non-executive director may have more to say about ensuring prudent control.

All directors should be capable of seeing company and business issues in a broad perspective. Nonetheless, non-executive directors are usually chosen because they have a breadth of experience, are of relatively high calibre and have particular personal qualities. They may also have some specialist knowledge that will help provide the board with valuable insights or, perhaps, key contacts in related industries or the City of London. Of utmost importance is their independence of the management of the company and any of its ‘interested parties’. This means that they can bring a degree of objectivity to the board’s deliberations, playing a valuable role in its task of monitoring executive management.

Although much of the comment and discussion on non-executive directors tends to focus on listed companies, it is important to note that they can also make a valuable, albeit somewhat different, contribution to private companies. Indeed, there is a growing number of private companies, including relatively small ones, that are now actively searching for the ‘right’ non-executive director.

The functions of non-executive directors

Essentially, the non-executive director’s role is to provide a creative contribution to the board by providing objective criticism. Non-executive directors are expected to focus on board matters and not stray into
‘executive direction’, providing an independent view of the company that is removed from its day-to-day running. Non-executive directors, then, are appointed to bring to the board:

- independence;
- impartiality;
- wide experience;
- special knowledge;
- personal qualities.

The non-executive director’s key responsibilities

Many chairmen use their non-executive directors to provide general counsel, as well as a different perspective, on matters of concern. They also seek their guidance on particular issues before they are raised at board meetings. Indeed, some of the main specialist roles of a non-executive director will be carried out in a board sub-committee, particularly in listed companies. The board’s ability to operate efficiently is often increased by the establishment of sub-committees to give more detailed and objective consideration to major issues before they are formally discussed at the board. Although the number of sub-committees varies from company to company, the key responsibilities of non-executive directors remain constant. They lie in:

- strategic direction;
- troubleshooting;
- communication;
- audit.

Strategic direction

As an ‘outsider’, the non-executive director should have a clearer or wider view of external factors affecting the company and its business environment than the executive directors. The normal role of the non-executive director in strategy formation is therefore to provide a creative and informed contribution and to act as a constructive critic in looking at the objectives and plans devised by the chief executive and his/her executive team.
Troubleshooting

In times of crisis, occasions can arise when only the non-executive director is capable of acting on behalf of the company. This is especially true if a business has been badly managed and the chief executive or managing director needs to be replaced. It would be very difficult for the executive directors to take a lead at board level in these circumstances; non-executive directors have to take the initiative for them.

Communication

The company’s and board’s effectiveness can benefit from outside contacts and opinions. An important function for non-executive directors, therefore, can be to help connect the business and board with networks of potentially useful people and organizations. In some cases, the non-executive director will be called upon to represent the company externally.

Audit

It is the duty of the whole board to ensure that the company accounts properly to its shareholders by presenting a true and fair reflection of its actions and financial performance and that the necessary internal control systems are put in place and monitored regularly and rigorously. A non-executive director has an important part to play in fulfilling this responsibility, whether or not a formal audit committee (composed of non-executive directors) of the board has been constituted.

Remuneration of executive directors

Devising the appropriate remuneration packages for the executive directors can be one of the most contentious issues a board faces – not least because of the publicity executive pay has attracted in recent years. It is vital that decisions on executive remuneration, benefits and bonuses are seen to be made by those who do not stand to benefit directly from them. In listed companies and some larger private companies, therefore, policy on executive remuneration is usually decided by a committee of non-executive directors.

Appointing directors

One of the board’s most crucial functions is to decide on new appointments to the board and to other senior positions in the company. Again, in
some cases, this is done within a committee composed of executive and non-executive directors, whose task it is to ensure that appointments are made according to agreed specifications. Where implemented, the appraisal of directors is often tied directly into the selection and nomination process.

**Conclusion**

Common to many boards of directors and shareholders is a growing acceptance that non-executive directors have a valued and necessary role to play in maximizing board effectiveness. The introduction of truly independent judgement to the board’s activities provides all interested parties with greater assurance that the correct strategies and decisions are likely to be chosen.

The contribution of non-executive directors can usually raise the level of discussion and improve the quality of decision making on the board. This increases the chances of the company acting in the best interests of its long-term security and prosperity.

Nevertheless, it is important to be clear that the challenges and tasks discussed above are those of the board, not of individual directors. Although each individual may have a distinct contribution to make, it is the collective responsibility of the board to ensure the company’s successful operation.

**References**


*For further information on non-executive directors, please visit our Web site at www.independentdirector.co.uk – part of the IoD and Ernst & Young’s Independent Director initiative.*
Pricing for profit

Colin J Coulson-Thomas

Introduction

Why is it that some companies and consultants are able to charge higher prices for their products and services than their competitors? How come some suppliers command a price premium, while others are pressed for greater discounts? What factors should consultants take into account when deciding how to charge for their time or contribution? Pricing an offering or a proposal for consultancy services is one of the most fundamental of commercial decisions. The revenue of a business or professional practice represents so many units of whatever good or service is provided multiplied by a price.

Price levels can have a major and direct impact on a firm’s profitability. Small changes in unit prices or the hourly and daily rates charged can have a disproportionately high effect on the bottom line. This is as true for consultants as it is for their clients. Other things being equal, if net margins are in the order of five per cent, a similar increase in achieved prices might roughly double the ‘bottom line’.

However, the reverse is also true. Businesses need to be vigilant. Adverse trends should be carefully monitored as their cumulative effect can be profound. Over time competitive pressures can squeeze margins to the point to which a business starts to make losses. If price increases lag behind inflation and what others can achieve, a business may be unable to fund future developments or retain talented staff.

The price that is quoted can determine whether or not new business is won. Insecure operators feel caught in a trap: charge too much and a hoped for order may be lost; charge too little and margins may be eroded
and offerings perceived as cheap. Even those who secure a contract sometimes experience a nagging feeling that more might have been charged.

**Finding out about how people price**

Given its significance, one would be forgiven for thinking that as much management literature and consultants’ time should be devoted to pricing offerings as is dedicated to developing them. Not so. Pricing is a Cinderella subject. It is massively under-researched and far less guidance is available for consultants than is provided in less important areas.

Obtaining and sustaining higher prices ought to be a primary concern of management and a central activity of consultants who advise them. Yet often this is not the case. In many companies pricing decisions are left to ‘marketing’ and taken on the basis of guesswork or hunch. Those who believe they have cracked the dilemma of deciding how much to charge tend to keep their cards close to their chest and quietly reap the rewards.

In the past little has been known about how firms set prices. Businesses have either been reluctant to reveal their approaches or they have been mildly embarrassed by the lack of rigour involved. To understand what is happening in practice and how to price profitably, the Centre for Competitiveness at the University of Luton examined the pricing tactics and strategies of 73 companies.

The research team collected data on 127 factors affecting prices and correlated this against how effectively the companies use pricing to achieve 13 business objectives, such as growing market share or improving profitability. Key people in the process have divulged how they operate. The results set out in the Chartered Institute of Marketing (CIM) report, *Pricing for Profit* (Coulson-Thomas, 2002), uncover both problems and opportunities for corporate decision makers and those who advise them.

Participants in the survey ranked the contribution of pricing to the 13 business objectives on a five-point scale giving a maximum of 65 points. The lowest achievement was 32 and the highest was 63. Comparing the companies that are most successful at using pricing to achieve business objectives (the 27 leaders scoring 48–63 points) with the least successful (the 46 laggards scoring 32–47 points) reveals stark differences between the two groups. These are highlighted in Figure 2.8.1.
The role of professionals

There are sobering findings for some providers of professional services. Many consultants have traditionally either been excluded from pricing or have chosen to look elsewhere. In-house colleagues have often fared little better. Finance professionals are ‘very involved’ in pricing decisions in only 30 per cent of companies; that puts them well behind sales managers (on 60 per cent) and marketing directors (on 49 per cent). In 31 per cent of companies finance departments are either not involved at all or only marginally involved.

Marketing and sales are the predominant influence on pricing. They should certainly contribute to pricing decisions, as they ought to be close
to customers. However, if left to themselves sales staff may be tempted to ‘buy’ orders by offering discounts in order to achieve their targets. This may be regarded as a softer option than differentiating, tailoring and delivering extra value to justify a higher price. However, excessive and unauthorized discounting can erode margins and reduce profitability.

In the recent economic downturn consultants too have fallen into this trap. Rather than ‘leave people on the bench’, hourly and daily rates have been cut and junior staff put onto assignments on a ‘buy one or two and get one free’ basis. Such practices can undermine the standing of consultants. In future some clients may be reluctant to pay past charge-out rates and might become much more selective when using external services.

The *Pricing for Profit* report (Coulson-Thomas, 2002) suggests that many in-company professionals and their colleagues need to urgently review their role and involvement in pricing. A broader grasp of the strategy and tactics of pricing and the issues involved could improve significantly the quality of advice given and contribute positively to corporate profitability.

**Differing approaches of leaders and laggards**

The findings highlight some potential opportunities for consultants. For example, Figure 2.8.2 shows that leaders make more use of all nine tools and techniques examined and that over twice as many make ‘very extensive’ use of competitor analysis. Leaders are also ahead by two to one or more in their use of break-even analysis and economic value analysis. Overall many companies do not appear to be using approaches, tools and techniques that would benefit them.

Many of the laggards would benefit from the services of consultants who understand how to take more effective pricing decisions. The most successful companies use an evidence-based approach rather than hunch. Thus while attracted by the idea of pricing products as a line rather than individually they would still calculate whether an increase in profit overall would exceed the costs of implementation and any reductions in profit on individual products that might occur.

Firms may need help in understanding what drives pricing decisions. The most important price-orientation factors are selling on value as opposed to price, segmenting a marketplace and taking a long-term view, for example to use ‘penetration pricing’ to enter a new market. When the
laggards adopt a longer-term perspective it is often for defensive reasons, such as cutting price to hold onto market share where the leaders would sell on value.

The cost drivers of leaders and laggards are very different. The leaders are some five times more likely to have a business strategy to increase volume to achieve economies of scale. They have a more acute sense of what constitutes a ‘critical mass’ or optimum level of production. In contrast, laggards are more likely to reduce product costs to gain the flexibility to cut prices or offer special discounts.

The leaders among the survey participants are more realistic when allocating costs. For example, some 62 per cent of leaders ranked activity-based costing as either ‘very important’ or ‘important’ compared with just 23 per cent of laggards. When pricing, leaders are more likely to understand the direct and indirect costs attributable to a particular product or service. They would not try to recover sunk costs and would instead price to ensure future revenues exceed anticipated costs by the highest attainable margin.
Consultants need to be aware of opportunity costs as well as actual financial expenditures. When tempted to take work at rock bottom fees during a lean period, alternative uses of time should be considered. Effort could be put into preparing a presentation that might enhance a reputation or generate new leads, or developing a methodology or tool that might justify higher daily rates on the next assignment.

Suppliers need to be aware of trends and developments that impact on prices in both the business environment and customer buying centres. Establishing a price issue monitoring and management system enables the various factors influencing pricing decisions to be tracked, their likely impacts to be assessed and appropriate responses to be determined. This is another area in which consultants can help.

Companies need to be alert and objective when assessing external trends and developments. If consumer militancy is on the increase they need to match awareness with sensitivity, eg to possible price hot spots that might trigger an adverse reaction.

The introduction of the euro has allowed many businesses to secure price increases in the guise of ‘rounding up’, much to the annoyance of consumers. Other buyers have used the change to their advantage. Within the eurozone there has been movement towards European prices, cross-border buying and Europe-wide purchasing. Customers seek to buy all of their requirements from the point at which prices are the lowest.

There are various defensive strategies companies can adopt; consultants could advise on which would be best. For example, developing clear benefits in each market, and segmenting customers into ring-fenced pan-European groups can help a firm to resist downward pressure. Thus a luxury version could be supplied to consumers in Scandinavia and Northern European cities, while people in Greece and southern Italy could be offered a cheaper alternative.

The need for fundamental reviews

Many companies would benefit from a first principles review of their pricing policies, strategies and tactics. Answers to particular questions could be compared with responses from participants in the study undertaken by the Centre for Competitiveness (Coulson-Thomas, 2002) to determine whether a business is a leader or a laggard. Examples of such questions include:
Particular attention should be paid to ways of securing a price premium such as differentiating from competitors, improving a brand, image or reputation, segmenting a market or offering different versions for particular groups. Prices can also benefit from tailoring responses for individual customers, offering extra services, extending a product or emphasizing what is different about a company and its offerings. Companies and their consultants can also work through exercises to generate additional and genuine choices for customers and prospects (Coulson-Thomas, 2001).

Increasing an offering’s economic value and the extent to which it is unique or special enables a company to price for value. Differentiated, tailored and exclusive offerings attract a premium. Leaders sell on value as opposed to price and keep their pricing structures simple and transparent. They are also confident where laggards sometimes vacillate. They are prepared to enter into ‘open book’ and profit sharing arrangements.

Smart companies also automate routine aspects of pricing in order to free up time for differentiation, tailoring responses and creating new options (Coulson-Thomas, 2003). Companies such as 3Com, Bolero, Cisco, Dana, Eyretel, ICB and TIG have used sales support and pricing tools (see www.Cotoco.com). Such tools can be made available on personal computers and laptops and used to support contact centre operators and sales representatives who face the challenge of pricing bespoke combinations of available products.

Support toolkits can include ‘configurators’ for developing solutions, pricing engines that calculate their cost to the customer, proposal generators, decision trees to assist account strategy planning, and cost justifi-
cation tools that can help secure approval (Coulson-Thomas, 2003). They can also incorporate slides with voiceovers, interactive presentations that support sales methodologies, demonstrations of products in operation and explanations to help prospects understand key points (see www.Cotoco.com).

Quality and regulatory requirement checks can be built into job-support tools. Toolkits can support every stage of the sales process from prospecting and qualification to negotiation meetings. A library of detailed background information can help users to answer customers’ questions on the spot. Marketing materials can include templates, case studies, testimonials and independent endorsements.

Overall, the pricing processes and tools of many businesses need an overhaul. Senior managers, consultants who advise them and members of the finance community may need to become more active in pricing decisions and work alongside marketing and sales teams. They need to ensure that they and their colleagues emulate leaders rather than the laggards.

The organization of pricing should be revisited. Too often pricing is handled in an ad hoc and uncoordinated way. There may be significant choices to be made; for example, although the centralization of pricing might facilitate pan-European responses to major customers, would a decentralized approach allow greater responsiveness to local market conditions?

Leaders understand the strategic importance of pricing and issues that affect price sensitivity. A wider range of departments are involved in pricing decisions. Pricing should not be left to a single group such as the marketing team and appropriate support should be provided and enough time allocated to think through the implications of alternative approaches.

A review should ensure that pricing tactics support business development strategy. Thus prestige pricing can enhance perceived value. Laggards put the most emphasis on cost cutting, while leaders strive to add value to their core offering, develop a reputation for service and use pricing to build closer relationships with strategic customers and key accounts. They are also more willing to enter into partnering arrangements that allow them to keep a proportion of any cost savings that are achieved.

Pricing consultancy services

As well as being called upon to advise clients on pricing and other related matters, consultants also have to price their own services. There are a
number of factors to take into account when pricing proposals for work. Some of these can be strategic, such as the possibility of developing a promising relationship in a targeted area of opportunity; other considerations may be tactical, e.g. the desire to win a competitive bid, or pragmatic such as the availability of other projects.

A consultant’s willingness to work at a particular day rate may depend on the situation and circumstances. For example, particular skills may need to be brought in and prospective partners and subcontractors may have minimum charge-out rates. Participation in the analysis phase of a project may rule out involvement in later implementation.

Certain assignments are likely to be more stimulating and enjoyable than others, in the same way that different environments and locations can vary greatly in their attractiveness. Some individuals with specialist skills may not like operating beyond their immediate region or might worry about the health and credit risks of undertaking certain overseas assignments. A premium may be charged to compensate for working unsocial hours at a remote and undesirable place.

A consultant might need to think about the impact of potential jobs on their CV. An assignment for a well-known client in an exciting and newsworthy sector at a prestige site may strengthen practice credentials. The raised standing and profile that may result might allow higher rates to be charged to other prospects.

A keen price may be quoted in order to break into a new area of work or secure the cachet of putting the logo of a ‘big name’ client onto a list of customers; this could be of great value to a recently established practice. A degree of glamour might be attached to certain projects that may help to retain existing staff and recruit new ones.

The nature of the work to be done may influence a quotation. How much time will need to be spent ‘getting up to speed’? Will there be ‘set up’ costs? Might extra help be required? A lower than normal price may be quoted to secure an opportunity to learn new skills and build additional credentials. Large firms need a flow of assignments that offer ‘placement’ opportunities for inducting new staff and training junior consultants.

A project may be relatively self-contained and ‘one off’ in nature. Alternatively, it might have the potential to evolve into a continuing and/or broader relationship, in which case a lower price may be offered in order to secure a ‘foot in the door’. In such cases, it may be wise to refer to ‘initial’ or ‘introductory’ rates in order to leave the door open for
some later revision when assigned staff have settled in, are fully familiar with a client’s processes and practices and more attuned to what it is seeking to achieve.

The initial scale of a project, and particularly the number of chargeable days involved, will be an important consideration. Many consultants are prepared to offer the equivalent of a volume discount. An existing or former client may already have established expectations of charge-out rates that might not be easy to shift.

Ability to pay is also an issue. Large corporations usually offer better-funded assignments than small businesses. Charge-out rates vary greatly across different sectors; as such, a financial institution based in the city centre may pay higher day rates than a regional manufacturing company or local retailer. Many organizations in the voluntary sector have minimal budgets but some major charities are willing to pay commercial rates.

In certain sectors, eg the construction industry in the UK, and particular countries, arrangements may be strongly influenced by ‘standard practice’. Within the public sector individual institutions may receive regional or national guidance concerning the hourly or daily rates to offer external suppliers. Detailed proposals are also likely to be required which may be costly to produce. The standing orders of many bodies and European Union (EU) rules require projects above a certain size to be put out to competitive tender.

In some areas of practice clients may not fully appreciate the amount of work that is involved in providing less tangible services; for example, how does one cost and put a value on ‘good design’? Case studies might show the significant contribution a ‘hidden’ element can make. Some designs achieve impact, differentiate and transform results.

Clients may also be reluctant to pay for elements of service that other suppliers include ostensibly ‘for free’ as part of a total package. They may not fully appreciate that cross-subsidies might allow an incumbent consultant to undercharge a niche supplier who is seeking to provide one aspect of the whole.

Middle-sized practices can find themselves in the difficult position of being undercut by sole practitioners, while being unable to command the higher charge-out rates that larger firms partly justify by referring to their visibly greater overheads and more extensive support facilities. In response, a pitch could question the capacity of a single individual to provide what is required and the benefit of funding expensive office accommodation.
Some consultants are prepared to enter into a form of ‘payment by results’ agreement and may agree, for example, to waive all or part of a normal fee in return for a share of any measurable results achieved. A formula could provide for steadily increasing payments from the client as a succession of performance thresholds are crossed. Certain prospects may only offer this type of arrangement.

Before quoting a price a consultant should endeavor to find out how many other potential suppliers have been invited to submit proposals. Knowing who the other bidders are may allow an assessment to be made of the prices they are likely to offer.

A consultant should endeavour to establish a clear relationship between price and quality in the mind of a potential client. As such, alternatives could be given: describing the lowest standard of specification as the ‘cheap and dirty’ option may cause a prospect to wonder whether ‘rock bottom price’ competitors might be cutting corners. A potential purchaser may be keen to reduce risk as well as secure a competitive price.

When faced with a range of bid prices, some decision makers knock out the most expensive and the cheapest options. Doing this may reduce the risk of criticism for either overpaying or compromising quality. A consultant should aim to submit a mid-range price and justify an above average charge-out rate on the grounds of higher quality work that is more likely to achieve client objectives.

Much will depend on the relative bargaining power of the negotiating parties. A consultant with acknowledged, unique and specialist skills who expresses an interest in undertaking an important project in a crisis situation will be in a stronger position than a colleague offering a standard service in a non-strategic area without such time pressures.

Nothing is more frustrating than to be asked for a lower price at what appears to be the final or penultimate stage in a negotiation. Some buyers will request a reduction as a matter of course. It may help to test the resolve of a bidder and whether or not some areas of a quote have been ‘padded’. Should margins already be tight, a consultant might need to walk away from an opportunity rather than make changes.

Another tactic is to question the motivation behind a call for a cut in total costs or the hourly rate and to suggest alternative ways of meeting a particular budget. For example, fewer hours could be devoted to particular tasks or work could be undertaken by less-qualified staff. It
should be pointed out that this might well have an impact on the quality of the support provided.

If a concession is to be offered on price, an attempt should be made to obtain something in return; e.g., a lower charge-out rate could be linked to a commitment to extend the term of a relationship or the chance to bid for later stages of a project. The right to mention the assignment and, assuming it goes well, an endorsement or quotation for use in marketing could also be sought. Obtaining some quid pro quo helps to establish the impression that an original estimate was reasonable and fair.

Ultimately, for a price to be struck it must satisfy both parties. Agreement is not inevitable. A consultant may not be willing to work at a loss however attractive a potential opportunity might appear in other respects. Also, a prospective client may have a clear view of how much should be paid and a specified rate per hour, and standard terms and conditions may be offered on a ‘take it or leave it’ basis.

**Summary and conclusions**

Leaders devote more time and greater effort to pricing. They use more techniques and a wider range of sources of price information. They keep their finger on the pulse of customer, user and industry opinion and review their approaches, strategies and tactics as situations and circumstances change.

New consultants should develop a niche specialism and put in extra time to impress a client rather than cut their charge-out rates in an attempt to compete with larger practices. Once clients and prospects become used to lower rates it may not be easy to raise them again. Consultants should justify the cost of their services by valuing the likely benefits and demonstrating that what needs to be spent to achieve them will be a good investment.

Overall, leaders adopt a very different approach to building their businesses. They focus on each segment of the market, differentiate their offerings and look for ways of increasing quality and delivering improved customer service. They may invest in these areas in order to build a greater volume that will allow them to reduce unit costs and become more competitive.
References


Further reading


Further information

A brochure describing Pricing for Profit: The Critical Success Factors by Colin Coulson-Thomas and related reports on winning business can be obtained from:

Policy Publications
4 The Crescent
Bedford MK40 2RU
Tel: +44 (0)1234 328448
Fax: + 44 (0)1234 357231
E-mail: policypubs@kbnet.co.uk
Web site: www.ntwkfirm.com/bookshop

All the publications cited can be ordered via the Web site.
A Client’s Guide to Management Consultancy
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The client–consultant relationship: setting the guidelines

Barry Curnow

Introduction

The existence of such a large number and variety of consultants to choose from (between a quarter and a half a million worldwide according to the definitions used in this handbook, but many more if a wider definition is used\(^1\)) necessitates clear guidelines on how to engage with, choose and use them. The market is very fragmented and studies by Colin Coulson-Thomas of Adaptation Ltd and Philip Abbott of Industry Research Group have revealed a mixed picture of client expectations and experience. Expectations of the brand name consultancies are both broad and modest, as is satisfaction with the results, yet clients continue to commission major assignments with brand name consultancies. Indeed it is often the desire for a brand endorsement that is influential in the decision.

It is helpful for clients to be clear about a number of matters before setting their own criteria for a particular consulting engagement. Consulting projects have certain generic stages that the client and the consultant need to go through together in order to achieve an effective working relationship.

\(^1\) For example, China’s own definition identifies 800,000 in China alone!
Generic stages of a consulting project

The generic stages of a consulting project are as follows:

1. understanding the problem;
2. understanding the constraints;
3. understanding the opportunities;
4. developing alternative approaches;
5. generating potential solutions;
6. assessing and reconciling the power, politics and personalities.

Achieving a shared understanding of these steps requires the development of a working partnership between client and consultant, supported by developing trust and understanding of each other and what each side brings to the table. Against these generic steps it is necessary to take into account the specific purpose of the proposed consulting engagement — why the conversations are taking place at all.

The reasons for selecting consultants

The reasons given for selecting consultants are likely to include:

- work overload;
- development projects;
- specialist expertise;
- change management;
- crisis or critical incident management;
- counselling or process consultation;
- outsourcing or facilities management.

Guidelines on getting the most from your management consultants

Having clarified the type of consulting contribution required, there are 10 guidelines that can be applied:

1. Select from at least three possible consultants, carefully.
2. Select on the basis of being able to establish a relationship.
3. Establish common ground of shared understanding and values.
4. Identify potential for learning and growth in the relationship.
5. Agree a mutual, participative, joint approach.
6. Achieve agreement on objectives of the project/work.
7. Ask yourself honestly if you are ready for change.
8. Identify obstacles and barriers to change.

These may be regarded as an axis along which to consider getting the most from your management consultants.

Good consultants use models to help their clients learn and to understand and solve problems jointly with them. It is important for the models to be shared and valued by both client and consultant. When used correctly, consulting models can be extremely powerful tools of explanation, argument and reasoning. Their use is made easier by identifying and adopting a suitable style of consultant and by creating a relationship of the appropriate character. The different styles of consulting are:

- **Teacher–pupil**: this involves instruction and learning with the experienced consultant in teaching mode, imparting expert knowledge of the subject area and of comparative practice data and information elsewhere.
- **Doctor–patient**: this involves diagnosis and prescription with the consultant in an expert mode based on the medical model. The client asks the consultant to diagnose what is wrong and to propose how to fix it.
- **Engineer**: this involves the designing and building of an agreed plan with the consultant as architect and contractor and the client as client.
- **Coach–mentor**: this is based on sports and skill-based endeavours. It implies a client–consultant relationship whereby the consultant has expert knowledge – perhaps as much as the teacher – but uses a coaching style to train and develop self-sustaining skills in the athlete/manager. The athlete/manager borrows the coach/mentor’s wisdom until such time as he/she is capable of competing alone. It is interesting to note that in this model the relationship often continues but transforms, with the coach becoming a mentor and in time a trusted adviser and guide. If the client–consultant relationship is good then coach/mentors continue for a long time. In the original Greiner Metzger (1983) model this role was known as ‘friendly co-pilot’.
Counsellor–therapist: this model is content free. The consultant does not give advice. He/she listens and heals but does not tell the client what to do. The consultant is just there when needed, continuing for as long as is needed (albeit for fixed times and consultations) and for whatever purpose he/she is needed. However, he/she is often there for a very long time… until it stops.

This is how to get the most from your consultants – by working on the client–consultant relationship, building it, developing it and transforming it, often for a very long period of time. And it goes on. And it works. Until it stops. The phases of the client–consultant relationship are described in Chapter 3.5 and the business of ending – how to bring what may be a long, difficult important and dependent relationship to an end – is covered in Chapter 3.9.

Appointing a consultant should follow the basic common sense principles of choosing any personal or professional service. Margerison (1996) pointed out that citizens who will judge a builder, motor mechanic or hairdresser with skill and discernment, and an often sophisticated decision making matrix, sometimes seem uncertain about how to select a professional management consultant. Yet similar principles apply. At Maresfield Curnow, when conducting training courses for client companies in how to choose and use management consultants effectively, we have achieved significant results by asking participants to role play such everyday transactions before addressing the issue of client–consultant relationships. The parallels are striking.

Perhaps surprisingly, until the end of the last century lack of client confidence in choosing consultants may also have helped to explain the popularity of brand buying of the large consultancy firms. The brand name consultancies were clearly reassuring – a well-known consulting firm name implied comfort, certainty of delivery, reputation and the resources and structure to deal with any difficulties along the way. Clients would typically pay a higher fee for this brand value.

Such a brand premium endured throughout the Year 2000 (Y2K) IT consulting boom and extended into the outsourcing trend that followed when handing over key parts of a client business to facilities management required the reassurance of brand reputation to secure confidence and security. However, with the economic downturn that became visible after 11 September 2001 and the wholesale restructuring of the consulting industry that followed, the principles of client relationships reasserted
themselves in consultancy buying. Clients with restricted budgets and some painful experiences of large-scale projects started emphasizing the generic need for individual relationship, confidence and trust in very much the manner that Margerison’s now classic work describes. It seems that although the principles and guidelines endure, the balance between relationship and brand buying seems to vary according to prevailing economic and organizational conditions.

References
When choosing a consulting firm, the personality of the consultant and the relationship between the lead consultants and the client are highly influential in the final choice. Clients will tend to shortlist the firms according to brand names and reputation. However, in choosing from a shortlist it is the impact of the consultant who does the presentation that will significantly determine which firm is chosen, regardless of the brand name. The name gets the consultant in the door, but it doesn’t necessarily get him the assignment. In pre-selecting big brand names, those who are hiring the consulting firms are putting an established reputation on the shortlist as a benchmark from which they can then feel free to deviate if the individual consultants impress.

Personal introductions and competitive pitches

Most consulting projects are still commissioned following personal introductions, even if a competitive element is introduced before the final selection. However, despite the importance of personal introductions there is an increasing use of ‘beauty parades’ involving pitching for consulting assignments. Some clients appear to go through the process despite having already decided whom they are going to appoint, and there is a danger that such processes can squeeze out the very creativity and individual differences that a good consultant can bring to the client business.
Nevertheless, the pitch does give clients the opportunity to change their mind about who is to do it. Sometimes, people approach pitches as a kind of corporate filter or safety net, and even though they go into the process believing they know who they want, they may sometimes change their mind and end up awarding it to another firm because they were very impressed with their presentation.

So far as large corporate purchasers are concerned, a good presentation by a consultant can rescue a poor proposal, but the reverse is not the case. A mediocre presentation cannot be rescued by an outstanding proposal.

**Large and small consultancies**

However, there are disadvantages to formal beauty parades. The costs are high for everybody and that may exclude some good firms and inflate the costs of all the bidders. Some small consultancies often feel disadvantaged. There is no point in merely filling up the numbers for a pitch as it is time-consuming, wasteful and may lead to a bad reputation for the client. Certain parts of the public sector in some countries have become no-go areas for many consultants – despite greatly needing consulting help – because they have consistently treated consultants badly. So bad consultant–client relationships can be bad for the stakeholders of a client organization.

Pitching can prove so expensive that many firms now review closely whether they want to pitch for a given tender. It is not unknown for the total costs incurred by all firms making a pitch to exceed the value of the assignment itself. Now, consulting firms are trying to become more strategic in how they decide what to pitch for. By concentrating on one or two jobs rather than five or six, the firms feel that they may have more chance of success.

**Offering a value-added pitch**

Some consultants will put a great deal of thought into a competitive pitch and try to offer an added-value service package beyond the client’s expectations. Clients will often appreciate this, but it tends to work only after the basic engagement objectives have clearly been met, and only then in the context of a long relationship with a particular client. The client may be reassured by the brand name of the large firm and by some knowledge
of their processes, so they can conveniently avoid thinking about some of
the wider issues.

**Brief preparation and shortlisting**

A client may find it appropriate to use this section to establish which
consultants to approach and how to deal with them, in order to arrive at a
shortlist of those to be invited to make proposals. The path to follow is
indicated in the steps below.

*Create a field of possible consultants to use*

For example, by:

- word of mouth introductions from other organizations, colleagues
  and contacts, including those from industries and sectors other than
  your own
- approaching individual consultancies for their brochures
- contacting trade or industry associations and asking for referrals,
  especially from those with a consultant database
- contacting the Institute of Management Consultants (IMC) or the
  Consulting Trade Association in the country concerned
- approaching one of the government-assisted schemes designed to
  help small businesses – many countries now provide state help for
  consulting fees for small enterprises.

It is recommended that prospective clients should aim to assemble from
their preliminary field an initial long-list of no more than five consultants
or consulting practices. The next step is to communicate with them.

*Communicate with the long-listed consultants*

Send them the following information:

- A preliminary brief covering the present problem or objective as it is
currently seen by the client, together with some initial explanation of
who the client is, the nature of the work required and its prime focus.
This can cover, for example, the organization structure and principal
systems surrounding the problem area and the boundaries of the
work, including any specific constraints, the timescale and any funda-
mental conditions such as non-negotiable contractual requirements.
A background information pack containing, depending on the scale and the nature of the work: the history and context of the organization; essential background papers, for example an organisation chart, the annual report and accounts, and any technical papers such as the current salary structure; and policies in the case of a prospective remuneration review or the information technology architecture in the case of a prospective systems review. The information pack should also include details about the availability of internal resources and the roles of people likely to be involved.

Request for a Proposal (RFP) – a covering letter asking the consultants to state their competence and specific experience, quoting similar work in other organizations in similar industries, and citing referees who are prepared to speak up for their specific capability to field appropriate people to carry out the work within the prescribed timescale. Using certified management consultants (CMCs), who are members of their local IMC, and member firms of the recognized trade association, avoids the need for formal references as these are taken and covered by the strict membership and qualification requirements of the institute or the association, but it may still be sensible to speak to one or two previous clients to get a feel for how they worked together.

The consultants should also be asked to indicate their willingness to meet and discuss the situation without obligation in the first instance, and to summarize their initial reaction to the RFP and their general philosophy and approach to such assignments. It is helpful for the client to see how a firm might approach a particular project.

In some cases, where a significant amount of technical briefing is required, it may be appropriate to hold a preliminary general session for all prospective consultancies so that they can be briefed on a common basis prior to the issue of the RFP, which in some tender situations can become a formal document in the contract process. In any event, all consultants approached must be given the opportunity to meet the client representatives before making their formal submissions. Indeed, a professional firm might well refuse to make any indication of interest in the absence of a personal meeting, although a consultant’s willingness to do so does not imply any lack of professionalism. Their response would depend on the circumstances and in particular their prior knowledge of the client, the firm or the industry. In any case the client should then:
Meet each consultancy separately for their questions, to receive their preliminary views on the draft brief, to ascertain any issues they see as needing to be addressed during the commissioning process and to agree what may be properly expected of the client organization.

Use commonly agreed criteria to decide which consultants to shortlist.

Do not indicate a budget at this stage. Give as long a lead time as possible to allow preparation and availability from consultants. The consultant will be able to demonstrate his/her own methods of working and be able to question you in order to interpret the objectives, so it will be a learning experience for both parties.

**Tendering and appointment procedure**

The appointment process is a project in its own right. How it is set up by the client tells the consultants much about the organization and its character, and those of the principal players involved. The personal style of the individual client will inevitably condition the impression given. It is important that the client is aware of this and keeps a reasonable balance, demonstrating a concern for focus and discipline (the ‘telling’ part), while at the same time being flexible and receptive (the ‘listening’ part).

Messages are also conveyed internally to employees by the way a consultancy exercise is set up. By this stage, the decision to bring in consultants may already be known within the organization and it must be communicated purposefully and sensitively to the variety of audiences. This will help with gaining commitment and eliminate the possibility of misconceptions and unrealistic expectations. Internal protocols and standards are then easier to observe with regard to the contracting process, equal opportunities, agreements on consultation, etc.

In deciding upon the appointment process, ensure that it is appropriate to the scale and nature of the work. What is appropriate for a £100,000 project is not so for one of £10,000. To expect a number of consultants to engage in long discussion and to draft detailed programmes for a short assignment is unrealistic and may result in a good firm being put off. By contrast, if a contract were to be let for over a million pounds, it would usually pay the client first to commission a paid diagnostic survey from one or more firms to ascertain how they would view, approach and deal with the problem. The time and money invested would invariably be
recovered through greater understanding and a tighter, tidier commissioning and control of the major project.

**Educating the consultants**

Develop a steering group so that a variety of people are brought together in order to consider the process—both of hiring the consultants and, subsequently, of how the whole consultancy assignment should be handled. The group should consist of executives who can provide dispassionate advice and guidance on the course of the consulting engagement, as opposed to making any decisions about recommendations that need to go through the formal machinery of the board. The latter must be taken as part of the ordinary management housekeeping procedures of the company.

Provide each consultancy firm with the same opportunity for informal questioning and discussion with the commissioning client alone, with the commissioning client together with other key people, and with individuals separately as arranged.

Where the later involvement of other executives in the actual project will be important, a short informal meeting with them can be arranged at this stage; otherwise the consultants will have no feel for the character and concern of the company as a whole.

**Written proposals**

The client should require a written proposal to be submitted by the consultants. They should then review the proposal and take stock of the personal impressions formed of the consultants during the face-to-face meetings, and, if necessary, they may then contact specific consultants individually on any major questions of clarification or to correct any mistaken assumptions they have made.

The proposal should, where appropriate, cover the following:

- The consultants’ perceptions of the problem, suggested objectives and other considerations bearing on a successful outcome to the engagement
- Their general approach and proposed style of working
- A program of work specifying the individual technical components of the programme and how they fit together
– the distinct phases of the programme, with proposed milestones for review and adjustment
– what will be delivered at each stage and what the desired outcome will be
– the consultants assumptions as to the use of and demands upon the client’s internal resources
– how the programme will be project managed and through what suggested means of liaison with the client
– the form of reporting.

- The total cost of the programme, broken down by event and activity
- Details of who will manage the project, the consulting team, their roles, their relative proportion of time devoted to the work and their CVs
- Relevant past experience of the consultancy
- Terms of business
- A short summary of the key points of the proposal.

Presentations

Provide for oral presentation, questions and discussion by the consultants before an agreed panel of a small number of key people chaired by the commissioning client. Time should be divided equally between presentation and discussion. A review should follow immediately by the appointing panel, but adjudication should occur only after all the consultancy firms have departed.

The questions put to the consultants should aim to clarify their programme and approach and stimulate discussion of the issues. This time is an ideal opportunity to gain value from all the consultants irrespective of which firm is chosen. New and different insights should be obtained.

Decision

Select the firm whose general competence, methodology and style are most appropriate and who have the credibility to deliver what is asked of them. Once that decision is made the parties can get down to detailed design and tactics. Finally, tell the consultants the result as soon as possible. Add any qualifying points or assumptions and follow up with a confirmatory letter.
Be prepared to respond to requests from the unsuccessful firms for feedback as to the client’s reaction to them. This is good professional practice and will help the consultants learn from the process.

**Contracting**

If the stages thus far have been properly documented (written brief, written proposal and costed work programme, plus any correspondence in amplification, qualification, or recording of any important assumptions) then the client is ready to be entered into a contract. Typically this will be by an exchange of letters, formally incorporating the above as terms, together with any standard conditions which it is appropriate to apply. Considerations to bear in mind will be any advice from professional bodies, industry associations or other sources, and not least the views of the consultants. It must be remembered that this is a two-way professional relationship and the nature of the contract documentation should reflect that.

Furthermore, attempts to tie down the consultants to very specific activities will invariably work against the client’s best interests. It is through rigour in the planning of the project and its outcomes, and through commissioning their achievement, that control can be exercised best.

Consultants should seek to make it easy for the client to see precisely what is proposed in the programme: each element, phase and milestone. The proposal which ‘speaks’ clearly and purposefully to the client and makes it easier to be ‘bought’ is likely to be seen as a token of a similar clarity of purposefulness in joint working between them in the future.

This chapter assumes assignments of the range and depth to justify full client involvement, competitive presentation and so forth. However, the underlying discipline of the process should be borne in mind whatever the scale or nature of the work. The effort you ask people to make in getting work must be proportionate to the size of the job.

**Making the overall choice**

Clients can use this section as a checklist to help them to make an overall choice, to come to decisions, to review them, and to agree an appropriate form of contract with the chosen consultants.

When the contract is being drawn up, the following should be in place:

- a clear purpose and specific objectives, tested internally and with the various consultants
an awareness on the part of the client and the consultants of the issues bearing on the design of the project

a framework for detailed project design and management

an orderly and rigorous appointment procedure within which a decision can be made.

The client will have had the opportunity of seeing the different shortlisted consultants and receiving their proposals. Given clear and comprehensive guidance by the client, both in their written and oral briefings, each consultancy should have covered all the key elements of the work. But there will be different shades of interpretation, ideas for dealing with them and styles of doing so. From the client’s point of view, it is ideal to have reached the position where all the shortlisted consultants are capable of doing the job with realistic programmes. This will leave the client with a choice of which one they prefer to work with rather than rejecting any outright on grounds of fundamental unsuitability.

If the process up to the point of selection is well conducted (a mark of this will be whether the competing consultants have been able to make a useful contribution already), then the client’s thinking should have been developed in the process. This may lead to a redefinition of both the purpose and the nature of the work required. A careful balance has to be struck between sharing that thinking progressively with all the consultants and ensuring that the consultants who have made the most contribution are acknowledged and permitted to build further on the thinking. The client must draw their own ethical boundaries in the matter of using ‘free work and ideas’ provided by one consultancy as part of its presentation in order to brief another. A useful rule of thumb here is that the client can properly use a revised understanding of what the assignment is about, but should stop short of revealing proprietary knowledge, techniques and approaches, or specific original thinking that the other consultant may have done on the client’s behalf.

At the oral presentation, other things will impress: the personality of the people, the way in which they capture attention and focus the appointing panel on key issues, the way they engage in worthwhile discussion, the way they demonstrate an alignment with the values of the organization, what it is trying to achieve – and so forth.

The client must weigh this multitude of impressions against their assessment of needs in the first checklist they drew up containing their initial perceptions. Priorities should be set according to needs, wants,
personalities and results. Are they looking at a predominantly technical problem that requires a reliable technical solution from a respected consultancy who are authoritative in that area? Does the work demand a radical and creative spark, combined with diplomacy and persuasiveness to push along the client’s thinking and resolve? Are there intractable problems to deal with which need a rigorous and professionally uncompromising stance in order to help the client lever obstacles out of the way?

The personal confidence of the commissioning client and those in the organization who work with the consultants is crucial. To a surprisingly high degree this depends on the right chemistry between the characters from both the client organization and the consultancy firm. If your instinct is that there will be a good working relationship then, providing the consultant is capable of delivering, this instinct should be followed.

Costs and contracting

When examining the management of the consulting process, the security of the ‘contract’ between people, what is to be done, how it should be carried out and who the relationships are to be between must be clarified and agreed in order to secure a successful outcome. Once agreement is reached regarding what needs to be done, each consultancy works out the number of days required, and the cost is calculated according to their fee rates. The importance of defining their outcomes at each stage in the assignment is vital because the whole assignment should be managed by reference to the planned outputs rather than the actual inputs of the consultancy.

Some projects are capable of being broken down into separate phases to which the client need not commit themselves at the outset; for example, a diagnostic phase followed by other phases of option generation, decision and implementation. While this will enable the client to reserve their position, it may be a false economy – not only because it may not be so keenly priced, but because the depth to which the consultants are likely to develop their relationships with the organization will be proportionate to the depth of involvement they expect to have in later stages. Consultants may ‘invest’ now for future work.

If the consultants are invited to propose a ‘work plan’ of what needs to be in place by each stage of the project, together with a statement of their assumptions as to their role, the client’s role and the methodology by which that is to be achieved, then it will be possible to decide whether
those are the appropriate means or whether some aspect can be dealt with
in a different way. For example, if the first stage of the assignment is to
gather data and opinion in order to take stock of the key issues, there are a
number of variables such as:

- the range of people and issues to be surveyed
- the design of any survey instrument, the details of the information
  sought, the necessary analysis and the appropriate interpretation of it
  (does it need to be statistically accurate or an impressionistic sample?)
- the respective roles of the consultants and the client in that process:
  the consultant could do it all, or alternatively help with the design of a
  questionnaire which is administered and analysed by the client
  (assuming that course would be acceptable from the point of view of
  internal confidentiality and credibility).

The amount of work required in order to achieve the desired outcome can
be explored in this way. A thorough discussion may result in a rescaling of
the work, up or down.

Although some consultancies are reluctant to quote daily rates, it is
only reasonable to ask what they are, together with an indication of how
much will be provided by what level or specialization of consultant.
However, if using information about daily rates to compare consultants on
price, it is important to compare like with like: a training consultant
charging £3,000 per training day (including preparation time) may be no
more expensive than a management consultant quoting £1,000 per day
but charging actual time spent on training design, which can be a very
time-consuming process if – as there should be – there is a high degree of
client participation.

The cost of the individual consultants proposed for the project will
usually vary. Clients may feel they are getting better value from 10 days
of a project consultant’s time as compared with five days from a partner,
yet the determining question is what is required by the nature of the
work. A consultancy which provides for an important board-level
discussion to be handled by a junior may be able to keep its costs down,
but if the experience and ‘weight’ offered by a partner is more appro-
priate, then that is a benefit. The value provided by one day of their time
may exceed that of 10 days’ time of an inexperienced person.
Circumstances will dictate requirements.
It is important that the client is aware of the differences of approach between the consultancies. A difficult ‘political’ project may require senior consultant time, and some technical support, but the balance might be the other way for a more technically biased project. By asking the consultants to break down the costs of major parts of their work, it makes it easier to be selective and cut out work according to its perceived importance. The client must be prepared to be advised that certain contributions by the consultants are critical. That is the subject of the next chapter on how to get value from a management consultant.
How to get value from a 
management consultant

E Michael Shays

Introduction

Unlike many other outside services, management consulting is distin-
guished by qualities that appear less tangible, and are therefore more
difficult to assess up front. Usually the fee must be set before the
consultant’s assignment begins, so how can a value-conscious manager
make sure the company gets the consulting service, support and results
that it is paying for?

It is important to make sure that you are using a management
consultant for the right reasons:

- to formulate an objective;
- to receive an informed opinion;
- to find a way to solve a tenacious or complex problem;
- to get something acted upon in a hurry; or
- to work your way through an implementation.

Try not to use a consultant merely to ‘shake things up’, support a precon-
ceived point of view or do the decision making for your firm.

Before you meet with a consultant, attempt to define your problem
thoroughly, clearly and candidly. Determine what you would like the
consultant to do and to what degree you would like your own staff
involved.
Finally, during your first meeting ask yourself if the consultant:

- listens well;
- understands the key issues involved;
- knows about your industry;
- focuses questions on your problem;
- challenges your assumptions;
- offers a relevant approach;
- projects a sense of empathy;
- appears trustworthy;
- seems enjoyable to work with.

**What to expect from the consulting process**

Consulting represents a personal process between individuals working together to solve a problem. By conducting a preliminary, confidential interview with you (usually without cost), the consultant will attempt to understand your perception of the problem, agree on the scope of the assignment and verify your expectations. Following this interview, the consultant should send you a letter of agreement stating:

- the objective, scope and nature of the assignment;
- a summary of your situation;
- the suggested consulting strategy;
- the potential products and benefits to be generated from the work;
- the names and qualifications of the consulting staff;
- the nature and extent of your employees’ participation;
- the proposed start and end dates of the assignment;
- an estimate of fees and expenses.

After reviewing the letter of agreement, decide whether its terms are complete and clearly stated. Are you satisfied with the staffing plan and schedule? Are you prepared to provide the required support? Is the fee reasonable?
Once the assignment is underway

Inform your organization about the consultant’s role and assignment. Tell your employees who the consultant is, why this person has been selected, when the process will begin and how you expect them to assist in the effort. As for yourself, establish an effective working relationship with the consultant. It is important to be straightforward in relating your concerns, expectations and working style. Appoint someone on your staff as the liaison on the project; make sure this individual understands the consultant’s work plan in order to provide any necessary introductions or resources.

When the consultant comes back with interim findings, listen carefully even if you don’t like what you hear. If any conclusion is not well founded, direct the consultant to an internal source that may provide additional information.

In getting to the heart of a problem, the consultant will frequently uncover other issues that need to be resolved. Some may be prerequisites, but many will not. It is always tempting to add all of these issues to the project, but if meeting your original schedule and budget is important, don’t ask the consultant to include them in the current assignment. Where it is necessary to expand the scope of an assignment, be sure the consultant tells you what impact it will have on the schedule and fee.

What if the fee seems too high?

If the fee seems too high, you may be able to reduce it by narrowing the scope of the assignment, giving more leeway in scheduling the work or having your own people assume some of the tasks in the project. The fee can also be temporarily reduced by segmenting the assignment into phased projects. Remember, a good job is worth its cost; a poor one is a loss no matter how attractive its price may be.

Research, results and feedback

After the start date is set, the management consultant will want to meet again with you, your key associates and anyone else who will be involved with the assignment. The consultant should use this meeting to introduce the consulting staff and describe the approach and plan of action. After the meeting, the consultant will begin the process of generating as much useful information as possible in a limited period of time. This will entail:
one or more methods of data collection and review;
- analysis of the findings;
- testing of assumptions;
- development of alternative solutions;
- more testing of viability and practicality;
- drawing conclusions.

Throughout this process the consultant should provide you with continuous, informal feedback so that you understand what is being done and why. You also should receive and review the findings and conclusions before the consultant delivers their recommendations. After the recommendations are in your hands, the consultant should provide you with a clear directions for proceeding either with or without further assistance.

**How to evaluate the consultant’s advice**

When the consultant presents the recommendations, ask yourself these questions:

- Has the consultant delivered the product promised earlier?
- Have the real issues been addressed?
- Are the recommendations logical and will they work in my organization?
- Are the next steps clear?
- If there are potential savings involved, do you know how to achieve them?
- Have your employees learned how to find and solve problems on their own?
- Will your company be stronger as a result?
- When will the consultant return to check on the success of the project?

If you are not satisfied with the answers to any of these questions, ask the consultant to give you the additional information you need. A good consultant would rather put in additional effort than leave a client less than satisfied.
Act immediately on the recommendations

To make sure you get value for the fees paid, put the consultant’s recommendations into effect before they are lost in the organizational inertia of your company. Tell your staff to come back to you in one month with the status of the progress they are making towards installing or implementing the consultant’s recommendations and call for regular reports until the work is complete. You can expect the consultant to take an equal interest in seeing his/her recommendations result in benefits to you.
Introduction
Consulting engagements need to be managed to ensure the results, outcomes and overall benefits to the client. This may seem to be common sense and good management housekeeping, yet most consulting failures are not those of design and conception or even of implementation plans and execution. Typically, these are done tolerably well; what makes all the difference is how well the engagement, the project and above all the relationship between client and consultant are actually managed. The reasons why this relationship is paramount were touched on in Chapter 3.1 and are discussed in Chapter 3.5 in more detail.

Managing, enabling and influencing the consultant’s contribution
At first glance it may appear paradoxical that a client calls in a consultant with a view to relying on his/her expertise (all consulting relationships involve an exchange of expertise, whatever else may or may not occur) when, at the same time as depending on the consultant, the client also has to manage him/her. This can come as something of a surprise to new
clients, or to those in sectors where there is no history of consulting involvement, but it is fundamental to the consulting process. Clients must actively manage their consulting relationships.

It is only by managing the entire intervention, from engagement through to enabling the consultants to start work, by influencing the (joint) work as it proceeds and by extracting and consolidating the final contribution from the consultants that success is assured. In short, this is because technical credentials are necessary, but not sufficient. The atmosphere, relationship and chemistry of the client–consultant relationship must also be worked at. Client–consultant interactions obey the general laws of all relationships, whether between husband and wife, parent and child or old school friends. A relationship’s potential is a function of how hard the parties work at it, and what each puts in determines what both take out.

So, the client–consultant relationship has to be managed. The client must manage their side of the relationship in a way that will enable the consultant to be effective and secure the desired contribution. This need not be a highly specified result that has been identified before the event. Consulting projects are dynamic and part of what the client pays for is the consultant helping to define the real need as they go along. Accurate diagnosis and definition of the real client situation is part of the output itself, so it has to be a joint exercise.

Project design and management

The consulting process is built around some common disciplines:

- thinking about the brief at the outset;
- checking the consultant’s project proposals at each stage;
- working together in managing the project.

A successful outcome depends on the professional contribution of the consultants, a corresponding contribution by the client and supportive action within the organization.

Client and consultants should check that each stage is addressed and that important questions are asked at each point, such as ‘Have we prepared for how we are going to handle the process, the communication and people issues?’ and ‘Are we actively managing the process – or
are unfolding events going to manage us?’. The content of a project may take various forms, and the work plan and project may often require change during their course. Clearly, provision should be made for such eventualities.

**Managing the assignment**

Being clear about each phase and its intended result is fundamentally important. The nature and scope of the assignment will dictate the emphasis and timescale of each phase and its overall shape. Certain basic phases have to be covered as a matter of discipline.

Showing the work in phases is a useful way of managing the assignment. If each phase clearly describes the planned outcome, who is to be involved and by when, it will make it much easier for the consultant assignment manager and the client assignment manager to review progress, plan the next stage ahead and also decide how best to report to the client.

**Manage for planned results (not just activities)**

At each stage, it is necessary not just to manage the activities, the interviews, specification writing, work design or other technical tasks that the consultant is performing, but also to identify the results expected both from the client organization and from the consultants.

Being clear about the client–consultant planning and review machinery is also very important. Client–consultant review meetings should be built in at regular intervals. These can range from informal, weekly ‘how is it going?’ conversations to more structured reviews against the work plan at project milestones. Meetings will be required to share information as well as make decisions, and the different purposes will require different processes.

Being clear about roles and expected contributions is vital. Individual meetings need to be ‘project managed’ to the same discipline as advocated for the whole assignment.

**Manage the characters**

Individual personalities within the client organization each have a part to play and will play a particular part. It is best to acknowledge that they need to be actively orchestrated and related to – not in a Machiavellian and manipulative sense, but rather engaged with and involved in dialogue and appropriate conversations.
The enthusiast, the sceptic, the champion, the gatekeeper, the monitor/evaluator, the hard man and the soft man, the ‘not invented here’ merchant and the management expert, the practical man of affairs and the Young Turk – each of these stereotypes is to be found in every client organization. Each has a stance and a voice and all of the voices must be heard before the consulting project can lead to implementation.

The role of the client–consultant steering group should therefore be to explore the best ways of managing the process in a purposeful and sensitive way, not least how to prepare the ground and the people for the more formal set-piece decision making required at board level. In short, the group should ensure that all of the necessary conversations take place between those who need to have them.

**Managing the reporting process**

If the client and consultant work together in partnership, the nature of ‘reporting’ should be to record and discuss progress rather than to focus on the presentation of a document (least of all one which is a surprise to the client). Most important of all is the need not just to anticipate the effect but also actively to plan how to make the process itself a success, so that the very way it is handled adds value beyond the content.

Some projects will have a number of elements which are very clear and for which estimates can be given, but with later stages left contingent upon the outcome of the former. For these, it is reasonable for the consultant to offer a possible order, or range, of cost. They may suggest a contingency budget to be agreed in discussion or they may point to areas where extra work could be required at a daily fee rate.

Obviously, crude comparisons of total price are inadequate. The heart of the matter is what has to be done using the respective resources of consultant and client, the levels of resources most appropriate, with various options of methodology and different levels of risk on the part of the client. These can only be judgements, so the client should check carefully whether the issues in question have been fully addressed.

**Different levels of relationship**

It is advisable for clients to be clear about who is responsible for maintaining the client–consultant relationship at the different levels. Consulting firms are practised at this but clients should think carefully about it too. There are at least three substantive levels:
director level: not involved in the project;

- a middle or project manager level;

- a project worker junior management or professional basic level.

At each level there should be at least one person who is clearly accountable for understanding and developing the firm-to-firm relationship with the consultants.

**Manage the influencers within the client organization**

The ‘client’ can in fact be a whole range of people. There are at least four different roles to be performed in order for the client to be effective and these have been taken (after Leavitt) to mean:

- the commissioning client: the individual who is leading the process from within the organization;

- the ultimate client or end-user: the organization or part of the company itself to which the consultants must owe an overriding duty. Unless they are told otherwise, the consultants will assume that the commissioning client fully represents the interests of the organization or company;

- the economic client: the budget approver who secures value for money (this may be the finance director);

- the technical specifier: the functional director who takes professional responsibility for the quality of the consultant’s work (eg the marketing or human resources director).

Often the consultant will have someone who is accountable for the day-to-day leadership of their team and management of the project. Maintaining the distinction between those levels of accountability is beneficial because the progress and efficacy of the work may have implications both for the overall relationship and for the contract. It makes it easier to do this if informal, explicit conversations are held from time to time at the top level, away from the heat of daily project management. Project managers also need to have similar conversations so that the consulting process really can be managed effectively.
Get the most from your management consultants

The management consultant is now an everyday necessity in running modern business. He/she has become an indispensable resource in most organizations and therefore needs to be managed, just like any other resource. The business imperative puts a premium on choosing and using management consultants appropriately. It involves selecting suitable consultants who are fit for the purposes of the consulting engagement, which must have been established by clear agreement with all relevant parties, internally and externally, and expressed in clearly defined terms of reference. The business imperative also involves managing the consultants appropriately to obtain maximum value and return from their contribution.

Manage the expectations

It is common for clients to have unrealistic expectations of consultants and for all manner of hopes and frustrations to be placed optimistically in the lucky bag of the consulting engagement, raising hopes that are unlikely ever to be met.

It is therefore worthwhile to address how the client players see the purpose of consultants. Management of the consultant–client relationship is therefore central to turning the consultants’ potential contribution into actual added value that will be reflected in the performance of the business.

Client–consultant relationships are key. They must be productive and of high quality. They are the conduits through which know-how is transferred from consultant to client, through which joint problem solving and imaginative solutions can be created and planned change programmes implemented effectively. The relationship should be managed as a business project for both parties. Indeed, project management skills can be critical to obtaining the most from the personal and professional relationships between clients and consultants.

Manage and develop the relationship

Chapter 3.1 has already referred to the different styles of consultant – engineer, teacher, coach and so on. These styles call for different sorts of relationships that are both expected and required between client and consultant. A teaching style of consulting will require the client to be in a
learning mode of relationship to the consultant. However, the industry and company culture will also determine how to relate to colleagues and suppliers, including outside advisers and consultants.

Getting the most from your management consultants therefore involves optimizing and ‘fine tuning’ the client–consultant relationship. This implies achieving mutual trust, honesty and openness, and these have to be built up, usually over a period of time. If time is of the essence this period can be short, but the relationship needs to go through a number of phases; generally speaking it is unwise to skip steps in this process.

In one sense, building an effective client–consultant relationship is no different from any other business relationship. The general theory of relationships applies, particularly those aspects to do with the introduction of an external stranger into the midst of an already more or less cohesively established and functioning group. In another sense a consultant–client relationship is often a so-called ‘special relationship’. However, even if its special nature is restricted to the sensitivity and confidentiality of the material being worked with, time is still needed to form the relationship, to explore, establish, manage and then transform it into the full range of its potential.

We should also remember that, while working on the relationship, the parties are frequently solving a business problem at the same time.

Manage the potential relationships in partnership with your consultants

What the parties put into the client–consultant relationship will generally determine the scope, quality and value of what comes out of it, the scale and value of the business problems solved and the significance of the business opportunities taken up. The relationship will flourish if it is established on a clear mutual understanding. The client must understand the consultant’s values and vice versa.

The surest way of achieving such mutual understanding is by agreeing to write an explicit statement of the expectations that the client and consultant have of each other. The discipline of writing down and sharing expectations often helps to clarify, as well as share, them. The written statement will act as a guide and point of reference throughout the consulting engagement as the relationship unfolds.

These understandings of mutual expectations, whether written or oral, must be established prior to discussing the objectives that the client starts out with. The objectives of the assignment are of course one
benchmark against which consulting success will subsequently be measured. However, since one of the first and often the most important tasks of the consultant is to ‘reframe’ the client problem and objectives, there must already be the basis of mutual understanding and trust in the relationship if that is to be undertaken successfully. This is important because often the consultant must help the client to understand that his/her opening expectations may be unrealistic, imprecise, conflicting, contradictory or simply unattainable within the timescale and resources available.

**Manage the campaign**

The occupational title ‘management consultant’ covers a multitude of activities and services. From the point of view of the client’s business, however, a useful working definition is that ‘the management consultant is an independent outsider with relevant knowledge and skills, who enables the business to do something specific that it wants to do and which it could not do alone without the involvement of the outsider’. That role is frequently catalytic and may be as much to do with helping the process of management within the business as the content of what is done.

Although the expectations of the client and the initial objectives of the proposed assignment are the starting point for getting the most from management consultants, they are certainly not the end point. There are a number of ingredients in measuring the success of management consulting, all concerned with the well-being of the client organization, but the very definition of those expectations and objectives and what is meant by well-being will typically change as a result of an effective consulting engagement. In fact one measure of success may be regarded as whether the consultant has added value to the client understanding by helping to ‘reframe’ those starting perceptions. The client–consultant relationship must be strong enough to support such a transformation process.

Often the problem that the clients first thought they had is not the real problem at all. This process needs to be carefully managed by both the client and the consultant, rather than by either party alone. It is a process that requires constant questioning and periodical review, preferably in a systematic way, although this cannot be a mechanical process. Rather like a good marriage, the relationship itself will tell both parties the time, place and form of review that are relevant, provided both parties are open to that awareness.
The management consultant will gather information from all sources and then test it, both within the client business and by using comparative experience from elsewhere. Gradually, client and consultant will develop a common understanding that the perception of the problem needs to evolve into a new understanding. Problems are seldom what they seem and the solutions seldom rest where one first looked for an answer. The client–consultant interaction will lead, through reframing, to a redefinition of the problem into a format from which it can be solved.

**Manage your own contracts inside your organization**

The success of consulting work depends not just on the quality and productivity of the client–consultant relationships but also on the health and robustness of the relationships between the consultants themselves and colleagues within the client organization. Implementation can only be as good as the relationships are geared up to withstand, and if colleagues are lukewarm or sceptical, then a consulting project will have a suboptimal impact.

This is why it is important to establish an appropriate way of working between insiders and outsiders. It is also why those organizations with internal consulting units often use them to work effectively with outside consultants. The internal consultants understand the power system and they have tacit local knowledge – they ‘know where the bodies are buried’ and how to get things implemented within the prevailing culture; on the other hand they are part of and dependent on the existing culture and authority structure for continued employment. Outside consultants, however, should be independent and able to take a detached view, say the unthinkable without fear or favour and address taboos and topics that are usually not discussed.

So, the insiders and outsiders are complementary. Sometimes the insider provides continuity and the outsider provides ideas. Sometimes the roles are reversed, with the consultant providing continuity while the internal managers move between jobs and companies. Whatever the exact configuration of the roles and relationships, they will typically be complementary and compensatory. The relationship should be close but not too close, achieving a working synergy and creativity through interdependence, while avoiding undue dependence and maintaining independence on each side.
In fact, the secret of managing a consultancy engagement successfully is to strike the right balance between dependence and independence at the different stages of the client relationship management life cycle. This is discussed further in the Chapter 3.5.
Phases of the client–consultant relationship

Barry Curnow

Introduction

We referred in previous chapters in this section to the importance of the client–consultant relationship and of the natural phases of its life cycle. The client–consultant relationship is the foundation on which all professional and business success in management consultancy engagements is built – both for the client organization and for the consultants. It provides the overarching framework within which management consultancy can create added value for clients. No amount of technical expertise or functional experience can make up for a deficiency in relationship capability. A good client–consultant relationship is therefore essential.

Wherever writers describe their experience of client–consultant relationships, they reveal a natural sequence or life cycle to the interaction. At its simplest this may be described as a beginning, a middle and an end, but we can explain the stages more helpfully as follows:

- establishing the client–consultant relationship;
- managing the relationship;
- transforming the relationship.

These stages can be illustrated as shown in Figure 3.5.1. Each phase is not distinct from the next – rather, they overlap with each other.
There are discernible steps and stages in each overlapping cycle of the client–consultant relationship. The simple linear version of the model above illustrates the sequential logic but not the practical reality. In practice, the cycles are dynamic and have to be attended to simultaneously, or even out of order. This feature is shown in Figure 3.5.2.

A client–consultant relationship may need to be managed before it is fully established or it may need to undergo elements of transformation in order to become manageable at all. Certainly, it is a process of continuous review and renewal, rather than a ‘once and for all’ exercise.

Clients and consultants need to pay constant attention to all three phases:

- how well the relationship is established in different quarters – phase one;
- whether it is sufficiently managed or even overmanaged in some areas – phase two;
what types of change are necessary to optimize the firm-to-firm relationship for each stage of the work together – phase three.

This need for simultaneous attention to the overlapping requirements of each cycle can be seen from appreciating the dynamic nature of the main elements of each cycle as follows.

Establishing the client–consultant relationship

This engagement phase deals with considerations of consultant understanding of the organization and its industry and client issues of credibility and acceptance in establishing successful client–consultant relationships. There are three steps in this phase:

- understanding the client organization and earning the confidence of key people;
- designing, developing and agreeing viable terms of engagement;
- agreeing and communicating mutual expectations for the consulting relationship.

Understanding the client organization and earning the confidence of key people

Key personnel in the client company must be convinced that the consultants have a working appreciation of the industry and business, sufficient to understand the key issues, people, economic context, operating parameters, pressures and interrelationships. Clients do not expect consultants to know as much about the operating conditions of the enterprise as they do themselves but enough to make a difference and to be relevant and helpful. Consultants need to know things – quite a lot of things – about a business in order to consult effectively with that business. This is because unless key managers in the business believe that they are understood, they will not invest in the consultants the necessary confidence for them to be effective.

Designing, developing and agreeing viable terms of engagement

It is a common fallacy that a client writes a specification against which several consultants pitch for the business and that the successful firm implements the project specification and is measured by criteria established at the outset. This very rarely applies to true general management
consulting work, although it can be an oversimplified approximation of certain types of subcontracting work. This ‘engineering’ model of aim, objective and results is only one strand of the truly professional terms of engagement model for consulting as illustrated in Figure 3.5.3.

Figure 3.5.3 The terms of engagement model

The central strand in the middle column of the figure shows aims, purposes, specific objectives, outcomes, benefits and end results. This is a narrow approach to keeping track of certain central tasks but a necessary structural framework for the more important work of planning and evaluation. This is covered in the columns to the left and right of this central strand labelled ‘programmes’ and ‘resources’. These illustrate the really powerful choices that need to be made when designing viable terms of engagement for a consulting project: those of determining the nature and scope of the activities and tasks contained in the various programmes of
work – who does what, where and when – (the left column), and the resource decisions (the right-hand column). Naturally these two columns affect and are affected by each other and relate to the central strand that describes the aims to which the activities and resources are applied.

Again, these steps are not necessarily linear within the engagement life cycle of the relationship, but they must have been attended to satisfactorily, at least in an initial way, for the next phase of the life cycle to be satisfactorily negotiated.

**Initial diagnosis**

It will become clear that the essential matters that must be discussed as part of the initial diagnosis preceding a consulting engagement can only be acceptably resolved if the relationship itself is made an agenda item in its own right. Far too many consulting contracts are silent on the question of the client–consultant relationship and how the parties will handle it. The details are not important and need not be specified at the outset, but it is key for the psychology of the relationships between the parties to be recognized as a significant matter in its own right – one that is just as worthy of attention and review as the progress with dates and events of the work itself.

During the initial diagnosis it is important to consider:

- needs;
- time;
- scope;
- fees;
- terms of engagement based on an initial consulting diagnosis;
- psychological relationship.

**Agreeing and communicating mutual expectations for the consulting relationship**

When these topics have been discussed as part of agreeing the terms of engagement, there is a basis for agreeing and communicating the mutual expectations that the client and consultant have of each other for that relationship. The way in which they will work together, resolve any disagreements, communicate progress, consult interested parties and so on are communicated in the appropriate level of detail to all parties. This should
not be done just on a need-to-know basis but in a way that engages the
energy, curiosity, enthusiasm and commitment of the whole organiza-
tional community.

Common principles must be shared with all constituencies. However,
there is scope for more tailored communications in different branches and
divisions according to their involvement and the likely implications for
both participation and outcome. It may come as a surprise to clients that
consultants have expectations of and for the relationship between them
and that these need to be considered for success to be assured.

Managing the client–consultant relationship
This is the phase of actually doing the work together. Joint work between
client and consultants, each understanding and relating to the clear expec-
tations of the other must include:

- establishing issues, managing projects, achieving synergy;
- managing interrelationships in the organization’s culture;
- know-how transfer and skills development.

Establishing issues, managing projects, achieving synergy
In a sense, it is only when the legal, financial and psychological business of
establishing the relationship is underway and achieving some of the clarity
and mutual understanding that is the outcome of the first cycle, that the
serious work of the consulting project itself can start. This helps to explain
why it may appear surprising for the task of establishing issues to appear in
phase two rather than phase one. The reason for this is that the client issues
set out in the early stages of the relationship may tend to be provisional or
just restricted to the explicit business terms of reference rather than what
is really exercising people under the surface.

These implicit issues of people, personalities and power must be
made explicit in a suitable manner as part of the main work of phase two,
determining what is really going on and what are the substantive chal-
enges to be resolved in the project. Only when these are aired and
discussed in the open can the consultants act effectively as catalysts to
induce synergy in the client organization. Synergy is defined here as
getting more from the same or less. Synergy is typically achieved
between ideas, teams, client, consultant and colleagues within the organ-
ization. Achieving synergy may be regarded as the heart of any consulting
relationship – enabling the client to make more of what he/she already had and to achieve more with less.

**Managing interrelationships in the organization’s culture**

Synergy is about interaction, about concerted, purposeful action in harmony between people or divisions and business units. This is not to suggest that departments never disagree or fall out. On the contrary, constructive conflict is typically a necessary part of the synergy that consultants seek to help their clients to achieve. Orchestration of the interrelationships within the client’s culture, together with the provision of coaching and counseling in new skills and behaviours, is characteristic work of this central phase.

**Know-how transfer and skills development**

These softer skills of coaching, counselling and mentoring prepare the organizational ground for the changes in working practices and behaviours that significant consulting projects typically envisage and require. Some emotional and interpersonal shifts need to take place before true learning can occur, before know-how about effective business and management repertoires can be transferred from consultants to the client and new skills developed through joint work and practice.

**Transforming the client relationship**

This is about managing endings and moving on. Transformation means that there is an irreversible change in the relationship. The initial dependency of the client on the consultant ends and gives way to independence and autonomy, allowing and requiring a new type of relationship that evolves into a new phase with new cycles of its own. The identifiable steps of the transformation phase are:

- building the implementation team;
- obtaining the necessary implementation support;
- securing professional implementation and client independence.

**Building the implementation team**

All consulting engagements should begin with implementation in mind, with an image of what success might look like when it is achieved and with an eye to who will make the future operations work. The implementation
team should include consultant and client personnel working together and with a range of personality types to cover the different team roles and functions.

**Obtaining the necessary implementation support**

We mentioned above the place of coaching, counselling and mentoring in preparing the organizational ground for change. These helping or supporting processes are just as critical during implementation to reinforce learning and establish new routines and working practices in the client organization. In new situations, client staff will not necessarily know what they do not know, so the support needs to be signposted and made available in user-friendly packages such as implementation packs for managers appointed to new jobs as a result of reorganization or new systems.

**Securing professional implementation and client independence**

The last stage of the final phase in this model occurs when the client personnel take full accountability for operating the new organizational processes and the consultants withdraw, with as much or as little ceremony as necessary. This symbolizes the importance of the transition from consultant dependency to client independence and full responsibility.

So, client–consultant relationships have a life of their own. If left unattended they are born, they develop and they decay. But if properly attended to with respect and understanding by all parties, strong, productive, high quality client–consultant relationships will transform themselves. The client organization will be left with enhanced value and capability, and the consultancy personnel with worthwhile experience and a changed relationship that will be appropriate to the next phase – in which the business of establishing a new, post-engagement relationship starts all over again. This important business of ending is examined in more depth in Chapter 3.9.
Evaluating advice and recommendations

Jonathan Reuvid and John Mills

Introduction

This chapter follows on directly from the five preceding chapters and, like them, is focused on providing guidelines for the client to manage the client–consultant relationship effectively and to extract the maximum benefit from each consultancy assignment experience. From the fore, it has been established that the commissioning and management of consultancy assignments demand clarity of thought and self-discipline – as much from the client as from the consultant.

Restating the obvious – and setting aside those assignments for which the commissioning is motivated by corporate politics or the wish of one senior manager or management faction to utilize the consultant’s report instrumentally for subjective ends – the client’s aim is to receive objective conclusions, advice and recommendations from its consultants which, when put into effect, will add value to the company’s business and ultimately its shareholders. Having authorized the commissioning of the assignment, the board’s expectation may be that no further involvement is required until the consultant’s report is presented, when a clinical evaluation should be possible. However, if this evaluation of the consultant’s advice and recommendations is undertaken in a vacuum, it is unlikely to be a satisfying process or to add value to the company.

Directors not themselves participating in the management of an external consultant’s project have an important role to perform in
objective assessment and evaluation – not just of the recommendations but of the parameters and conditions under which the project is commissioned. This chapter, then, is intended as much for board members as for the corporate management involved directly in the continuous monitoring and management of the assignment.

Forewarned is forearmed

In parallel with the routines and disciplines set out in Chapter 3.2, and perhaps as an appendix to the letter of appointment containing the list of specific items identified in Chapter 3.3, the client should deliberate and determine their evaluation processes and the evaluation criteria that will be applied to interim and final reports.

Too often, clients commission consultancy assignments with reasonably clear expectations of what they expect at the end of the day (hopefully communicated to the consultant at the outset), but without a template of the evaluation criteria and processes they will apply to the advice given and recommendations made. This lack of ‘up-front’ definition exposes the client to the risk that the consultant’s interim and final conclusions will be deliberated and evaluated by individuals subjectively or, in committee, by reference to criteria that are only then established ad hoc. Worse still, if the need to set criteria is recognized after the consultant’s report is read, the criteria may be influenced by the advice and recommendations – both by the report’s contents and its omissions. At this point, objective assessment by the client company may become impossible.

These risks can be avoided if the client takes the time and trouble to set down clearly the evaluation process throughout the project and at its conclusion, and the evaluation criteria which will be applied both by the project management team and by the board before endorsing the assignment’s action fall-out. There is a strong case for revealing these specifications to the consultant, either at the ‘educating the consultants’ stage or the ‘contracting’ stage (see Chapter 3.2) or in the ‘agreeing and communicating mutual expectations for the consulting relationship’ phase (see Chapter 3.5). In this way, if the client disagrees with or rejects, wholly or in part, the consultant’s advice and recommendations, there can be no grounds for the consultant to complain that the evaluation process was inapplicable to the assignment or otherwise ‘unfair’ – provided that
the client company sticks to its own guidelines. Forewarned is indeed forearmed.

**The board’s role in the evaluation process**

The client board’s involvement in a consultancy project will depend on both the size of the company and the size and nature of the project. For a large corporation, an assignment to select and install the most suitable order-processing system may demand no more than prior approval of the project and acceptance of the recommendations endorsed by its client project management team. For a much smaller company, such projects may require a more detailed involvement with regular board progress reviews and the engagement of the financial or information technology (IT) director as a project team member.

At the minimum, for projects that will have a significant organizational impact on management and staff the board will need to define closely the objectives of the consultancy and appoint the internal project team assigned to manage the project. A fuller definition of board responsibility would be the requirement to sign off the:

- formal brief to be given to short-listed consultants;
- consultant selection process;
- project management duties and responsibilities;
- monitoring and review process;
- evaluation process throughout the project and at its conclusion;
- evaluation criteria that the company will apply;
- board members’ involvement at each stage.

The depth of director involvement is a matter for the board to decide and will much depend on:

- the degree to which management responsibility is delegated within the company;
- the importance attached to the consultancy project;
- the management style, collectively and individually, of the executive directors.

The consultant selection process is addressed fully in Chapter 3.2 and board involvement in the final selection may not be necessary if the selection process has received sufficient attention. However, the selection
of the project leader (whether a director or a senior manager) and the monitoring and the review process are two operational issues to which the board would be wise to pay attention.

**Selection of the project leader**

The selection of the project leader should be endorsed by the board. Although commitment to the project and its timely completion are prerequisites in the choice of leader, it is important to avoid the risks of ‘ownership’ by a single project manager, or manipulative control of the assignment to achieve predetermined conclusions that will satisfy internal political factions. Therefore, it makes sense to appoint a balanced project team, which together has some expertise in all key aspects of the project, with the condition that each team member can make a sufficient time commitment throughout the progress of the project. The client may also be well-advised to include in the project team one senior manager who has no responsibility to work alongside the consultants during the progress of the assignment but who sits in on all progress reviews and in effect performs a continuing quality audit function.

**The monitoring and review process**

The assignment programme agreed with the consultants on appointment will provide for regular progress reports and meetings between the corporate and consultancy teams. At each of these intermediate reviews the project team should carry out a thorough evaluation of the assignment and its execution to date. All review meetings will be fully minuted.

These regular reviews are important for a number of reasons:

- there are opportunities to trap surprises early on, to refine the scope of the project, its parameters and its execution, and to reappraise whether the needs of the corporation as a whole are being satisfied (any recommended changes to the definition of the assignment must, of course, be referred back to the board or other approval body);
- if the consultancy assignment is ‘off the rails’ with no hope of getting back on track, the project team should not hesitate to recommend abortion, even if there are cost penalties;
- if the investigation phase indicates that the scope of the consultancy assignment could be extended with advantage into new territories, the client should think very carefully before agreeing to any extension at additional cost.
During the phase of ‘establishing the client–consultant relationship’ (see Chapter 3.5), the client will make initial value judgements about the calibre and capability of the consultancy team that is being fielded and its responsiveness to client needs. Through the review process it may become apparent, for example, that in arriving at intermediate conclusions, members of the consultancy team are relying on their firm’s database of case studies rather than on first-hand experience. Alternatively, defects may emerge in the performance of the consultancy or project teams or in their relationship that cause the client (or the consultant) to seek changes in the composition of either team.

The board needs to satisfy itself that there are review routines in place at sufficiently frequent intervals to throw up all issues of this kind, which can then be addressed before serious damage is done.

**Evaluating the final report**

If regular review routines are followed, the consultant’s final report containing advice and recommendations should contain few, if any, surprises. Typically, the report will first be delivered in draft form to the project team. As a first step, it is recommended that each member of the team should read and make his/her individual assessment in writing. The project team will then share and debate the individual assessments in order to arrive at a collective evaluation against the prescribed criteria. Clarification from the consultant may be sought at this stage before the project team prepares its appraisal to accompany the consultant’s report that it will submit to the board.

**Project team appraisal**

In its appraisal the project team will examine the integrity of the report in terms of its thoroughness and credibility and the logic of its analysis. If report conclusions or recommendations are inconsistent with the conclusions reached at intermediate reviews, the team will need to question the consultant closely.

The team will want to benchmark the findings against industry experience and best practice and to verify that recommendations are linked to specific outcomes that can be integrated into a business plan if the report is accepted. Management will want to apply sensitivity tests to the findings and to keep separate the consultancy recommendations from any service offering from third party providers which the consultants may
include in their recommendations. In particular, where the services of an associated company are recommended (as in IT solutions) the client will want to examine thoroughly alternative offerings from arm’s length suppliers (see Chapter 2.1).

Finally, the team’s responsibility should extend to examining whether the company has the resources to implement recommendations, and if not, advise the board as to the additional temporary or permanent resources that will be needed.

**Board evaluation**

Without becoming immersed in the detail of the consultant’s report, the directors meeting as a board are likely to ask themselves the following questions:

- Did we get what we signed up for?
- Is this report the result of objective investigative inquiry and rigorous analysis (not an ‘off the peg’ stereotype solution)?
- Would the recommendations make a favourable impact on our business plans?
- If applied, do the recommendations give us a sustainable competitive advantage?
- What added value would the implemented recommendation give to shareholders?

In the case of uncertainty or disagreement about the validity of the report, its conclusions or its implementation, the board may call for an independent second opinion.

**A virtuous circle in the use of consultancy**

The client management of consultancy programmes demands as much rigour as the consultant’s executions. For companies inexperienced in the engagement of management consultants, the use of consulting is an exercise in self-education.

In Chapter 3.9, Barry Curnow examines how the client–consultant relationship moves into its final phase and how the nature of the relationship changes and matures. But the relationship may not ‘grow old gracefully’, even if the commissioned assignment is completed on time within the letter of the contract. Chapter 3.9 examines why recommendations are often not
carried out, but there are other reasons why the client may be left with a feeling of dissatisfaction. One of these is assuredly a lack of engagement on the client’s part by senior management or the board. Advice and recommendations are only as good as their evaluation, and evaluation is only as good as the client’s involvement in setting the guidelines and rules of engagement.
Appreciative inquiry: accelerating positive change

Anne Radford and Liz Mellish

Introduction

Appreciative inquiry (Ai) is a powerful option for an organization that wishes to engage all its stakeholders in planning and implementing organizational change and to build commitment and innovation at the same time.

Ai: a constructive approach to organizational change

Ai looks for the positive core in an organization to begin the discussion on organizational change. It invites people to:

- discuss what is working in a system;
- envision a future that builds on that success;
- look at all the structures and procedures that would support such a future;
- develop a way forward.

This approach was developed by Dr David Cooperrider and his colleagues at Case Western Reserve University, Ohio, USA, as they became increasingly dissatisfied with the organizational change processes prevalent in the 1980s. Not only did the processes focus on the short term, but they also had very limited success. Cooperrider and others began asking different questions about the organization, such as ‘what was right with it?’ rather
than ‘what was wrong with it?’ They noticed that people responded very differently to the different questions. People became enthusiastic about their work and their organization; change was no longer a fearful threat, it was an opportunity to build on earlier successes.

This discovery lead Cooperrider and others to carry out research into people’s attitudes towards change and how this affected their behaviour. This took them to medical, social and behavioural research. As they became more aware of the impact of this research in an organizational context, they developed the Ai approach to organizational change.

Many organizations have chosen this approach, while others have not. An organization’s views about leadership, employee participation, organizational innovation and individual self esteem determines the level of interest and willingness to engage in this type of systematic inquiry. The results of using this approach? The benefits include improvements in financial and productivity ratios, in recruitment and retention, and in internal standards.

This chapter will help you to know more about the approach, its principles and process, how it has been used in different sectors in Europe, North and South America and Australasia, and its impact and results. It also has a set of questions to help you decide whether this approach could be used to good effect in your organization.

**Five core principles and the Ai 4D cycle**

*The power of dialogue*

AI is grounded in the theory of social constructionism. Ken Gergen, working extensively in this area, describes language as being the creator of reality:

> Social constructionist dialogues concern the processes by which humans generate meaning together. We recognize that as people create meaning together, so do they sow seeds of action. Meaning and action are entwined. As we generate meaning together we create the future.

Instead of decisions about an organization’s future being sent down through the layers of management for implementation, the assumption here is that the future of the organization is created through discussion and dialogue.
The power of image

Also important is the power of image. Much has been written about this in many different fields, such as the power of the inner game in sport, the powerful impact of positive inner dialogue and the power of thought in medicine. Golfers and tennis players are now trained to focus on where they want the shots to go rather than what to avoid. Being told to ‘avoid the woods’, is the same as telling the brain to focus on ‘the woods’ rather than the fairway.

The power of image and its impact on a person’s behaviour was a key part of the foundations that Cooperrider (1990) set down for Ai. When he and his colleagues began to apply this approach to organizations, they found that organizations were heliotropic – they moved, like plants, towards whatever gave them life and energy.

AI in organizational change can be said to be a combination of dialogue and the power of a compelling image (Watkins and Mohr, 2001).

The five core principles of Ai

The following five principles are central to the theory of Ai:

- the constructionist principle;
- the principle of simultaneity;
- the poetic principle;
- the anticipatory principle;
- the positive principle.

The constructionist principle

Organizations are living entities where the power of language creates the present and the future. Whatever leaders or change agents take to be true about an organization will affect the way people act and the way they approach change. As such, the way we know is fateful (Gergen, 1995).

We have a choice about what we think is true about an organization. We could look for the moments of creativity and innovation or where people are suffering from stress and work overload. We could see the places where financial targets have not been met or where they have. People will either build on the successes they find or feel overwhelmed by all that is not going right.
The principle of simultaneity

Inquiry and change are not separate moments, but occur simultaneously. Inquiry, therefore, becomes an intervention. The seeds of change are implicit in the very first questions we ask. One of the most crucial things a change agent or OD (organization development) practitioner does is to articulate questions at the beginning of an organizational change process. This directs what people think and talk about, what they discover and learn as well as the images they begin to build about the future.

The poetic principle

Organizations are like an open book where their story is constantly being co-authored. The pasts, presents or futures are endless sources of learning, inspiration or interpretation somewhat like, for example, the many interpretations of a good piece of poetry.

The anticipatory principle

The shared image of an organization drives change. This image can be positive or negative. The talk in hallways, the metaphors and language, bring the future powerfully into the present. Creating positive images together may be the most important aspect of any inquiry (Cooperrider and Whitney, 1999).

The positive principle

The more positive the questions used to guide a group or change initiative, the more long lasting and effective the change effort (Bushe and Coetzer, 1995). In addition, the momentum for change requires large amounts of positive effect and constructive interaction. Large group methods such as the Appreciative Inquiry Summit, which has emerged from Appreciative Inquiry and Future Search, enable the people involved to experience hope, inspiration and sheer joy in creating with one another.

The Ai 4D cycle

The 4D cycle is one way to use Ai in organizational change work. This can be seen in Figure 3.7.1.
Choosing the topic

Since the energy of the inquiry will follow the topic, it is crucial to choose a topic that will generate the energy for change. Here are three examples showing where Ai has been used in a business, local government and health-care settings. The activities vary from a few hours to a period of one or two years. The examples are:

- Example one: developing exemplary teams in an international American company in Mexico;
- Example two: stakeholders selecting economic and social priorities in a city council in southern England;
- Example three: delivering a mental health service jointly with teams from the UK health service and social services.

Example one

Marge Schiller, a consultant based in the USA, helped a part of the Avon corporation to reframe the topic of men and women working together. Although Avon was often thought of as one of the best places for women to work, there were very few women executives and no female representation on the executive committee at Avon Mexico.
Schiller and the company began an inquiry into exemplary teams – *mujeres y hombres trabajar en equipo* or men and women working together. The interviews brought best practices and compelling stories to light and they learned what gives vitality to the ways men and women work together in Avon Mexico.

The intervention helped a successful company become even more successful with increased profits. The first female officer was appointed to the executive committee within six months of the Ai project.

**Example two**
Brighton & Hove Council, UK, wanted to bring together key stakeholders to set the priorities for the regeneration of the newly designated city. These stakeholders included businesses, public agencies and voluntary sector organizations. In the past, the council had held three separate meetings and thought it was time to begin a discussion with the three groups. The separate meetings had brought out different priorities for the different groups.

The purpose of these new dialogues was to develop a shared set of priorities to help people widen their horizons to include the interests of Brighton and Hove as a whole. The new approach began with a meeting for 200 people from the three areas, discussing the issues that had emerged from various pieces of research. The whole group then selected the top three priorities on which they wanted the council to focus. This was the first of many multistakeholder gatherings.

**Example three**
In the UK there has been, and continues to be, a major shift in the national public sector agenda in the National Health Service, in Social Services and in the field of Mental Health. In 1999 the UK government’s Department of Health announced the National Service Framework (NSF) for Mental Health with seven standards to increase quality and consistency of mental health services. There is also an emphasis on multi-agency integrated service provision, working towards social inclusion for service users, good risk assessment and management, and in all developments placing the user and carer at the centre.

The overall purpose of this work in the area was to create and implement integrated mental health services in several localities in Hampshire. The specific purpose of the project in each locality was to:
envision an integrated mental health service in each locality, jointly delivered by health and social service agencies;

create this service by involving the psychiatrists, psychologists, nurses, social workers, art, occupational and behavioral therapists, administrators, clerks and secretaries who were engaged in delivering mental health services in the community;

achieve this in such a way as to maintain trust, integrity, cooperation and optimism for the change.

The organizational objective was to encourage and support a ‘can do’ culture where local creativity could flourish within the national mandates. A wider objective was to develop regional joint agency health service and social service standards to meet national targets.

Discovering what gives life to an organization

This ‘discovery’ phase discovers the ‘life-giving’ forces of an organization. In the USA, British Airways North America looked at the exceptional handling of a flight’s arrival and baggage. In the USA and the UK, BP has been discovering their examples of passionate leadership which lead to using AI to address issues such as innovation, safety and audits. In the UK, Heathsdie School in Surrey decided to take a strength-based approach to involving students, governors and parents in shaping the future of the school.

The discovery phase involves people telling stories of special situations in their organizations in interviews with their colleagues. Using a set of questions developed in the organization, one person asks the other positive questions and inquires into the significance of the story. It becomes a mutual learning process. Colleagues then come together in small groups to hear about each other’s stories and highlight the affirmative themes in them.

Dreaming or envisioning phase

In the ‘dream’ phase participants take those themes and cocreate a shared image or vision of the future. This phase is an opportunity for people to be very creative in how they generate their vision or image of their organization. For an organization in northern Germany, drawing the future helped each part of the organization to communicate in a way that was
successful for all of them. For consultants at a workshop in Austria, taking part in a guided visualization on the future of their work helped them to describe the core of their work and how that would influence the future. For a senior manager in a City of London bank, writing about the ideal day helped him highlight the significant parts of his new role.

Design phase

In the design phase participants translate that image or vision into a macro-statement — a possibility statement or provocative proposition for the whole organization. This statement is written in the present tense as though it is the current situation.

With this compelling image and statement, the question is then ‘what would the organization and its systems look like if it supported that shared vision?’ People then develop micro-statements for the systems, processes or roles. This process becomes an opportunity to see what systems already support that image and statement and which ones would need to change.

This part of the 4D cycle of Ai is also an opportunity to use many different frameworks to aid the discussion, such as open space, future search or the balanced scorecard.

In the mental health services examples referred to earlier, teams in the localities have been, and are still, developing the systems to deliver an integrated mental health service for patients in two localities. They are building on the best of the two agencies and creating new systems where necessary.

The design phase takes place as a dialogue: ideas are developed, presented to the wider team, further modified and finalized. The senior managers are providing full support and only get involved in the detail when necessary to ensure that there is appropriate coordination across sites and at the county level.

Destiny

There are two parts to this next phase: delivering the systems and sustaining the appreciative learning culture. Some parts of the organization want to ensure that the practical steps are taken and others want to continue to look for ways to sustain the appreciative learning approach that is so evident in the phases of the Ai cycle (Barrett, 1995). Both are important and mutually reinforce organizational change.
The outcomes

The impact or result of using Ai to effect organizational change has been measured in different ways.

In the Bank of Scotland, the stories from 10 workshops led to people developing positive actions for improving communication and common standards for communication practice. Ruth Findlay, the then internal communications manager in corporate finance, commented that ‘the stories were regarded as being true so that they represented the nearest equivalent to the equally unarguable hard data so beloved of bankers’ (Harben and Findlay, 2001).

Dex, a billion-dollar subsidiary of a Fortune 100 company in the USA decided to collect some data during six months of using the principles and processes of Ai. The return on investment (ROI) was US$15.62 for every dollar invested; product quality improved by 51 per cent; cycle times improved over 400 per cent and employee morale improved by 245 per cent. They were very pleased with the data! (Chandler, 2001).

In the health and social services situation there is a significant difference in attitude towards the government-mandated changes in these teams compared with others in the area. One person in contact with the many different teams in the area observed that ‘the teams are feeling positive about the change and are looking forward to it. They feel valued, have shared knowledge about each other’s roles in delivering mental health services and are open to constructing the future together’. This attitude may be surprising, as people have been developing the new systems while carrying out their regular heavy workload.

The Ai process has also been helpful in other situations such as:

- introducing a new culture of customer service in one UK government department and increasing leadership and partnership skills in others;
- increasing nurse retention and job satisfaction in a large health-care system in the USA;
- retaining the profitability of a privately owned business in London while adding new services for its customers;
- developing a radical new strategy in Nutrimental Foods, a food manufacturer in Brazil, given the increased competition in the sector.

Is Ai right for your organization?

The Ai process is very effective in some, but not all, organizations. Dr Liz Mellish’s (2000) research in Australia indicates some key questions an
organization needs to ask itself before using Ai in addressing organizational change:

- Are we in transition? Is there a need for something better?
- Does achieving a new direction and way of operating depend on our people?
- Does creating and sustaining the change demand a participatory process?
- Is questioning organizational life vital to sustaining it?
- Is our metastrategic management cycle best driven by diversity and participatory decision making?
- Do we want to articulate a shared vision and the means of achieving it?

Mellish’s study also indicates that a cluster of three organizational conditions predisposes organizations to effectively select AI as a method for organizational change, namely being in transition, having a willingness to work with diversity, and searching for shared vision and social sustainability.

**The consultant’s role in Ai**

The consultant’s role in AI is that of an agent of inquiry and includes four aspects:

- to view organizations as living social systems, as mysteries of creation to be nurtured and affirmed, not as mechanistic or scientific operations with problems to be solved;
- to work in the affirmative, continually seeking to discover what gives life to the organization and its members;
- to be facilitators of possibilities, hope and inspired action;
- to continually seek ways to give the process away, to support organization members in making it their own (Cooperrider and Whitney, 1999).

With this kind of participative approach to organizational change, the steering group, core group or project team co-creates the activities with the consultant.

**The benefits of using Ai**

The research also shows that the benefits for organizations using Ai include:
achieving widespread engagement and ownership of staff and stakeholders in large-scale strategic change initiatives;

building commitment to organizational change through the process and sustaining the commitment (and the process) for use in future changes;

achieving high-impact, low-cost implementation of promotional and public education programmes by engaging the end-user in the process;

implementing major organizational repositioning and restructuring activities in a participatory manner and with no industrial disputes;

launching a successful global virtual company that continues to grow and outperform its competitors.

AI is a vital process and way of thinking that is being used throughout the world to effect positive change.

References and recommended reading

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The consultant’s role in managing change

E Michael Shays

Since 1994, managing change has remained a hot topic in consulting. Almost every major accounting or consulting firm has some group dedicated to marketing and delivering change programmes. It’s a ‘big ticket’ item. Most of these firms have developed good systematic methods for their change practices, yet both consultants and clients report that too many change programmes fail. Some programmes may fail outright and be aborted. Most fail to achieve the benefits expected or find that achieving them was a greater struggle than it should have been, resulting in excess costs and expended energies.

If asked what went wrong, consultants describe how the client was unable to manage the change process, particularly the part when implementing change. If asked what, as consultants, they would do differently next time, some say they would be more assertive about the human resources involved. However, their bottom line is that it is up to the client to make managing change a success. This is only partly true: consultants bear a greater responsibility for the success of managing change than their clients.

How far does the responsibility of the consultant extend? A consultant who was about to visit Norway north of the Arctic Circle during July, when the sun never sets, wanted to know what the weather would be like. The answer came back: ‘in Norway there is no bad weather, only bad clothes’. In consulting, there are no bad clients, only bad consulting. If a client really is incapable of following the consultant’s advice, the
consultant should not take the engagement, or having taken it, should withdraw.

But most clients can follow their consultant’s advice, if it is right, timely and presented effectively. This is the role of the consultant in managing change: to pilot clients through the rough waters of change and to not lose them in the tides. There are 10 channel markers to help with this navigation:

- match expectations;
- improve processes, not organizations;
- identify and expand purposes;
- use goals to measure, not to design;
- focus on the customer;
- involve stakeholders;
- sustain sponsorship;
- think forwards, innovate backwards;
- prepare people for change;
- monitor and control risk.

**Match expectations**

To start with, it is important for everyone involved to understand that wholesale redesign of business processes requires people to change old habits. This is hard to accomplish if stakeholders – people who have a vested interest in the results – expect to confine the programme to immediate operational improvements or to a single functional department. An analogy might be the room-by-room redesign of a home. The individual rooms may look brighter and newer, but overall the house won’t be much different. To change the house the architect needs to understand the functions the home must perform, and remodel individual rooms to best achieve these functions.

A client who talks change but expects the consultant to produce immediate benefits or to work only in restricted areas of the organization is not ready to embark on a change programme. The consultant must avoid the temptation to humour the client in the hope that after the engagement has been awarded he/she can broaden the client’s outlook. This rarely works. Educate the client before starting the engagement or
run the risk of one of the two greatest causes of managing change failures: mismatched expectations.

**Improve processes, not organizations**

Improve processes, not organizational functions. Organizational units are arbitrary divisions of labour and lead the consultant to ‘in-the-box-thinking’ traps. The consultant must understand the processes that the business must perform and redesign individual organizational functions to best achieve them. A manufacturer of consumer goods identified the cause of frequently damaged goods as poor handling at the loading dock. A natural response was to re-engineer the loading dock function, resulting in a recommendation to install automated equipment. If the solution worked at this one loading dock as well as expected, the company would install similar equipment at its 23 other warehouses across the country.

Instead the company took a business process view. The loading dock function was part of the warehousing process, which was part of the distribution process. The best way to get products to dealers, the company concluded, was to re-engineer their distribution system. Instead of adding equipment at all 24 locations, it eliminated the loading dock in question – with its warehouse – along with 20 other warehouses in the system. The handling problem went away and so did many other problems. More significantly, inventory costs went down, the product moved through the system faster and distribution to customers improved.

We know that every system can be divided into subsystems. It is also true that every system is part of a larger one. Look for breakthroughs in re-engineering by identifying the larger system of which your engagement is a part, then explore with the client opportunities to eliminate or radically reduce the function you were originally asked to improve.

**Identify and expand purposes**

Identify and expand the purpose of the process being improved. The operative word here is *expand*. We identify the purpose of any activity to ensure we work on the right problem or opportunity. We expand the purpose to give us enlarged solution space. The purpose of the loading dock was ‘to move the product into the trucks’. If you were to ask the purpose of moving products into the trucks, the answer would be a larger, higher-
level purpose such as ‘to consolidate shipments to dealers’. Expanding this to an even higher level, the company discovered the purpose of its loading dock was ‘to deliver products to dealers’ in order ‘to distribute products to customers’.

In their book, *Breakthrough Thinking*, Gerald Nadler and Shozo Hibino (1994) explained that by creating a purpose hierarchy in this way, the consultant expands choices for solutions and is more likely to achieve breakthroughs. A solution to consolidate shipments to dealers would differ from one to load trucks, and, as the company found, the solution to distribute products to customers yielded a stunning result.

In addition, the purpose hierarchy will confirm that the consultant is working on the right problem or opportunity. A regional service company determined it must expand to survive and was already in negotiations to acquire another company. But when the consultant led management through a purpose expansion, they identified diversification as the real purpose. As the other company was just like itself, management aborted the acquisition before making a serious mistake.

The consultant will find that the purpose hierarchy will also build commitment. By focusing on expanded purposes, not the perceived problems, stakeholders will eventually settle on a purpose level on which all can agree. Two sister hospitals struggled for years to determine how to allocate limited funds for expansion between the two properties. After working with architects on different solutions, they finally developed a purpose hierarchy that lead to a unanimous decision: close one facility and expand the other. Where stakeholders will disagree on solutions, they will come together on purposes and, having done that, will find a solution that works for all interests.

**Use goals to measure, not to design**

The consultant should not confuse goals with purposes. The purpose of the process being improved is a business purpose, not to decrease costs or increase customer satisfaction. These are goals. One could decrease costs by shutting down the business, but that would not achieve the business purpose. Goals are arbitrary measures and they do not necessarily measure the achievement of the purpose; sometimes they can even be wrong.

One major corporation started each of several re-engineering programmes with a session to establish objectives for the programme.
Although these objectives gave urgency to the programme and justified the resources that would be provided, the project teams frequently found themselves trying to re-engineer to meet an arbitrary goal instead of doing it to achieve the more important business purpose. An aircraft manufacturer gave one team the goal of redesigning the tool cribs to reduce space by 30 per cent. Trying to solve the space problem missed the point and got the team nowhere. When it put the goal aside and focused instead on solving the business purpose of the tool cribs, the team discovered that the higher purpose of getting the right tool to the right place at the right time was more important than storing the tools in 30 per cent less space – even if it took 30 per cent more space to do this. The result was a concept of mobile tool carts placed strategically around the plant acreage. It reduced floor space in addition to labour.

Useful as they are as drivers, goals tend to suggest preconceived solutions and limit innovation. The consultant must keep the client focused on the purpose of the business process and provide a solution to achieve that purpose in the most effective way. If the new process is a breakthrough for the business and the right one for all the critical success factors, the goal has either been met or it no longer matters.

Focus on the customer

The centre of all business processes is to satisfy customers. Without customers, the consultant’s client would have no business. Some improvement programmes focus on making a more efficient company operations process, while ignoring how difficult or inflexible the process remains for the customer. The consultant should get client agreement on who is the customer or beneficiary of the process to be improved. Internal customers count, but if these internal customers don’t serve external customers, the consultant might ask whether the process adds any value to the revenue customer. If not, should the process be eliminated instead of redesigned?

When the customers have been identified, what do they want? One team put itself in the customers’ shoes and concluded that its customers wanted to have new releases of the product instantly when the need was discovered. It was like answering the phone before it rings. The old paradigm was ‘customer orders, company delivers’. Instead of trying to find ways to shorten the order-processing delivery cycle, the consulting team found a way to implement a new paradigm: ‘company delivers,
customer orders’. The company makes its product immediately accessible to the customer (company delivers) before the customer knows it is available. When the customer decides it needs the product, the customer activates it (customer orders) and that triggers a payment due. It was a remarkable breakthrough in the customers’ interest that radically changes the way the company will do business in the future. It also promises to reduce costs and increase market share.

**Involve stakeholders**

Involve those who are going to be affected by a change process in its design and implementation. This requires understanding who are, or will be, the stakeholders of the process and reaching out to them for input. Far more people have a vested interest in the programme than would at first appear. Too often, however, the consulting team relies on middle management – or worse, on people from headquarters – instead of from the field. Some of these are really out of touch with what is, or should be, happening in the business process to be changed.

Many middle managers are also gatekeepers in the information flow. A division of one multinational company orchestrated a major presentation of its change programme to 90 managers from around the world in an off-site meeting. It was considered a success until three months later, when the team found that none of its message had reached anyone outside of that meeting. One comedian suggested the mistake lay in not telling the managers the programme was a deep secret: that would have ensured everyone would have got the word. The point is that the consultant must follow up to see that communications reach those who need to know.

The consultant knows the reasons for involving others. They include tapping the real knowledge from those closest to the process, and getting buy-in. Involving others also helps dispel anxieties and cool rumours. But effective involvement comes with participation based on an understanding of the change process; therefore the consultant needs to provide broad training in the principles or methods of the improvement programme. Otherwise, client participants will use the only tools and methods they know and that may be counterproductive to what the consultant and the team are trying to achieve.

Not everyone can be a participant, but everyone should be afforded the opportunity to contribute. One team set up a voice response unit hotline that anyone can call for information or to leave questions and
comments about the programme. The hotline handles more than 600 calls a month.

Finally, the process of involving others includes the important step of validation. First comes the validation of purpose: will management support it? Next comes validation of the vision: will customers like it, use it, buy it? Last comes validation of the process and technology: can it be done and will it work in the company’s environment? Validation is a continuing, iterative process and involves employees at all levels, technical and non-technical specialists, customers and vendors.

**Sustain sponsorship**

Sponsorship must come from the top down. Although managers agree in principle to this and say the right words, the actions of some of them do not demonstrate their commitment. The problem is sponsors do not always know what to do. It is often up to the consultant to write the script and produce the play. Sponsorship is more than showing the flag, although that is often neglected too. It is involvement at the right time and place.

There are three levels of sponsorship, the first two of which are not mutually exclusive:

- **sponsor**: the one who provides the resources and stands behind the commitment;
- **protector**: the one who keeps the corporate immune system from killing the programme;
- **mentor**: the one who coaches the team but has no line authority to sponsor or protect it.

Without a sponsor, the team has no franchise, no funding, no resources, no management commitment, no change programme. Without a protector, the team will get pushed off course, get boxed into a narrow scope and be pressured to go for short-term ‘hits’ in lieu of long-term pay-offs. It may lose funding, have to shelve its visionary ideas and become a process improvement activity – another change failure. Without a mentor, the team will struggle to get advance warning of risks and other problems, someone to open doors for it and sage advice.

One problem the consultant may encounter is discovering that designated sponsors have too many initiatives to sponsor. In this case the consultant might draft a relationship chart between the various initiatives and try to consolidate them wherever possible.
Think forwards, innovate backwards

The conventional way to redesign starts with an analysis of the present system, segments it into subfunctions, and pieces together improvements segment by segment. It starts with what is done today and moves directly to something else that can be done today. This approach rarely results in significant change or improvement.

Change improvement using the Nadler/Shozo (1994) approach, called breakthrough thinking (Box 3.8.1), starts at the opposite end of the spectrum. It starts with an idea – or better yet, several ideas – that probably could never come to pass physically, then moves progressively to a target solution or process that is still a ‘reach’ in today’s environment.

**Box 3.8.1**

The seven principles of breakthrough thinking

**Uniqueness principle**
Whatever the apparent similarities, each problem is unique and requires an approach that dwells on its own contextual needs.

**Purposes principle**
Focusing on purposes helps strip away non-essential aspects to avoid working on the wrong problem.

**Solution-after-next principle**
Innovation can be stimulated and solutions made more effective by working backwards from an ideal target solution. Having a target solution in the future gives direction to near-term solutions and infuses them with larger purposes.

**Systems principle**
Every problem is part of a larger system of problems and solving one problem inevitably leads to another. Having a clear framework of what elements and dimensions comprise a solution ensures its workability and implementation.

**Limited information-collecting principle**
Excessive data-gathering may create an expert in the problem area, but knowing too much about it will probably prevent the discovery of some excellent alternatives.
People design principle
Those who carry out and use the solution should be intimately and continuously involved in its development. Also, in designing for other people, the solution should include only the critical details to allow flexibility to those who must apply the solution.

Betterment timeline principle
The only way to preserve the vitality of a solution is to build in and then monitor a programme of continual change.

Source: Nadler and Hibino, 1994

From the purpose hierarchy the team selects a ‘focus purpose’. The consultant then facilitates the generation of a number of ideas that could achieve this focus purpose. The ideas must be from the realm of vivid imagination, mental illusion going to capriciousness, something from the land of fantasy, ‘whacko’ in Michael Hammer’s terms. In this way, the short tether to reality is broken and the team is free to think without inhibitions.

Next, the consultant asks the team to select a few ideas from the fantasy list and ‘invent’ technology or other enablers to approximate the ‘whacko’ processes; think of these as science fiction. This approach will generate one or more ideal processes in their absolute perfection – not necessarily achievable now, but possibly achievable someday. Finally, the team selects one of the ideal processes as a target for re-engineering.

As the team analyses the target, the consultant presses for an implementation that will stay as close to the target as possible, sending team members out to test hypotheses and validate concepts. They will be surprised by how much of what they thought was not achievable can be implemented. Technology and knowledge are advancing so quickly that if the team bases a design on what it knows today, its design will be approaching obsolescence by the time it can be implemented. On the other hand, if the team fictionalizes technology to implement the target and then does some basic research to find out how soon its fiction will be reality, it will discover much more is available or coming off the drawing boards than it knew.
A chief executive officer (CEO) of a manufacturer of dynamometers (a device to diagnose truck engine performance) was intrigued but not convinced when a group that had never before heard of dynamometers developed a vision for the company that included telling truckers on the road of engine problems before they happened. Although nobody in the group had any special technical knowledge, the consultant asked the group to ‘invent’ or fictionalize technology that would accomplish the vision. Again the CEO was intrigued but said that such technology was too far in the future to have any immediate practical value. The CEO was wrong: not only was the technology available, but some engine makers were already preparing for the vision the group had imagined.

Yet some barriers to implementation will arise. The consultant’s role here is to list them and have the team continue as if the barriers did not exist. When all the hypotheses have been tested, the concepts validated and the core design roughed out, the consultant brings out the list of barriers. Some of the barriers will have vaporized or been solved in the core design. For those that remain, the consultant leads the team in barrier ‘work-arounds’ to preserve as much of the integrity of the target as practical. By deferring discussion of barriers until after the core design exercise, the target is not killed off by the first couple of negative perceptions.

Prepare people for change

Change programmes involve at least eight system design elements: purpose, output, input, process, people, technology, information and environment. A design that ignores any one of these elements will have implementation problems. Ignoring the people element is the second greatest cause of change failure. Preparing people for change isn’t the same as involving them in the design. In addition to their participation or the team’s open communications with them, those affected by the change need to be prepared for it. The consultant’s role is critical here.

The human interventions in the improvement processes must be as carefully and thoroughly designed as any technological or information interventions and then clearly documented. The nature of the changes from the current processes – and the timetables when these changes will be phased in – need to be understood. The people who will be affected should be identified by name. If they are to be reassigned, or the nature of their work will change, some retraining may be necessary. This should be provided in the implementation.
The consultant must recognize that change, even what the team might consider good change, is traumatic. People have great anxieties and insecurities about change. It almost always involves giving something up. William Bridges (1991), author of Managing Transitions, says we must compensate for losses. To paraphrase him, the consultant must ask:

- What can we give back to balance what has been taken away? Is it status, turf, team membership or recognition?
- If people feel that the change has robbed them of control over their futures, can we find some way to give them back a feeling of control?
- If the feeling of competence was taken away when their job as they knew it disappeared, can we give them new feelings of competence in other functions with timely training?

A consultant working on an acquisition for a client discovered that the president of the acquisition candidate was getting cold feet at the eleventh hour. The consultant advised his client to provide the retiring president with office space in the new company. His client resisted; he wanted a clean break. When, however, the consultant pointed out that the president, although eager to sell his business, was paralysed by the prospect of having no place to go to in the mornings, the client relented. The retiring president got his office space and the acquisition went through. In a few months the president found a new business venture and vacated the office space. The consultant rightly diagnosed the president’s cold feet as fear of giving up something that had nothing to do with the sale of the business. The correct compensation to balance the loss was simply providing a place for him to go to in the mornings.

Monitor and control risk

No amount of planning or systematic methods will cover all the risks that could scuttle an otherwise seaworthy improvement programme. The consultant needs to monitor, control and manage risks of failure. This must be done by frequent visits to stakeholders across all parts of the programme. Otherwise the consultant will be listening only to his/her own press, or the press of the team: it is an easy way to get blindsided.

A consultant discovered in one such visit that management really did not believe in the vision of a change effort and did not expect it to succeed. Yet the team was allowed to continue in ignorance pending the arrival of a new manager in the functional area. A visit to the new manager
found that he had no confidence in the programme and was planning to proceed independently with a programme he had started in his previous position. When the new manager described his programme, it was so much like the existing solution that the consultant was able to put both together and keep the existing project afloat.

On another series of visits two consultants learned of six competing or conflicting initiatives in the company that were proceeding on independent courses even though the leaders of these initiatives participated in the project improvement meetings. The consultants were able to consolidate these initiatives, and in one case, to bridge a potentially serious gap between the field and company headquarters.

**Conclusion**

Managing change requires a broad range of skills, constant monitoring and many course corrections to achieve success. The client needs to understand this. At the height of the total quality management (TQM) surge, a CEO called his managers and told them he had been reading about this ‘TQM business’: ‘get us one of those’, he said. The CEO did not understand that one does not plug in a quality programme and expect it to run without incident. Neither are re-engineering or other improvement programmes the kind of engagements where the consultant can simply walk his client through some proprietary method and expect everything to work. Too many things can go wrong. The consultant must be alert and aware of everything that is happening (or not happening) with the programme. He/she must be an inventive programme manager because if the programme fails the client cannot be blamed.

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Endings don’t just happen

It will have been seen from the discussion in earlier chapters that consulting relationships and projects have lives of their own, with specific stages of growth and development that they must go through. This means that you cannot skip steps because there is a natural organic pattern to how events unfold. It is counterproductive to rush a stage prematurely before the preceding stages have been completed satisfactorily, or to omit it altogether.

This means that if the benefits of implementation envisaged in the terms of engagement model in Chapter 3.5 are to be realized, the ending of an assignment or project and the commissioning or ‘signing off’ of the work that it has comprised needs to be done properly and at the proper time.

The well-known personal development guru Steven Covey, author of the best-selling *The Seven Habits of Highly Effective People* (1999) gives ‘begin with the end in mind’ as one of his seven principles. This is nowhere more true than with consulting engagements.

In Chapter 3.5 the third of the overlapping cycles were described as being that of transforming the client relationship. Transformation is used here in the sense of moving through a state of irreversible change to a point beyond which things will never be the same again. Once the chrysalis has turned into a butterfly it can never be a chrysalis again, and so it is with endings. They may, and indeed invariably do, presage new beginnings and opportunity for change but inevitably and unavoidably they signal the end, forever, of the state that went before. And so it should be, as consultants who stay beyond their time are a sign of failure, not success.
A serious business

Closing off a consulting assignment is a serious matter and not to be undertaken lightly. However good or rocky the course of the relationship that has lead to that point, the client–consultant interaction will inevitably be very different in future.

The final stage of the third cycle is called professional implementation and client independence. Implementation of the consultant’s advice or joint work is both the aim and the outcome of the consulting engagement. It is the essence of what consulting is all about: building the implementation team, getting the right mix of people, styles and skills, between hard and soft, between people and systems, between old and new ideas and ways of working, and so forth. The client and the consultant need to engage in the implementation stage with a joint effort. Experts agree that both the terms of implementation and the expected/desired results have to be clearly defined from the early planning stages to ensure this collective understanding (Kubr, 1996).

The interrelationship of responsibility for the ending

Of course, the client is ultimately responsible for implementation and executive action before, during and after the implementation phase. However, in order to be certain of securing the desired benefits from the project, it is not a straightforward question of the consultants gradually withdrawing and the client personnel taking over. Rather a proper closing down of an assignment involves a planned handing over of the different operational batons and responsibility for seeing that certain things happen.

Some years ago, the typical modus operandi was for consultants to write an expert report, give advice and then walk away. Implementation rates were low in those days and the consulting report was seen as the final product. Many of them ended up gathering dust on shelves, not because they were necessarily bad reports but because the business of implementation and managing the ending had not been adequately handled. Neither clients nor consultants understand as much as we think we do nowadays about change management and the need to prepare the conditions in which it can take place. This is what a proper ending is for – to prepare the conditions in which change can take place in the client system and the consultants may safely withdraw to other assignments and a new role and relationship with the client under review.
Increasingly nowadays, clients require consultants to be part of, and accountable for, the success of implementing the changes that their work together defines and prescribes. This requires very careful attention to be paid to the allocation of roles and responsibilities during implementation. On the one hand, the client must become self-sufficient without depending on the consultants; on the other, the consultant must secure effective know-how transfer at the point of hand-over.

Consultant involvement and client activity in the transformation phase

Sometimes for financial reasons (eg to save fees – often a false economy) or because of a feeling that the consultant has outstayed their welcome, clients seek to exclude consultants from the implementation phase. This is sensible if the task is straightforward and/or if the client has demonstrable management capacity available to ensure that the implementation plan happens in line with the intentions of the project. However, an unthinking project management discipline at this stage can be destructive and inhibit success. In short:

- there should be open and frank discussion with the consultants about different possible avenues to implementation;
- the number of consultants on site should be diminishing in number, but regular visits by specialist advisers and trainers could be increased;
- the client should be left with the bulk of the responsibility for the work and just get the consultants to do what only they can do!
- the consultants should be consulted regularly for guidance on progress, but only actually undertake implementation work that is properly the province of executives if expressly asked to do so by the accountable executive – and for a good reason (eg further training) rather than a doubtful reason (eg client fear of rehearsal, practice or making mistakes);
- key client personnel should have grown and developed as a result of the consulting engagement and clients may properly become increasingly challenging of the consultants when it is time to close down an assignment;
clients will have internalized what the particular consulting firm has to offer and may be hungry for new ideas and new experience;

clients may start to do surprising things – that is, things that surprise the consultants.

All of these are signs that the client is moving ahead and no longer needs the consultants for what they did before, which was to help the client with what to do and how to do it. During the ending phase and the stage that follows clients still need the consultant – but in order to monitor, review and reflect together on the joint work that has been done and on how the client is faring in their approach to implementation. This shift signifies that the client is exhibiting organizational growth and not just struggling for independence from the consultant.

Marking the ending

Different styles of consulting suggest different ways of dealing with the business of ending and closing down the assignment.

Some projects, such as large-scale information technology (IT) or information engineering projects, behave according to the engineering mode: there was design and build, then commissioning day comes with a formal, contractual, ritual handing over of the ‘car keys’ or the entry code to the computer room or the licensed operator’s pass to the petrochemical plant, as the case may be. In the doctor–patient model of consulting (see Chapter 3.1), client and consultant will have moved beyond diagnosis and prescription to self-medication.

Learning assignments according to the teacher–pupil or training model (as outlined in Chapter 3.1) often attract a formal certificate of competence or licence to operate, traditionally in safety conscious industries like aviation or hazardous materials storage but now also in relation to IT systems and protocols. One global consulting firm has a fail-safe procedure whereby no new recruit, however senior, can receive their first pay cheque until they have been signed off as having successfully attended the half-day workshop on how to operate the company’s desktop computer protocols!

In the coaching model (see Chapter 3.1), the emphasis will continue to be on enabling the client. If, however, you feel the need to change your coach after working successfully with him/her for some time, that is often a sign of having reached an advanced stage in the transformation phase.
Whether or not to give in to that temptation is another matter that requires careful reflection and, ideally, a discussion with the coach/consultant him/herself. Of course, coaches and consultants have feelings too and are not immune to sensitivity to rejection and loss, so these discussions need mature handling and thoughtful consideration.

**A most sensitive and delicate relationship negotiation**

In our seminars for consultants and clients at the Maresfield Curnow School of Management Consulting we always ask one question of both populations that elicits a near universal answer. We ask seminar groups to consider how a consultant should act when in their professional judgement a major cause of the client organization problem is that the client representative who brought them in needs to be removed from their current job for the good of the organization. The consistent response across many different groups, industries and backgrounds is that a good consultant is one who can tell the client who hired him/her that they should go, and for the client to think not only that it is a good idea but that it was their idea! The point here is that the consultant is expected to risk both possible future work and the relationship in order to help the client see and do what is right for the organization as a whole.

Assuming that the consulting firm has been properly remunerated at prevailing professional rates for the work to date – with no special deals, their having been unduly pressurized, or awkward compromises made on present fees against the promise of future work – a professional consultant should be in a position to give such difficult advice without fear or favour. This is where external consultants can, and sometimes must, do and say things that deal with ‘sacred cows’, taboos and the ‘undiscussables’ in a way that internal consultants would find much more difficult without losing their jobs.

Happily, the occasions when a consultant feels ethically compelled to tell his/her principal client contact that they should make an early exit from their job are few and far between. What is striking, however, is the consistency of the view (as revealed at the Maresfield Curnow seminars) of the expectations that both clients and consultants have about what behaving professionally means in such limiting cases.

Similar expectations apply to the business of endings and closing down the assignment. Human nature being what it is, consultants have to trade off their commercial responsibilities to their firm against their
professional responsibilities to their clients. The only way to deal with this is to have serious and repeated (i.e., not just ‘once in the corridor’) client–consultant conversations about how to handle the ending.

A good consultant should have an informed professional view of when a particular engagement is ready to end and the client has a right for that view to be openly discussed. Similarly, a good client who has really benefited from joint work with a consultant who is having difficulty in letting go will be able to reframe the relationship into one appropriate for the next stage and one that works for both parties to feel that it is right and proper.

**Final thoughts**

Some final thoughts can be summarized as follows:

- The transition to the ending should be marked in some way that celebrates the place and pertinence of the work and how it will be remembered and worked with after the consultants have gone.
- Internal consultants can be helpful for developing post-implementation proposals.
- The nature of the continuing client–consultant relationship should be discussed and not left hanging.
- The arrangement for recording, writing up the lessons and communicating the end of an engagement should aim to bequeath a shared understanding of what happened, with due recognition of the contribution and progress of all parties.

It is important for the consultant to recognize that the client is going from the known to the unknown and that this causes anxiety. One of the main benefits of working with consultants is that they have done similar projects beforehand and therefore can signal what the client is likely to expect along the way.

After the ending, the consultants will not be there in the same way, but before leaving they can, and should, help the client to anticipate future milestones and put into practice lessons from their joint work about learning and learning how to learn. The consultants will not be on site or on tap in quite the same way in future – although electronic communications make accessibility relatively painless – but hopefully as a result of the assignment, client personnel will have learned from and with the
consultants about how to learn in future. They should have absorbed principles, understanding and experience that will equip them to solve unknown and unanticipated contingencies with relative equanimity. Above all, endings are about providing the opportunity to build new beginnings.

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Key Consultancy Activities
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Two aspects immediately leap to people’s minds when they hear the title ‘strategy consultant’. One thought is of a team of experts who sit down with management and help them develop a corporate strategy for the organization. The other is a vision of ‘men of mystery’, working secretly on a merger or acquisition. These may be true but most often strategy consulting work is brought about because an organization is not performing as it needs to be and an external perspective is required to help define the problem and possible solutions. Strategy consultants are foremost creative problem solvers.

Strategy consulting: a different way of thinking

Creativity is one of the key differences between true strategy consultants and other types of consultants. The majority of strategy consulting work comprises performing mostly economic and financial analysis of industries and organizations to define the problem. However, the frameworks and methodologies are for the most part available to all leading business school MBA graduates. Individual consultants or consultancies frequently customize tools and processes to be able to offer a ‘unique’ value proposition to their clients. Ever wondered why strategies of different organizations are so similar? The strategies are put together by staff schooled in similar analytical methodologies.
If you educate thousands of the brightest individuals in leading business schools around the world based on ‘best practice’ strategy analysis tools and methodologies, then they are going to come up with similar strategies. The academics even came up with a tool to annualize the similarity of thinking and strategy within the same industry. They call it strategic group analysis!

The analysis may make up 80 per cent of the work, but the crucial value lies in the other 20 per cent. That is the 20 per cent that is creativity. Having analysed the problem, a creative strategy consultant can help their client imagine what could be and then ask the question ‘well, why not?’ A competitive strategy is different from that of rival organizations, not just better.

Most individuals tend to favour specific approaches to thinking; some may be analytical. They are often referred to as ‘left-brain’ thinkers. Some individuals are more creative rather than analytical thinkers; these are often referred to as ‘right-brain’ thinkers. Strategy consulting is ‘whole brain’ thinking. It is both analytical and creative and requires individuals who excel at both. That is why, as a rule, the best strategy consultants are not found in those organizations specializing in ‘off the shelf’ solutions. Original problems require original solutions and that requires original thinkers not automatons. Very few individuals are ‘whole brain’ thinkers.

Part of strategic thinking is being able to see the big picture in the future. It is being able to imagine the economic, social and political operating environment in, say, five years time and the position of the key industry players, suppliers and customers in the same time frame. At the same time, strategic thinkers must be able to understand and see the detail at the level of individual functions within the organization. Strategic thinkers must be able to see both the big picture and the functional detail for the organization in the future and today. They must have their head in the clouds, but their feet firmly on the ground.

More importantly, they must be able to continually swap back and forth between today, the future, the big picture and the detailed function. This is often referred to as ‘chunking’ up or down, forwards or backwards. Only a minority of individuals find this easy to do. Most individuals quickly travel to that level at which they feel most comfortable, ie the current functional operation, and stay there. Most are operational thinkers and do not find it easy to think strategically for long periods of time.
In problem solving, there are two types of problems: those that are convergent in nature and those that are divergent in nature. In those that are convergent, the solution converges upon a single right answer; these are the types of problem at which ‘left-brain’ thinkers excel. Where divergent problems are concerned, the more information and time available, the more possible solutions can be found. There is no single right answer. Strategic management is full of divergent problems.

This is the nub of strategic management problems. They often deal with variables that are in the future and the wider operating environment. As such, the problems tend to be complex and the data uncertain and ambiguous. Complexity, uncertainty and ambiguity are the three types of variables that most managers discount or avoid because they are the most difficult with which to operate. However, this is the real world and they are not avoidable. We must help organizations learn how to work within complexity and to use it to their advantage.

Problem resolution is based on identifying the cause and effect. If I drop a china cup on to a concrete floor, the effect is that the cup smashes – a clearly visible cause and effect. However, most strategic management problems have causes and effects that are not so closely linked in location or time. If I reorganize an order-processing system in London, it may have a major impact in Sydney in three months time when performance reports need to be printed. Most organizational changes have causes and effects not closely linked in space or time.

**Fatter caterpillars or butterflies**

It is important to fully understand this difference between operational thinking and strategic thinking. Many solutions have been sold to organizations as strategic necessities when in fact they have only been operational improvements. Operational thinking delivers increased efficiency; strategic thinking, however, delivers an effective solution. Operational efficiency will deliver ever-fatter caterpillars but a strategic solution will metamorphose the entity into a butterfly, a more effective solution not just fatter or better.

Operational efficiency is about adopting ‘best practice’ for each function and process. This requires continuous organizational improvement. By its nature it tends to be continuous incremental change and improvement – more of the same but ‘better’.
Typical operational solutions in the 1990s were benchmarking, total quality management (TQM), business process re-engineering (BPR) and change management. They became industry standards that every organization needed to adopt to stay competitive. They were the ‘hygiene’ level that everybody adopted. Each adoption did raise the bar for new industry entrants but everybody in the industry adopted the standard.

Strategic solutions place the organization in a unique competitive position. The strategic solution enables the organization to compete in a different way from its rivals. The strategic solution creates a unique and sustainable competitive advantage for the organization.

Sustainable competitive advantage

This is where we reveal the big differences between being different or only better than the rivals. When we contemplate strategic business development, there are principally two approaches: we can try and take existing market share away from our rivals or we can try and grow by growing the entire market.

Take the yoghurt market, which is a commodity market. One plain yoghurt is the same as another. If it is not possible to compete by differentiating a product from the rest of the market, the choice is to compete based on lower price. That is why there are rarely high margins in commodity markets. This was the position in the yoghurt market many years ago.

One day, somebody decided to take the cream out of the milk for the yoghurt and sell it separately as a low-fat, healthy lifestyle product. Overnight the market size was doubled as new customers purchased this new healthy yoghurt. The size of the market ‘pie’ had been increased, rather than simply redivided by cutting price or marketing spend. But nothing is forever. Very soon others copied and entered this new market and took market share away from the first mover. It is not easy to creatively come up with a solution that expands the total market, but the rewards are enormous. The alternative is continually declining margins and overall profitability.

Sustainable competitive advantage requires an organization to focus on a distinctively different market offering, delivered to a distinctly different market segment by an organization optimized to best serve that offering to that market segment. Higher profitability is mostly evidenced by those organizations that adopt a focused strategy. It would require a
competitor to duplicate not just the market offering but the whole organizational structure to capture all of the relational points with the customer.

From this, it is clear that strategy is as much about defining what an organization will not do in order to stay focused, as about stating what it will do. The organization chooses to serve a specific market segment so that it can provide a better product/service tailored to the specific requirements of that sector. The organization must therefore define the other market segments as ones that it will not serve. Equally, the same applies to the product/service portfolio – the organization should focus on those market offerings that can uniquely add value appreciated by the market segment.

Let’s look at the opposite of this strategy. Most large organizations that have evolved over decades (if not generations) have, over the years, sought to grow in size by adding to their product/service portfolio and moving into additional market segments. In order to please this wider market with a wider selection of products, the organizations have often compromised their unique sustainable competitive positions. The products are less customer-specific and more generic unless complete new product portfolios are added for each additional market segment entered. The organizational structure, functions and processes have also lost their tight, lean, focus; these organizations must service a large portfolio over a wide-ranging mix of market segments. In these cases the organization has become bloated – it has become a fat caterpillar.

Quite often, financial analysis of these companies makes frightening reading. Let’s arbitrarily accept the 80/20 per cent rule that will not be far wrong for our analysis. It is common to find that in these organizations some 80 per cent of the profit comes from only 20 per cent of the products. Only 20 per cent of the customers provide approximately 80 per cent of the profit. Our first thoughts are: are those 20 per cent most profitable customers, who deliver 80 per cent of the profit, buying those 20 per cent of the products that provide 80 per cent of the profit?

When we graph these phenomena, they show a curve with a steep decline past the profitable 20 per cent, followed by a long tail of questionable profitable transactions. Most large organizations have a high volume of unprofitable transactions – unprofitable products to unprofitable customers – which is the punishment for losing strategic focus.

There are also other common phenomena; it is not unusual to find that 90 per cent of the sales are delivered by only 50 per cent of the sales
force. Major industry players are then surprised when other lean organizations enter the market and focus on delivering a service tailored to the specific requirements of the most profitable market segments. The bloated caterpillars accuse the new butterflies of ‘cherry-picking’.

So, sustainable competitive advantage is as much about what you will not supply, whom you will not serve and how you will not serve. It is not only about what you will sell to whom and by which methods. By deliberately focusing on the specific needs of a discrete market segment, the organization will be able to provide a product/service that offers greater value to that market segment in a way that best suits the specific customer. A rival will be forced to copy not just the product but the whole delivery system and organizational structure as well as capture the customer relationship. The only way to do this is to change the rules.

Changing the rules in order to capture significant market share away from an entrenched incumbent is the challenge for strategists. Demographic and, to a lesser extent, lifestyle changes are easily foreseen. To change the rules, an organization must take advantage of a change that the rival has not seen coming or has underestimated.

The most likely possibility is the use of new technology. By quickly adopting new technology and tailoring its complete business model to take advantage of its benefits over the old or existing technology, an organization can change the industry rules. The new entrant may be able to capture significant market share away from the industry incumbent before it is able to reconfigure its long-established organization and its way of working.

There are possibilities other than technology. One may at first appear to be almost impossible: an organization could influence those with power to change the regulations or industry standards to a set that more favours itself rather than the existing actors. We are all aware of different technology standards that have competed. From a regulation point of view, Chiquita managed to influence the US government to take a case on its behalf before the World Trade Organization in order to end preferential treatment given by the European Union (EU) to Caribbean banana growers. Chiquita won and the rules were changed.

There are other technology rule changers of which many (older) readers will be aware. Bic is a French company that hit the international headlines decades ago with a disposable ballpoint pen. Until it entered the market with its technology for forming plastic, pens were a relatively major consumer investment. They were durable goods – as soon as the ink
ran out a replacement refill was purchased. Bic entered the market with a cheap, disposable plastic pen. Having used up the ink inside the transparent plastic ‘stick’ pen, it was thrown away and a new replacement pen purchased. Bic had changed the rules with regard to pens being disposable consumables.

Having captured the writing implements market, Bic looked for another market in which its competence could be used to change the rules and came up with the idea of a disposable cigarette lighter. Again, the existing product was an expensive metal durable product, but Bic changed the rules. Next, they brought out the disposable razor. Previously, metal razors had been used with replacement blades. Now, very cheaply, Bic produced razors in huge volumes that were cheap enough to be thrown away when blunt. The company looked at how it could use its unique competences in different product markets to change the rules from expensive durable products to cheap disposable products.

The questions are the answer

From this brief overview it becomes apparent that yesterday’s answers are not the solution for a strategy that will deliver a sustainable competitive advantage. Being better is not sufficient — an organization must also be different from its rivals. Packaged solutions are operational efficiency that everybody will adopt, but original thinkers are required to help organizations develop unique business models.

It is worrying that consultants are accused of learning from an assignment with one organization and then going on to sell similar solutions to everybody else in the industry. It is worrying because clients can cause this by demanding a consultancy team that know the industry at least as well as themselves. They demand to be served by consultants who have served, and probably will continue to serve, that one industry. In effect, organizations are buying benchmarked best practice. They are buying operational efficiency, not strategy consultancy.

Consultants are obviously going to sell a similar solution to all of an organization’s rivals in order to maximize their profits. If that is the case, organizations need to consider how good, how different their solution is going to be. One way of looking at the assignment is that members of the organization’s management team should already be experts on their own industry. If the organization has a technical problem, not a strategy problem, then technical experts could be employed by the organization.
If the organization needs to review its business model and to develop a new strategy, then could it quickly learn from strategy consultants with broad experience across industries? Different industry experience will bring different ways of thinking and novel solutions.

Many industries face similar problems that may take years to learn and solve independently. As an example, there are many similarities between oil, gas and electricity transmission line companies as well as train companies, telephone companies and transport companies. Airlines have branded separate classes and fares on the same plane and charge different rates according to the time of day and time of year. Similar strategies have been adopted by the other industries; the aeroplane or route simply needs to be substituted with the telephone line. Many organizations in different industries can learn from each other, but it can take some time for this to happen. As an example we can ask why it took so many years before the airlines’ frequent flyer club card concept was copied by the supermarkets to reward customer loyalty. Could it be that they were all using industry specialist consultants?

Ask your consultants what they bring to the party in addition to industry knowledge. Many industries are experiencing ever-faster shortening product and strategy life cycles. Somebody who arrives with a solution to yesterday’s problem is not going to be as valuable to you as a consultant who knows which questions to ask to identify tomorrow’s problems and solutions. In short, the questions are the answer, not the other way around.
Introduction

Most companies have marketing departments, the majority of which are staffed by competent people. Depending on the nature of the product, companies may already be using other types of professional service companies, such as advertising, public relations and marketing research. So why should there be any need for consultancy help? There is, of course, the very obvious situation of those organizations where there is too little attention paid to marketing, with the resultant effect on the quality of the marketing department. To assume, however, that this is the only situation where a management consultant can improve performance is to ignore the very wide range of skills and experience that a good marketing consultant can offer.

The client is primarily interested in the value that a consultant can bring in relation to the cost of providing the service. Sometimes value can be measured in positive gains, sometimes in the avoidance of profit-reducing situations and sometimes because the cost equation shows that it is cheaper to outsource a short-term task rather than employ extra people to do it internally.

Marketing can be described as detecting and satisfying customers’ needs at a profit, but, although accurate, this definition does not reflect the dynamism of markets, the turbulence of the business environment and the fact that companies themselves change their visions and overall strategies. The approaches, methods and techniques that help companies to analyse market situations reflect these changes. These dynamics are one reason why even those companies with excellent marketing capability can
benefit from the objectivity, different experience and up-to-the minute knowledge that management consultants bring to a marketing assignment.

There are situations in which companies retain consultants to work on a general basis at board level or at senior level within the marketing department. Usually such advisory roles are broad, continue for some time and, although the consultant has the resources of his/her firm to tap into, these advisory roles are usually person-specific, going to a person of seniority and standing.

More frequently, the assignment is a task that can be defined in terms of both content and duration. Frequently, the consultancy will deploy a team – the size of which will depend on the scale of the work, the client’s deadline and the mix of competencies needed to ensure success. There is also a need to match the seniority, and therefore cost, of the different members of the consulting team to the tasks within the assignment. Sometimes it is appropriate to use a mixed consultant/company team, which may be a way of expanding the knowledge and experience of key employees and of transferring skills to the company.

The following list shows some of the areas where management consultants can provide value to a company. This is followed by a brief description of some of the tools and techniques that may be appropriate to a specific situation. Neither list is meant to be definitive; the aim is to give some idea of how that which consultancies offer can benefit companies with different needs and internal marketing resources.

Some specific areas where consultants can help

Marketing ‘audit’ of all aspects of marketing activity

One of the problems that besets many companies is that although things change, the activities that take place in the company do not always change to reflect the situation. Things grow up around company policies and are then seen as immutable when a different understanding would perhaps show that they should be changed. All managers make decisions within the boundaries of their perception and sometimes what they believe to be a fact is not necessarily true. Even the market research undertaken, and other information that is seen as important, may be decided within this predetermined perception, thereby excluding things that are critical. Sometimes, there may be problems of effectiveness, but more often the
issue is one of being very effective at something which is no longer as appropriate as it once was.

One way in which consultants can help is by undertaking a complete audit of all aspects of the company’s marketing activity. As stated by Jenster and Hussey (2001):

_The marketing audit is a comprehensive and structured examination of the firm’s market and the forces impacting the market, the firm’s activities and performance, as well as the processes by which marketing decisions are made. The outcome of a marketing audit should highlight the opportunities and challenges for the firm’s marketing and suggest recommendations for improvement, and a plan to achieve superior performance._

The sort of problems that I have uncovered through such an audit include:

- several companies that had not recognized that the industry to which they sold had begun changing technologically, which meant that the market was disappearing;
- a life insurance company that concentrated on segments that had been the most profitable when the general management had served their management apprenticeships, and which had not seen that market changes had opened up some segments with even better prospects;
- companies that had once been market leaders believed that they still were, and were blaming reductions in sales on recession when in fact the major cause was market share erosion.

Companies can sometimes undertake such an audit themselves (Jenster and Hussey, 2001), but as a minimum, at least one outsider should be attached to the team that carries out the audit to ask the unthinkable questions. An internal audit can only be justified when appropriate people can be detached for long enough to undertake the audit as their sole task, are strong enough to challenge the conventional wisdom and have enough standing in the company to ensure that their analysis is acted upon.

**Specific investigations**

Examples of specific investigations might be the long-term prospects for an existing product, product prospects for a new market, new product evaluation or the effects of external changes on marketing (such as changing from being a supplier to being a preferred partner in an outsourcing situation).
A typical situation might be an oil company whose research and development people have a prototype product that would reduce emissions from internal combustion engines. Before they can decide whether this is a viable product, either to market or to license, they need to undertake an assessment of the market. Knowledge of the global automotive markets, the industry and its organization are basic essentials for such a study, supported by knowledge of environmental legislation in key countries. Management consultants are the logical answer to the need to assemble a team with the necessary skills and knowledge.

Another example, with some similarities, is the desire of a company to extend the marketing of its products to a different country. Here again, investigative work is needed before strategies can be formulated, combining knowledge of the target country, the nature of the markets and an understanding of the capabilities of the company commissioning the assignment. Such studies can sometimes be handled internally, but again questions need to be answered regarding whether the people are available to undertake it and whether they have those extra skills needed (which may include language capabilities) that make the difference between a good or poor study.

**Economic evaluation of marketing-driven projects**

Not all marketing investigations relate only to marketing capabilities. Any of the examples given above could have major capital investment implications to obtain the physical elements of a distribution capability, information technology (IT) investment and/or manufacturing facilities. Most consulting firms are able to undertake a full economic and financial appraisal, comparing options and assessing risks. This can greatly reduce the risks of making a poor decision or of moving into a situation where the ‘salami principle’ has applied: serving the sausage slice by slice, instead of looking at the whole, so that the full shape is never seen.

**Marketing aspects of e-business**

With e-business the world has moved into a field where there is little experience but the need for a combination of very specific IT skills and marketing capability in equal measure. The best IT solution will not produce orders unless the customer trusts the Web site; the best image-building exercise will be to no avail if the Web site is insecure or if there is difficulty in managing the delivery of the orders to the customer. Some major customers have chosen to implement their e-business strategies in
alliance with a firm of consultants so that the missing skills can be applied in an integrated way.

**Outsourcing marketing activities**

Outsourcing is a way of gaining flexibility and focus and it can apply to marketing as well as to most other units within an organization. It has long been traditional for certain basic services, such as retail audits and much other market research, to be outsourced. Modern thinking is that the outsourcing should move beyond such definable task-related services to many other aspects of the marketing function. But this usually calls for structural and cultural change – management consultants can often help to identify what is sensible and make it all work.

**Marketing plans**

Sometimes there is a need to take stock of what the company is trying to achieve; one way this may be tackled is through the development of a marketing plan. This is rarely something a management consultant should do for a client, but it is something the client can often do better with the help and support of a consultancy. This may be in the structure and process of the plan, in specific investigations to support it or in providing an objective critique of the plan.

**Implementation of projects and plans**

Implementation is the forgotten side of strategic marketing management and may involve planning, project management and change management skills, particularly if the strategies set the organization on a new path. There is often an in-built assumption that managers will make sure that a marketing plan or new project is implemented, and this may well be a valid assumption for incremental situations. However, all the evidence suggests that implementation is a black hole that gobbles up many otherwise first-class decisions; this is an area where consultants can help.

Here is one piece of evidence that supports this statement. In 1999, KPMG found that only 17 per cent of mergers and acquisitions increased shareholder value, 30 per cent left it unaffected and 53 per cent reduced it. It would be naïve to suggest that all the problems are caused by a failure to attend to implementation after purchase, but this is the area of greatest weakness. A marketing strategy may not necessarily involve acquisition, but it often does include other difficult change situations and here too the general body of evidence is one of neglect.
**Application of specific tools and techniques (examples)**

There are specific tools and techniques that apply to marketing. Consultants may have more recent knowledge of applying these than a company’s own employees because of the larger number of situations in which they work. In addition, many consultants have developed their own approaches, which often make it easier and more productive to apply academic concepts in practical situations. Some idea of the type of tools and techniques in popular use can be obtained from the annual survey by consultants Bain & Co (see Rigby and Gilles (2000) for an accessible description of the 1999 survey).

**Market segmentation analysis**

Most companies already look at their markets in terms of segments, but there are increasingly more sophisticated ways of looking at segmentation. Companies that are already using these will not need consultancy help but there are many that are missing out on new thinking where consultants could bring real benefit.

**Customer segmentation analysis**

The Bain survey (Rigby and Gilles, 2000) points to the emergence of a variant of market segmentation. This groups customers on various criteria in an attempt to identify unfulfilled customer needs. It involves measuring the profitability of individual customers, and their potential, and finding solutions that enable the organization to concentrate on gaining leadership in the most profitable areas.

**Product portfolio analysis**

Not all techniques are new and portfolio analysis has been around for a very long time. It is mainly used to compare the strategic outlook for the various discrete business units within a multi-business company. Typically it is a matrix, which has market prospects on one axis and market position on another. It is also capable of being used at the product level in some circumstances. The concept is easy to understand (see Hussey 1998: 309–50) but more difficult to apply and interpret. Good information is needed to plot the positions on the matrix and someone must have worked out how to use numerous facts to produce a position on each axis. Consultants can advise whether this is an appropriate technique for a given situation and help in its application and interpretation.
**Market migration analysis**

Some analytical methods are data heavy and require a lot of work to collect the necessary information and to make sense of it. This is a spin-off from Porter’s five forces (Porter, 1980; Hussey and Jenster, 1999). The aim is to analyse the competitors in an industry – particularly those that have been gaining or losing ground – and, from this, to establish the most successful business models. The lessons from these can then be related to one’s own company. As with so many of these techniques, consultants can save a company time and wasted effort in undertaking such an exercise or can help the company establish it as a normal, ongoing procedure.

**Competitor analysis**

In theory, anyone can undertake competitor analysis and, indeed, should do so. My own experience as a consultant is that the outsider brings a methodology that is better for analysis and communication and I have often been invited into situations where the company’s managers considered they did a good job. The methodology forces a logical examination of the quality of much of the information being used (eg if a competitor has annual sales that are greater than its annual capacity, is one of the figures wrong or is it doing something of which we are unaware?), but also forces a proper consideration of all the important points.

Consultants can be used to help obtain missing information and are sometimes in a better position to do this than the clients themselves. They can also help set up an ongoing competitor analysis system so that the whole process becomes more dynamic.

**Summary**

This list could be extended to include many other tools and techniques, such as benchmarking the marketing function, scenario planning in relation to markets, numerous matrix methods of analysis, value chain analysis and market modeling. However, the need is not to demonstrate everything that might be done but to make the point that management consultants can help successful organizations as well as those that are ailing. Often consultants should be considered as providing preventive maintenance in order to help the organization to attain more profitable growth. If consultants have to come in for emergency repairs, it may already be too late.
References


Organizational change is assumed to be desirable and beneficial and its necessity is generally taken for granted. The management of change has become an important source of revenues for consultants, while many corporate managers have been assessed and rewarded in relation to the amount and nature of change they bring about.

Anticipating the impact of organizational change

Expectations of change programmes can exceed their achievements. Also many organizational changes do not meet with universal approval. Change can be stressful and destructive if mismanaged; there may be both winners and losers. Although the satisfied may favour the status quo, the frustrated, ambitious and blocked might desire a new regime. Debates occur in boardrooms between those who are for and those who are against particular changes.

Companies and consultants need to become more discerning. The impacts of change are not always immediately apparent. People who advocate particular actions may be ignorant of their consequences. In contrast, the disadvantaged may be very aware of adverse effects.

When the benefits of change are widely spread their recipients may not even be conscious of them. Or they may lack the motivation to prevent the blocking action of sectional and vested interests. The indifferent or ambivalent may simply ‘go with the flow’.
Much will depend on the purposes of change and the capacity of the people involved to adapt. Directors and consultants can make a valuable contribution by questioning the rationale and justification for proposed changes and asking whether an impact analysis has been undertaken regarding the likely implications. Have the potential consequences of proposed changes for employees, customers, business partners and investors been adequately assessed?

The ‘tide of events’ can be hard on minorities and tough on the atypical. Over time, once those adopting an innovation reach a critical mass the provision of alternatives may be stopped. Supplies, service and support may no longer be made available. Have arrangements been made to identify and protect the interests of significant, important and disadvantaged minorities?

Introducing changes without thought as to their costs or consequences can do great harm and damage a corporate reputation. Many managers lack an ‘end-to-end’ perspective. Altering a task at one point in a process, or introducing a new activity, may cause problems for those operating elsewhere, either within the same process or in a related one.

One way of spreading responsibility for determining how much of particular forms of change should occur is to create new markets for the areas in question. Entrepreneurs set up and launch a multiplicity of them. Early adopters can go ahead without first having to wait for a board consensus to form in favour of a new development.

Implications of change can be consciously made explicit or surreptitiously concealed. The cynical influence opinions by emphasizing the advantages of proposals while playing down their drawbacks. Opposition may be bought off and neutralized, or even eliminated, by those who are determined to bring about particular changes.

Change can also be disorienting and disruptive, even when beneficial. Sometimes people can only take so much of it. Without some variety and challenge they may go to sleep, but subject them to too much that is new or unfamiliar and they may suffer stress and become unable to cope. The last change ‘initiative’ might break a manager’s back.

Assessing the contribution of subordinates and colleagues by the amount of change they introduce can sometimes encourage change for change’s sake. In reality, the preservation of an existing brand image and core values may be what is required. However, preventing unnecessary activity in order to protect what is important and prevent compromise of beliefs is less glamorous than ‘change’ and may be more difficult to evaluate.
The balance between change and continuity

An organization might benefit from the establishment of new ‘guardian’ roles. Wise and respected advisers who ‘hold true’ might be able to save people from themselves. Independent directors should perform this duty in boardrooms. Particular attention should be paid to whether suggested changes might result in the loss of strategically important knowledge or harm longer-term relationships with customers, suppliers, investors and business partners.

Companies sometimes attempt to change too much. A board needs to achieve an optimum balance between change and continuity (Coulson-Thomas, 2001). A degree of continuity gives people something to hang onto in an uncertain world. Is there enough for them to retain a sense of identity, belonging, direction and purpose, and not to feel threatened and insecure?

The visions and rationales for change that are offered by many boards are excessively general. People should only be expected to make demanding changes for good reason. Effort should be concentrated where it is most likely to make a difference.

Smart consultants focus on the critical success factors for achieving key corporate objectives and delivering greater customer and shareholder value. For example, the key factors for winning competitive bids and building successful key and strategic account relationships in various commercial sectors and professions have been identified in a series of practical reports produced by the Winning Business Research Programme team (Kennedy et al, 1997–2002).

Change may have its opponents and saboteurs, so boards and consultants need to be politically astute. Are directors aware of who is slowing down, undermining, blocking or campaigning against what they are seeking to achieve? How adequate are arrangements to deal with vociferous and vested interests, and determined but unrepresentative minorities?

Another key area for boards and consultants to address is whether people are being equipped to achieve the changes they are expected to bring about, ie have they been supplied with the knowledge, skills and tools to do what is required? (Coulson-Thomas, 2003). Checks and pointers can be introduced into job support tools by devices such as ‘traffic lighting’ to help ensure workgroups behave in desired ways.
A recent survey of corporate learning strategies and activities reveals that while general change programmes are becoming more common, specific and bespoke initiatives and tools to help individuals bring about particular changes are few and far between (Coulson-Thomas, 1999). In general, our perceptions and individual and collective actions will determine whether certain changes are beneficial or harmful.

**Identifying problems and opportunities**

Problems experienced by some can represent business opportunities for others. As such, consultants can work on a flexible basis to provide support and outsourced help to start up and transform companies and e-business ventures. The nature of the assistance required can alter significantly as an enterprise changes, grows and develops; hence companies that supply people with distinct skills and interim executives are likely to face a growing demand for their services.

Both individuals and organizations will have to distinguish between goals, values, objectives, policies and activities that need to be changed and those that should be continued and perhaps cherished. Some people will ‘follow the herd’ without thinking or fear being left behind. Whenever a clear majority appears to favour a particular course of action, there is a tendency for the uncommitted to climb aboard the bandwagon.

Members of the majority may be naïve or mistaken in relation to what is in their best long-term interests. The respective merits of different options can also become confused amidst competing advertising and marketing claims. In the case of the battle between video formats, technologies that many considered superior to VHS which became the de facto standard were abandoned, simply because they came to command a minority market share.

Views, preferences and priorities can alter as situations evolve, circumstances change and fashions come and go. Nothing is more frustrating than to find that certain options have been forgone because a selected course of action cannot be reversed. After it has been cut down, the rainforest may not regenerate itself; because their habitat is destroyed, particular species may also cease to exist.

In the age of mass markets and long production runs of identical goods, those who were on the ‘receiving end’ of ‘adverse trends’ had every reason to feel abandoned and unloved. With suppliers clambering to get out of declining markets, minority consumers would find themselves
under pressure to switch. In many cases, manufacturers would simply discontinue the provision of ‘old models’ or stop holding spare parts.

An exodus of mainstream suppliers from a marketplace creates opportunities for niche suppliers to fill gaps and exploit ‘tail ends’. Some of these will be enthusiasts for the products and services in question. Perhaps there will be enough of them to form owners’ clubs, open swap shops, establish steam railways or restage historic battles. Some companies discover too late that their customers may have more regard for their offerings than most senior managers.

Changes are occurring all around us and may or may not represent challenges or opportunities for companies and consultants (Coulson-Thomas, 2001). Boards and management teams should identify significant trends and developments, consider who are likely to be ‘gainers’ and ‘losers’ and assess whether there are alternative offerings which would mitigate undesirable impacts and enable people to take fuller advantage of whatever is likely to occur. Enough motivated people may be affected to represent a potential target market for products and services tailored to their particular interests.

Sometimes consistently rapid development can be easier to handle than sudden discontinuities in growth rates. Those who ride the crest of a technological wave may feel confident that they are ‘in the right place at the right time’. They may come to assume they will have plenty of time in which to accumulate stock options and cash them in before the tide turns. Small setbacks may be masked by a generally favourable trend of events. However, even corporate stars like Cisco Systems that expand at a frantic pace sometimes find themselves facing adverse market conditions and the need to retrench.

**Addressing minorities affected by change and creating niche opportunities**

Those employed in smokestack industries may become reconciled to change for the worst and accustomed to a succession of bad news. Yet there will be some individuals who stubbornly refuse to give up. So long as actual or potential customers exist, there is hope.

Certain trends continue for longer than others; some lose momentum, stop and eventually go into reverse. A small minority of like-minded people may be sufficient to safeguard what remains or cause a renaissance. Communities of enthusiasts can be assembled via Web sites
that issue a ‘call to arms’. The Internet can be used to coordinate responses and allow other interested parties to monitor the progress being made.

On occasion advance may result from regression to desirable aspects of past periods. Some enthusiasts may finally determine that ‘enough is enough’. The vision of a replica of a steam engine or fully rigged tall ship in sail may stir emotions that could never be reached by anaemic ‘corporate communications’, a fancy new job title or the latest restructuring.

Astute entrepreneurs and alert consultants find opportunities in unusual places, eg preoccupations and interests of previous ages that met deep-seated needs and could be reborn. It will become progressively cheaper and easier to make direct contact with those who share our enthusiasms. With the dramatic growth in the Internet, like-minded people can contact each other and initiate collective action.

Conditions have never been more favorable for minority interests and specialist consulting networks to flourish. Traditional barriers to entry are falling and systems and processes are becoming more flexible. Many people in developed countries are more prosperous; because they are healthier and are living longer, they will have more time for further careers, additional causes, new enthusiasms and fresh obsessions. And they will be able to enjoy the results of lifestyle changes.

The future is likely to be characterized by greater diversity as those who are against certain combinations of changes take positive steps to safeguard what is threatened and recreate what has been lost. Rather than meekly resign themselves to marginalization, they will actively set out to find locations and establish arenas in which they will be able to live life on their terms. Recognizing opportunities to cater for minorities will be a more important skill than the ability to replicate ‘me too’ provision.

Corporate leaders will be unable to become directly involved in the many and varied activities that more bespoke and imaginative responses to a greater variety of requirements will necessitate. Corporations need to transform themselves into incubators of enterprise and communities of entrepreneurs. Different venture teams will be empowered and enabled to determine and bring about whatever changes are required to enable them to achieve their objectives and deliver value to their customers.
Lessons for consultants

Some companies are winners. Their people succeed in coping with the challenges of change. They think through the implications of change and seize the opportunities it can create. They accomplish their own and corporate aims. Other businesses stagnate: their people work hard, adopt fashionable approaches and use big name professional advisers – but they still fail. Why is this? What do people in winning companies do differently from their peers in losing companies? What advice should consultants give to their clients who aspire to bring about successful and beneficial change?

Despite the rhetoric about nimble, flexible and responsive organizations, the economic downturn caught many companies flatfooted. Why is there a gap between aspiration and achievement? What are the strugglers overlooking or doing wrong? The Centre for Competitiveness at the University of Luton has examined the experience of over 2,000 companies to identify what needs to be done (Coulson-Thomas, 2002). The research confirms a wide gulf between intentions and outcomes. Frustration is the inevitable consequence of how some people set about activities such as winning business, building customer relationships, creating and exploiting know-how and the management of change.

The differences between winners and losers are stark. Both categories attract clever and highly paid people who play their respective roles to perfection. The research findings (Coulson-Thomas, 2002) suggest some ‘dos and ‘don’ts’ advice for competing and winning that a consultant should give to corporate leaders:

- Inspire and motivate with a distinctive vision, compelling purpose and clear objectives. Avoid rhetoric, blather and hype.
- Be confident and determined, pragmatic and positive. Will to win. Strive for success rather than survival. Don’t rationalize disappointment; learn from it.
- Be proactive rather than reactive. Identify and approach those you would like to do business with. Don’t wait to be asked.
- Be selective. Focus on the areas that make a difference. Don’t spread yourself too thinly or bark up the wrong trees.
- Only change what needs to be changed. Avoid change for change’s sake – it can be stressful and disruptive to valued relationships.
Be interested in others rather than preoccupied with yourself. Don’t sell. Help other people to buy.

Trust people and take calculated risks. Delegate. Encourage entrepreneurship. Don’t avoid commitments or fear the unknown. Innovate, explore and discover.

Make sure people understand what they need to do. Equip them with the understanding and job support tools to do what is expected of them.

Think for yourself. Differentiate. Create bespoke offerings, additional choices and new markets. Avoid imitation, bandwagons and ‘me too’ approaches.


Address specifics, adopt simple solutions and think before you act. Read the road ahead. Assemble what you will need to succeed. Avoid fads, panaceas and single solutions.

Choose colleagues with care. Surround yourself with pragmatic and competent contributors. Don’t be deceived by appearances. Avoid the slick and the smooth.

Don’t confuse operational and strategic issues, or your personal interests with those of the company. Build an effective board of competent directors.

Consultants should advise determined clients to ‘go for it’. Achieving success can be fun. It is also usually much easier than managing the consequences of failure. At the same time consultants should be alert for collaborative and partnering opportunities to work with clients and exploit any new possibilities that emerge.

References

**Further reading**


**Further information**

*Transforming the Company: Manage Change, Compete and Win* by Colin Coulson-Thomas is available from:

Kogan Page  
120 Pentonville Road  
London N1 9JN  
Tel: +44 (0)1903 828800  
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E-mail: orders@lbsltd.co.uk  
Web site: www.kogan-page.co.uk

A brochure on the winning business series of reports is available from:

Policy Publications  
4 The Crescent  
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E-mail: policypubs@kbnet.co.uk  

All the publications cited can be ordered via: www.ntwkfirm.com/bookshop
The immediate post-merger environment in large, complex organizations is a fascinating area of practice for experienced organization change consultants. It can be likened to being the geologist who finds himself on the rim of the crater when the volcano erupts – it’s exciting, but you can get hurt!

Although enterprises have increasingly favoured mergers as a route to enhanced success – however measured – the experiences of many organizations during the past 10 years have consistently warned us that merging businesses is a risky occupation. Some risks arise early in the life of the merger – for example, the wrong partner may have been selected, the due diligence exercise may have failed to reflect the true financial position or too high a price may have been paid. All of these will have an impact on the likely success of the merged undertaking. However, in other cases, even if the merger is founded on realistic and seemingly achievable goals, the post-integration business will often fail to match the vision on which the merger was founded and the performance characteristics against which it was justified.

Success or failure in post-merger integration will ultimately be determined by the ability of the merger partners to weld their separate organizations into one. Research has shown that a range of problems may be encountered in completing this task. The following are perhaps most common:
insufficient pace in transition planning and execution;
- inability to evaluate realistic synergies;
- lack of recognition of challenges to be surmounted in delivering synergies;
- ineffective merger and acquisition management;
- cultural incompatibilities;
- mismanagement of people issues;
- divergent management philosophies;
- incompatible information technology (IT).

Most of these issues can, however, be dealt with provided that the following basic requirements are dealt with as part of the integration process:

- achieving appropriate pace;
- stabilizing the organization;
- setting realistic goals for the integration process.

**Achieving appropriate pace**

Merger announcements give rise to expectations, doubt and uncertainty. Decisions must be made and key strategies put in place quickly in order to limit the disruption to all parties to the merger. Among the questions requiring urgent consideration, you will need to decide:

- What resources will be needed to plan and execute the integration programme?
- Are there quick wins that will provide early payback and demonstrate a sense of purpose to stakeholders?
- How should consultants communicate with key stakeholder groups during the integration process?
- How will the impact of change and disruption on customers be minimized and what steps need to be taken to reduce the risk of their loss to competitors less preoccupied with joining two organizations together?
- What technology is required to support the business strategy?
- How much will the integration effort cost?
How can the desired level of savings be secured within the required time frame?

How long will it take to achieve a fully integrated, stable organization?

What needs to be done to retain key talent?

Strong resolve is needed to accelerate the decision-making process. There will be a strong temptation to engage in over-lengthy analysis. Decisions within a merger context can be more than usually uncomfortable – they often affect people’s jobs. However, there is a lot of evidence that an imperfect but timely integration strategy achieves more than a perfect strategy implemented after delay.

Stabilizing the organization

Mergers can have an intensely destabilizing influence on their constituent organizations and the people who work within them. Fear of loss of one’s job is, to an extent, inevitable and it is therefore unsurprising that productivity and quality tend to deteriorate quite quickly within merging organizations following the announcement of the deal. The effects of these concerns can last a considerable time if the integration process is not well managed.

A number of measures will help to mitigate the impact of this loss of focus. Perhaps the most important factor is frequent, clear and honest communication to employees throughout the integration programme. This communications exercise is non-routine and it is unlikely that normal communications channels will suffice to provide the updates and reassurance that will be needed to:

- get attention focused on ensuring that business activities carry on as smoothly as possible during the transition period;
- release capable and willing resources from within the workforce to ensure that integration planning and execution can be carried out to the target timescale.

Immediately after the merger, there will be much speculation about the future organization structure and who will get jobs in it. Appointments therefore need to be made quickly to reduce the distracting impact of this speculation. We often see the impact of lengthy delay. Although the most senior appointments are usually announced quickly, those at second, third and lower tiers are often delayed as a consequence of political infighting.
and damaging turf-warfare. This has an immensely demotivating impact and usually leads to the departure of talented and experienced personnel who would have had a place in the integrated organization and whose skills and experience will be greatly missed.

Differences in organization culture and the leadership style of the senior management team often cause confusion in the immediate post-merger time frame. Different, and often contradictory, messages may be communicated inadvertently – usually through behaviour rather than any more formal and explicit means of communication. Although the design of organization culture is often neglected in the post-merger situation due to a perceived need to focus on more concrete issues, this often has a major influence on the eventual success of the merger.

**Setting realistic targets**

Notwithstanding the need for pace in driving the integration process, it is as important in this arena, as in any other, to ensure that achievable targets are set and met. Interested third parties and external stakeholders will be watching progress and will not be slow to give their views on the effectiveness of the integration process while it is still incomplete if it appears that milestones and interim targets are not being achieved.

Loudly voiced opinions will have an impact inside the organization and are potentially damaging to the integration process, so it is important to set realistic targets based on a careful assessment of potential rather than simply accept a heroic, yet unattainable, goal. Management of relations with key stakeholders, including shareholders and market analysts, will be of great importance.

**Features of successful integration**

Successful integration programmes have a number of features in common. These include:

- strong and effective programme management;
- a thorough integration process;
- careful attention to organization change issues;
- prioritization of objectives and supporting activities;
- a sound business case;
a target model that is designed to enable value creation, not just the achievement of cost savings.

**Strong and effective programme management**

It is arguable that the integration of similar organizations is more difficult than that of dissimilar organizations. Put simply, the latter task consists of the aggregation of two (or more) organization structures and the elimination of overlapping processes and responsibilities – usually within central services – where these occur. When integrating similar organizations, however, overlaps occur everywhere and the task of rationalization is therefore much larger.

In order to plan this work successfully and steer it through to completion, strong and effective programme management is of great importance. The corporate programme director will face the task of coordinating a large number of projects with a high level of interdependency between them. Teams of employees involved in the work will often be unfamiliar with each other and with key aspects of the processes and structures of the combining organizations. As has been observed earlier, productivity is likely to be much lower than that usually achieved. And, in the early stages of the work at least, there is the likelihood of a low level of trust and, perhaps, limited cooperation and information sharing.

These latter factors in particular distinguish merger integration programmes from more conventional programme management situations. Yet, because in most organizations merger activity is a rare occurrence, it is difficult to find leadership of the integration process with significant relevant experience that can be drawn on.

**A thorough integration process**

Successful management of merger integration programmes involves a careful assessment of each predecessor organization, involving all aspects of its business, processes, infrastructure and operations. Once this is complete, initial comparisons can be made of the features of each organization. The input of this information to the process of developing a target model, ie a blueprint for the merged organization, should then be implemented. This needs to be completed in considerable detail and, again, will cover all aspects of the business, processes, infrastructure and operations. Once this is complete and agreed, it will then be possible to develop the transition plan – a road map to take us from our current separate organi-
zations into a single merged entity. There then follows the task of imple-
menting the plan. Each part of the overall plan is carefully coordinated
and executed, with progress monitored through to completion. Having
engineered a single organization, the task is not yet complete – further
effort will be required to leverage the anticipated advantages and secure
the objectives of the merger.

In order to minimize risks, the above steps need to be carried out
at the maximum pace consistent with the required level of detail and
thoroughness.

**Attention to organization change issues**

We have already observed that the human aspects of mergers are not
limited to deciding who will go and who will stay. However, it is common
for other aspects of organization change to be neglected in a merger situ-
atation. In order to eliminate serious risk of failure of the overall integration
programme a comprehensive organizational change programme is
required covering five key areas:

- communications and stakeholder management;
- organization culture integration;
- carrying out an assessment of readiness to change and intervening
  where necessary to improve the likelihood of success;
- organization and job design;
- re-recruitment of leadership, managers and staff for the integrated
  organization from the employee pool of the constituent organiza-
tions. This will obviously also involve dealing with those people who
  will not have a role in the new organization.

The likelihood of a successful transition can be improved dramatically by
properly resourcing and prioritizing all of these activities within the
overall integration programme.

**Prioritization of objectives and supporting issues**

Clarity around the strategic intent underlying a merger is of great impor-
tance because ultimately this will be what drives the integration process.
There is often an explicit need to respond to cost-saving targets that may
have been made public.

It is rare that any merger will not have, as one of its key goals, the
building of a lower-cost organization. This will not only enable targets for
the reduction of operating costs to be met, but it will help to provide products and services to customers at prices which will make it more difficult for competitors to take them away from the newly merged organization.

To succeed in the objective of retaining customers, the merged organization must be able to offer more than just low prices. It will also need to maintain – and perhaps in some areas improve – customer service levels. By continuously reaffirming the overall priorities and outcomes needed from the merger it is possible to ensure that achieving low costs does not by itself – or with the aid of organizational disruption brought about by the integration programme – ultimately sabotage attempts to achieve these objectives.

The development and deployment of a merger scorecard will be an important means of measuring progress against all key and supporting goals throughout the integration process.

**The business case**

Each component of the transition plan will naturally have costs associated with it – hopefully to be exchanged for benefits aligned with the achievement of merger objectives. Notwithstanding the scope and scale of the transition, the level of risk inherent in the programme can be reduced by exposing individual projects within the overall programme to careful assessment through the development and validation of a robust business case.

**The target model**

All too often post-merger organization structures ultimately reflect the relative weight and political adroitness of predecessor organizations and their leadership. Others look like victims of an ill-considered quota system, some even having joint management in key roles. This rarely works well and is usually the result of over-zealous application of the concept of ‘a merger of equals’. But perhaps because of the far-reaching changes that they bring, mergers can offer an unrivalled opportunity to review the assumptions underlying the prevailing organization and business model.

To achieve this, most merging organizations will wish to identify and validate the implications of a number of alternative scenarios before selecting a new organization model. This requires the establishment of:
a clear, coherent and agreed understanding of the merger strategy, vision and objectives;
baseline information with which to build alternative models;
decision criteria against which to test alternative models.

Use of this approach to target model selection will reduce the risk of misalignment between the merged organization and its objectives.

The role of a strong and resourceful integration partner

Merger integration cannot be treated as ‘business as usual’. Leadership must focus intently on delivering commitments, managing risks and limiting organizational disruption. Merger goals, however, cannot be achieved by the leadership team alone. In many cases the resources and experience of a strong and resourceful integration partner can improve the likelihood of successfully transforming the merging organizations into a new entity, capable of achieving lower operating cost targets and, at the same time, creating new value which will enable it to win in a more competitive marketplace.

In identifying suitable integration partners, merging organizations are likely to value the following attributes:

- Experience: merger is an extremely risky occupation if you don’t know what you’re doing, so you will want a partner who has lots of experience in helping clients – and probably themselves – to achieve the goals of their mergers.
- A strong team: you will need the advice of professionals for whom the turmoil and ambiguity of a merger is their everyday environment rather than a once-in-a-lifetime experience.
- Access to a proven methodology and underlying toolset: the need to achieve a fast pace during merger integration doesn’t allow sufficient time to work everything out from first principles. You will therefore want access to a proven methodology, templates and toolset to enable you to stay focused on resolving issues rather than designing an integration process.
- Deep programme management skills: merger integration is a complex set of tasks, so you will want a partner who can successfully manage large, multistranded programmes to a demanding timescale.
A profound understanding of organizational change issues: merger leads to loss of performance, personal insecurity and widespread behaviour change within organizations. While this is happening, you are trying to ensure that existing business carries on and, at the same time, to persuade your employees to transform the organization within which they work. Achieving this requires a very deep understanding of the change process itself, the impact of change on people and the means of avoiding or mitigating negative impact where it occurs.

Breadth and flexibility: mergers put a big strain on organizational resources. There are many tasks to complete and much of the work must be carried out to demanding timescales. Because mergers require more, not less, manpower in the short term, it is common to find that you are resource constrained. Having access to a partner who can step into the breach, wherever it occurs, helps to ensure that delays do not occur.

IT skills and resources: the impact of IT in a merger is immense. Data conversion and infrastructure consolidation often hold the key to realizing a high percentage of merger cost savings. As such, the importance of finding a partner who can advise on IT as well as business integration will be an important element in achieving your merger goals.

Many large consulting practices now have merger and acquisition (M&A) integration experience; some even maintain dedicated teams. M&A integration work is demanding, even by the standards of other types of organizational transformation work. Practitioners must be able to maintain pace and focus in an environment that will inevitably be full of ambiguity and confusion.

Integration projects sometimes have to survive more than one change of sponsor and in the immediate post-merger situation it is sometimes difficult to know who is responsible for what. Individual behaviour is much less predictable than would be the case in a more stable environment; in the weeks following a merger most employees will be more concerned with their future than with their job. Key employees may be tempted away by competitors, leaving a knowledge or experience gap that can cause considerable problems, both in sustaining ‘business as usual’ and in building the integrated organization.
These factors are a good test of the depth of skill of an individual consultant and of the strength and effectiveness of the consulting team of which he/she is a member. But remember, like the rim of a volcano, merging organizations are a dangerous environment for the slow, inexperienced or unwary.
Leadership in corporate transformations

Philip Channer and Jonathan Reuvid

The old command-and-control corporate hierarchies and ‘scientific’ management models have given way to new, devolved and empowered ways of running a business. According to consultants Gouillart and Kelly (1995), the transformation of a business, which is now the central management challenge and the primary, if not the sole, task of business leaders, is ‘the orchestrated redesign of the genetic architecture of the corporation’.

The transformational leader’s task – in effect, a dramatic rearrangement of the DNA of the whole system – is the regeneration, over time, of all aspects of a business. Not all transformation programmes are of the same intensity or scale but they can involve every aspect from redefining the vision, through restructuring where necessary, to the creation of new businesses and the putting in place of the people, organization structures, processes and systems to make it work out.

At an individual business unit level, a transformation programme is likely to have an impact, directly or indirectly, on 60–80 per cent of employees. This impact can be as a result of redesigning the way they work through process re-engineering, removing layers of management and making them more viable and accountable, providing better information flows or improving teamwork within and across departments.

The heading-up and direction of a corporate transformation programme, of managing a series of operational and staff functions involved in the planning and execution of the overall project, might once
have been perceived as a chief executive’s responsibility. Now, however, these are recognized as an exercise in leadership, demanding a quite different range of qualities and set of skills.

Often the scale of change requires a huge, sustained effort and requires many people to let go of things they held near and dear. In this context, transformational leadership is described by Seltzer and Bass (1990) as ‘the process of fostering dramatic changes in an organization by building commitment to the organization and its mission’.

Defining leadership

Before examining in detail the leadership role in transformational change we should take a step back to the established body of leadership theories in order to understand why there is so much interest in what it takes to be an effective leader and how to differentiate between leadership and management.

Few would disagree with the observation of Levinson (1996) that ‘leadership is like beauty: it’s hard to define, but you know it when you see it’. By the mid-1990s Manfred Kets de Vries (1995) had already identified 70 published definitions of leadership; by now there are undoubtedly many more. Kets de Vries suggests that the current emphasis on leadership reflects the need for ‘a beacon in an era of change’. This corresponds to many recorded experiences of corporate transformation in which a leader’s ability to articulate a compelling, high-order, utopian vision at the outset of the programme, emphasizing the contribution of the individual, was evidently crucial to the successful outcome.

A favourite way of looking at leadership used to be to list all the desirable traits of a leader. This approach dates back to the era when the first large-scale industrial organizations were being created and the emphasis was on designing, operating and managing these new businesses in a quasi-engineering sense. This ‘scientific management’ approach required managers – who had an entirely rational set of abilities – to plan and budget, organize and staff, control and problem solve. The quest for a list of leadership traits was therefore focused on what are now seen as basic skills.

As the distinction between leadership and management was accepted, it was recognized that the emotions were clearly one dimension in which they might differ. For Zaleznik (1992), leaders relate to people in a way that is more intuitive and emotional, and convey a more personal vision
through images that excite and inspire. Seeking to contrast the roles of manager and leader, John Kotter (1990) drew the following distinctions:

- where the manager plans and budgets, the leader establishes direction;
- where the manager organizes and staffs, the leader aligns people;
- where the manager controls and problem solves, the leader motivates and inspires.

Defining effective leadership further, Kets de Vries reflects that we would really like our leaders to perform both charismatic and instrumental roles, both of which are perceived as necessary. He stated that ‘leaders need to envision the future and empower, energize and motivate their followers. But leaders also have to structure, design, control and reward behaviour’.

Fulfilling both roles is a difficult challenge and one that has to be met at a profound, personal level. As Zaleznik pointed out, ‘a crucial difference between managers and leaders lies in the conceptions they hold, deep in their psyches, of chaos and order. Leaders tolerate chaos and lack of order... Managers seek order and control’.

The role of the leader during transformation

Seltzer and Bass (1990) described transformational leadership as ‘the process of fostering dramatic changes in an organization by building commitment to the organization and its mission’. As a working definition, this will serve well enough, but it gives no flavour of the passion and emotional risk-taking involved in delivering effective leadership.

The following are the key elements of the transformation leader’s role:

- planning;
- mobilizing the organization;
- building the vision;
- personal risk;
- sending the right signals;
- holding course;
- making the tough calls;
asserting themselves;
- handling anxiety;
- coping with overload.

Planning

The prior development of a planned programme using the familiar, comfortable planning tools of mega-project management may give the leader some degree of confidence but is a non-starter in terms of inspiring the organization. More important is the development of a communicable vision and the strategy and tactics for mobilizing the organization, sustaining the momentum of the transformational journey and handling the pressures and anxieties which will inevitably develop en route.

Mobilizing the organization

So great is our in-built aversion to change that the first challenge a leader generally faces is how to get the organization out of this state of denial and mobilized in a new direction. To do this the leader usually has to create a ‘burning platform’ – to make it more dangerous to stay put than to move. The leader has to prepare him/herself to play a highly visible role in signalling the danger of standing still, communicating the need for change and personalizing the urgency.

Building the vision

A key way to mobilize the organization is to start building a picture of what the upside might look like. It matters not that the picture is at first woolly and based on intangibles; one task of the leadership group is to evolve the vision statement over time. The challenge for the leader is to gain commitment from a critical mass of those in power to embark on this voyage of discovery.

Personal risk

The mobilizing process may be an emotionally draining experience for the leader, who may have to take personal risks, as well as accepting accountability to those whom he/she addresses, in order to set an example for others to follow. In a hierarchical organization this may involve introducing an openness in discussion and consultation in decision making not formerly present; sometimes, the leader may need to make a public admission of ‘having done things wrong’ in the past.
Sending the right signals

Organizations are highly sensitive even to the smallest unintended signal from their leaders. Often, leaders will be called upon to maintain confidence levels by demonstrating personal confidence, although they themselves may feel anything but confident that things are on track.

Holding course

After the initial excitement that accompanies the start of the new initiative, the warm fuzziness may evaporate and exactly how leaders are going to make that goal is revealed as being decidedly unclear. As the first milestone slips a bit and the benefits case starts to show holes, the leader has to suppress that feeling of panic.

Making the tough calls

Leaders cannot afford to flinch from making the tough calls when they are needed – typically firing those who continue to resist change (usually covertly) and even those colleagues who have become close friends.

Asserting themselves

For some leaders, the hardest thing is to assert themselves in face-to-face confrontations with colleagues, even when they are hierarchically superior.

Handling anxiety

Leaders have to be able to live comfortably with the risk of not being certain, whether it is making investment decisions on incomplete data, supervising functions they don’t understand or betting on the success of key appointments.

Coping with overload

Whatever your energy level, the higher you rise the more certain it becomes that it is impossible to do everything that needs to be done. Given the culture of most organizations, it is easier to progress by compulsive ‘workaholic’ behaviour than by adhering to an unstressed lifestyle. Feeling ‘OK’ when leaving something undone is often hard to do.

In summary, leaders have a tremendous impact on change. They can prepare the organization to step off the edge of a precipice by defining the
future and shaping the emerging vision. They have a critical importance in defining the new culture and role modeling how it needs to be different. Often the leader is required personally to do something different, and therefore the ability and commitment to change oneself can be a critical success factor in moving the organization along. Although a strong intellect and technical ability may be necessary to deliver change, many of the demands are to do with character and ‘human strength’.

The changing challenges of leadership

Leaders in the 21st century need, more than ever before, to be capable of:

- creating and communicating a vision;
- providing a binding and compelling sense of purpose;
- holding together loose and shifting networks and alliances;
- making change happen.

Warren Bennis (1996) drew attention to the chameleon-like properties of leaders who have to ‘keep recomposing and reinventing their leadership’, which presupposes that they ‘have enough self-awareness and self-esteem to sense when a different repertoire of competencies will be needed, without being threatened by the need to change’.

The stresses of the leadership role identified by Sadler (1997) are:

- loneliness;
- status anxiety (wanting to be simultaneously respected and popular);
- the difficulty of maintaining a personal identity;
- the problem of achieving a balance between work and home.

Emotional needs

Change leaders depend on being able to engage the hearts as well as the minds of the organization. This achievement is greatly helped by an ability to empathize with what people at all levels are feeling, or as Cooper and Sawaf (1997) put it: ‘effective leaders put words into the formless feelings and deeply felt needs of others’.

If a leader needs to engage the emotions of others, they need first to engage their own. It is unlikely that they will arouse strong feelings in others about a change programme, without feeling strongly about it themselves.
Fear of change is the strongest barrier to the acceptance of the need for change; we are conditioned to react to any change as a potential threat and our instinct is to opt for the *status quo*, which seems safer.

**For leaders themselves**

Leaders have to develop or strengthen a raft of personal capabilities to perform their role effectively. These capabilities include:

- being able to change themselves: real change on the organizational level has to begin with real change inside the leader;
- surviving turbulence: the self-confidence and resilience which enables change leaders to stay on an even keel, whatever the circumstances, is a key success factor;
- protecting themselves against stress: the ability to put a clear dividing line between oneself and the business when needed is crucial to maintaining balance;
- avoiding derailment: avoid psychological risks such as being isolated, or being idealized by the organization. It is essential to seek mechanisms for keeping in touch with reality.

**For the organization**

The same applies to the organization with regard to:

- role modelling personal change for others: before people at all levels make the necessary change, many will look to the leader as a role model;
- forming a fulfilling and creative work culture: there will be increasing expectations of personal fulfillment from the workplace (independent of the need to adapt to change), eg an improved balance between work and relaxation.

**Being an effective coach and developer**

The future leader’s ability to achieve results through coaching will probably become more important. In addition to ‘core skills’ (such as listening and observation) and ‘technical skills’ (ability to adapt coaching to the preferred learning style), an effective coach needs several ‘personal’ skills (Parsloe, 1995). They include the ability to:
display sensitivity and empathy and understand the need for appropriate feedback;
- establish rapport and good communications channels;
- encourage the learner to take responsibility for their own development;
- support and build confidence in the learner.

**Practical steps towards developing the human side**

Possibly there is a need to build leaders’ and their organizations’ emotional capability.

There are a number of steps to achieve that goal, but first we need to clarify what is meant by ‘emotional competence or capability’. Our levels of emotional competence are defined by two distinct capabilities:

- how we manage our own emotional capability;
- how we use our own capability to increase the effectiveness of our interaction with others.

The former depends on a heightened awareness of our own feelings and enables us to control or limit the impact of our negative emotions. For the latter, empathy is the basic building block for increased effectiveness in working with those around us.

**Potential areas of benefit to the leader**

There are three levels in the hierarchy of emotional leverage, which may reward a leader who makes greater emotional competence a priority:

- Greater emotional literacy: an organization is likely to promote greater emotional well-being through the avoidance of emotional negatives, such as stress and derailment.
- The level of change: the importance of the emotional dimension during change (e.g. overcoming resistance, tapping into deeply held values, harnessing latent energy).
- At the highest level: the potential for maximizing the upside of putting in place a culture of cooperation and interpersonal capability, which satisfies both the company’s need for creative collaboration and the individual’s need for fulfillment in work.

For business leaders, there are always two dimensions: the personal and the organizational. The first relates to the leader’s own growth, renewal
and development; the second to what he/she can do for his/her organization as a whole. But the two dimensions are interrelated. As a survivor of the transformation of General Electric (GE) under Jack Welch noted, ‘if that change agent had not been able to change himself, how could you trust him to change the company?’

The personal dimension of self-change

The good news is that we can change ourselves. As Daniel Goleman (1998) stated, ‘All emotional competencies can be cultivated with the right practice’. At a more challenging level, because such learning is experiential, not only does it take time but also a number of conditions have to be right for it to succeed.

Much has been written about self-change, and there are many approaches; however, whatever route is taken, the components are broadly the same:

- take stock and begin to build self-awareness;
- identify change needs and set goals;
- practise;
- ask for feedback;
- make sure you have coaching support throughout.

The organizational dimension: an emotionally healthy culture

As Claude Steiner (1997) testified, the power plays – subtle and otherwise – and secrets present in most organizations can turn the workplace into a ‘minefield of emotionally illiterate, toxic transaction’. Once again, the biggest barrier is ‘fear, a pervasive emotion in organizations today’.

At the very least, a leader should care enough to prevent emotional ill-health in their organization and to create, as far as possible, a culture that recognizes and manages the downsides of stress or of dysfunctional, internal conflict. The influence of personal example is extremely powerful, for good or bad. How a leader conducts him/herself will have the biggest single influence on whether the organization takes the subject seriously.

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Coaching in management development

Myles Downey

The emergence of coaching

Over the past 10 years coaching has found a place in the business lexicon. Enter almost any bookshop and you will find at least one book on coaching in the business section. An article on various aspects of coaching appears in the press on, it would seem, a weekly basis. Many people have a coach – in the city of London it has become as obligatory as the Porsche as a status symbol. In many organizations it is no longer enough to be a manager – you must be a coach as well.

There are a number of factors behind the emergence of coaching but this is not the place for that discussion. Suffice to say that the pressures of today’s business world have placed a higher demand on individual performance and, increasingly, on learning. Coaching is one way of improving in these areas.

Coaching occurs in the business world in three forms. Executive or performance coaching is typically a one-on-one relationship with a professional from outside the organization; this can last from a few weeks to a year. Another way in which coaching appears is as a critical element of the line manager’s role whereby the manager uses coaching skills to help a subordinate perform, learn and develop (see The Line Manager’s Role and The Place of Coaching available from The School of Coaching). There is a third, less frequent, way in which coaching occurs in the workplace and this is in the form of a tutorial on a single, specific topic, often for an executive who is ‘too busy’ to attend a workshop.
This chapter is concerned with executive or performance coaching as it, arguably, takes its place alongside other more traditional management consulting disciplines. There has been a proliferation of agencies providing these services, either as ‘boutique’ consultancies, as offshoots of larger international consultancies and training organizations or as independent coaches. This emergence of coaching is very exciting for providers but something of a headache for buyers. Potential clients are faced with a veritable minefield, splattered with the confusion that might be expected in an emerging discipline. In order to reduce this confusion I offer a definition for coaching, give some examples to show how it can be used in an organization and suggest a number of questions that a potential buyer of coaching services might ask a coach.

The confusion I referred to earlier is sourced in a number of facts:

- The people offering coaching come from a wide variety of backgrounds, such as psychological and psychotherapeutic disciplines, training and consultancy, sport, ‘popular’ psychological disciplines and the business world itself where some chose to engage in a second career in which they share their experience.

- The offerings vary considerably – programmes may last a few weeks or a year or more, their content may be driven by the provider’s background or the needs and interest of the participant.

- There are no agreed standards, principles or ethics. There are, for instance, quite differing positions on who the client is and whether the person being coached or his/her employer is paying the bill. The answer has a major impact on issues such as confidentiality and the information to which the employer might want to have access.

In this scenario it becomes very difficult to choose a coach or even to decide if coaching is the right kind of intervention for the individual or the organization.

A definition of coaching

There are many definitions of coaching. One that has some currency is: ‘coaching is the art of facilitating the performance, learning and development of another’ (Downey). Coaching in business must ultimately be concerned with performance. If the intervention does not impact on the results that the individual achieves, then it is a waste of time, money and effort. This may seem a terribly obvious statement but, after two years and
many hundreds of thousands of pounds spent on coaching, one blue-chip organization could detect no measurable benefit.

A coaching programme must commence with clear performance goals. Such goals may be related to the achievement of business objectives, the execution of a specific project or task or, more generically, greater effectiveness or efficiency. Learning is another potential outcome from coaching and is, arguably, at least as important as the immediate performance because future success is dependent on it.

There is, however, a distinction between learning and development. Although you clearly need to learn in order to develop, learning as used here refers to a broader domain including learning how to approach a new task or process or learning a new skill. Development, on the other hand, refers to personal growth and self-awareness.

The word ‘facilitating’ is used in my definition to suggest that those being coached have the capacity to think, to have an insight or creative ideas themselves. The role of the coach is to help them explore, to gain a better understanding, to become more aware and from that state to make a better decision than they would otherwise have done. It is not the role of the coach to do the thinking for the person being coached.

Also to be considered is the concept of ‘art’. It is true that there is an emerging ‘science’ – some tried and tested approaches – of successful coaching, but the notion of art suggests that the experienced coach can move beyond the rules and fully engage with the person being coached, allowing the intuition and imagination of the coach to play an occasional but useful part.

There is a further distinction that is important to understand, namely that between directive and non-directive coaching. Directive coaching means just that – to direct or to instruct. It is what we are most familiar with: whether the coach be a teacher, boss or sports coach, he/she is the expert and it is his/her job to impart this expertise to the person being coached. Clearly, there are times when the coach’s expertise is of use but there are also limitations to this approach. The biggest limitation is of course the extent of the coach’s knowledge – if he/she doesn’t know, he/she cannot help.

Non-directive coaching consists of the coach not directing, instructing or imparting wisdom. The non-directive coach realizes that each individual is endowed with an in-built capacity to learn or perhaps a ‘learning instinct’. For evidence of this, consider such things as learning to walk. There was no parent issuing specific instructions and giving directions,
rather parents trust that you will learn for yourself. Unfortunately as pressures builds (school exams, etc), parents forget about this learning instinct and start trying to teach, become more and more judgemental, and the inherent pleasure in learning is lost. The non-directive coach trusts in this learning instinct and through careful listening and questioning and the creation of a non-judgemental environment helps those being coached to think issues through for themselves, come up with new ideas and identify appropriate actions.

Non-directive coaching has huge benefits. The process is not limited by the coach’s knowledge; as an example I occasionally get to give golf lessons. These are frequently better than the tennis lessons that I give, equally occasionally. What may be difficult to grasp about this fact is that although I have been a good tennis player and a qualified tennis coach, I have hardly ever hit a golf ball and have no golf teaching accreditation. The capacity of the coach to create an environment in which people can learn is what allows this phenomenon to occur, usually with remarkable results and a lot of pleasure. A further benefit of the non-directive approach is the confidence that those being coached gain from the process. They see that they have a capacity to be more effective, that good ideas were their own and that ultimately they are not dependent on coaches.

Many people profess to operate in a non-directive manner, also known as a ‘client-centred’ approach, but unfortunately it seems that very few really do. Either the distinction is not fully appreciated or the coach gets too much satisfaction from solving the problem for others and enjoys the dependency thus generated.

Tim Gallwey in his book *The Inner Game of Work* talks about coaching as something that:

must be learned mostly from experience. In the ‘inner game’ approach, coaching can be defined as the facilitation of mobility. It is the art of creating an environment, through conversation and a way of being, that facilitates the process by which a person can move towards desired goals in a fulfilling manner. It requires one essential ingredient that cannot be taught: caring not only for the external result, but for the person being coached.

In this context, the word ‘mobility’ is fascinating. It suggests that the coaching process gives those being coached the capacity to move but makes it clear that the choice to move rests with them.
Although there may be different ideas as to what coaching actually is, there are relatively clear concepts about what it is not:

- Coaching is not the application of psychological or psychotherapeutic disciplines in business. Some of the skills are the same and some of the techniques and methodologies of these disciplines can be applied to coaching, but the workplace is not the place for these activities.
- Coaching is not training that is delivered on a one-on-one basis.
- Coaching is not ‘neurolinguistic programming’ or ‘transactional analysis’ or ‘transformational technology’ or ‘the inner game’.
- Coaching is not a philosophy.
- Coaching is not ‘life coaching’.

Although coaching may borrow from, and be informed by, some of the above, it is a skill set in its own right that is focused on performance and learning.

**The use of executive coaching within an organization**

My definition of coaching is fairly generic and could be applied in many situations and environments. It is relevant for teachers, sports coaches, managers and executive coaches. A variety of situations in which executive coaching is commonly used are outlined below.

**One-on-one performance coaching**

This is perhaps the most common form of coaching. An individual agrees with a coach a number of performance goals and both then work together to achieve the goals. The length of the coaching programme is dictated by the time frame in which the goals are to be achieved. The goals are often drawn from business objectives, projects and other tasks and can include improving working relationships and personal effectiveness. An example of one-on-one performance coaching consists of a director of an international pharmaceutical company charged with reorganizing its European distribution network. The goals included:

- delivering the project within time and within budget;
- maintaining the performance of the existing system during the changeover;
- building a team with representatives from each country involved;
becoming more effective in order to acquire a better balance between home and work;
learning to work with the various stakeholders so that they became allies rather than detractors.

One-on-one development coaching

This is very similar to one-on-one performance coaching. Engagements of this nature are concerned with the development of personal skills and behaviours and may involve gaining a deeper understanding of an individual’s beliefs, attitudes and motivation. Many of the coaching practitioners in this field will have a psychological background and will use a variety of assessment methodologies and instruments. Programmes are typically longer than performance coaching programmes. I believe, however, that this is because in many cases the coaches are stuck in a more clinical or therapeutic model, and, in fact, the programme need not be so long.

An example of one-on-one development coaching consists of a partner in a consulting firm who, although intellectually exceptional, found that other consultants tried to avoid being involved with his projects. Goals included:

- developing a leadership style that was less aggressive;
- becoming more adept at helping/facilitating/coaching;
- becoming less obsessive about the need for solutions that were 100 per cent correct.

Team coaching

Team coaching involves working with a group of people that share a common purpose, task project or set of goals. An initial part of such an engagement will typically involve building the team itself and then focusing on the performance goals. As an example: a small team of seven is charged by its organization to create a telephone and Internet bank from scratch. Goals included:

- building a robust team in which individuals could be open and creative and be supported when taking risks;
- generating a vision for the new bank;
- creating a strategy for the delivery of the vision.
The strategic use of coaching

Organizations are increasingly using executive coaching to support senior individuals during major change programmes, particularly those that involve behavioural change around issues such as leadership and management style. This can be a very effective use of coaching as a type of ‘critical mass’ can be built up, with a number of people developing in the same direction at the same time. An example of this consists of a not-for-profit organization in which a new chief executive launched a change initiative to ensure that staff members were more outward looking and client-focused and to adopt a more facilitative management style. The eight most senior executives engaged in a coaching programme in which each individual developed personal goals congruent with the purpose and objectives of the change programme.

Questions to ask a coach

The following questions have been designed to help a buyer of executive coaching assess the capability of a prospective provider.

How do you propose to measure the success of the coaching?

Answering this question convincingly is a mark of a competent professional coach. It is true that it can be difficult to measure the success because some of the results are so personal; however it is possible. Having a set of performance goals and associated success measures is one way of facilitating the measurement of success.

These goals are generated between the coach and the person being coached and would ideally include input from a representative of the employer organization (i.e., a human resources manager or line manager). Such goals can be reviewed at the end of the programme. The term ‘performance goals’ is very specific; any coaching that does not produce a different order of result for the organization should neither be undertaken on the organization’s time nor paid for with the organization’s money. Another option is to collect feedback from colleagues before and after the coaching programme. In addition, many organizations have performance management systems that can also be used to measure changes in performance and behaviour.
Which party is the client, the person being coached or the employing organization?

Many coaches with a background in, say, psychotherapy will tend to view the person being coached as the client. The implication of this is that what occurs between the coach and the coachee is completely confidential to those parties. It is my view, however, that this is not right – at least in those situations where the employer’s organization is paying the fees and the coaching is designed to help the individual achieve business goals. In such cases the organization is the client.

Where the organization is considered to be the client, it should have certain ‘rights’. A representative of the organization will want to know what the intended results of the coaching programme are and may want to make some suggestions. One way of ensuring that the best interests of both parties are served is, as suggested earlier, to generate a set of programme goals with the person being coached. Some of these goals are private and are kept between the individual and the coach, while others are public and are passed to the individual’s manager and a human resources representative for input and feedback. The goals are revisited at the end of the programme. Other than this, the content of all conversations between coach and coachee should be confidential.

Is there supervision, and if so, in what form?

The notion of supervision is borrowed from the various ‘helping’ professions from psychology through to counselling and refers to a relationship between the professional and another, usually more experienced, colleague. The purpose of supervision in coaching is to ensure that the best interests of the individual being coached and the client organization are protected and that the coach is supported and continues learning. Supervision helps a coach to maintain perspective during a coaching programme and to not get lost in, for instance, his/her own judgements, the organizational politics or the coachee’s ‘reality’. Very few coaches have any supervision, but it is vital if coaching is to be effective.

What training has the coach had?

The quality and depth of the training (if any) will give a strong indication of competence. In the last few years there have emerged a number of organizations that provide training for coaches. These vary significantly in quality. Effective training programmes will have a significant practical
element and be of some length. Another common – and effective – training approach is a kind of apprenticeship that the few reputable firms offer their staff. Psychotherapists who turn to coaching without taking the time to discover the differences may simply be undertaking psychotherapy in the workplace; this will have a different result from coaching. Retired managers intent on 'sharing their experience’ may stifle the client and create dependence.

What models underpin coaching?

People come to be coaches through many routes. They come from the psychological and the psychotherapeutic disciplines, from pop psychology and philosophy, from the world of sport and the world of business. All of these areas can help coaching, but none constitutes executive coaching; if a prospective coach is predominantly dependent on any such model or background he/she may not be successful in executive coaching. Executive coaching is an occupation in its own right; it requires deploying a set of skills with the intent to help another perform and learn.

There is a growing acknowledgement that the most effective coaching is predominantly ‘non-directive’, as described earlier. This does not mean, however, that a coach should not have an area of expertise. Which would you choose: a coach with great non-directive skills or a coach with great non-directive skills and an expertise in your particular discipline? Clearly the latter, as long as the coach was capable of ensuring that his/her expertise would not get in the way of the client’s learning.

Why coach?

Perhaps I am too cynical, but if the answer to this question is a version of ‘being of service to others’, then beware. Naturally that is almost certainly part of the answer but it is very seldom all of it. I am not going to suggest that there is only one legitimate reason to coach or that there are no people out there with a real desire to serve others, but most coaches that I have met are, in some sense, in it for themselves and fulfilling some kind of personal need. If coaches are not aware of their own motivation, then they are incapable of rising above it – and this will inevitably ‘infect’ the coaching (eg in building dependency). Equally, if coaches are unaware of their own make-up, they are unlikely to be capable of fully understanding the person they are coaching.
Does the coach have a coach?

It is surprising how many coaches do not have a coach. I am not suggesting that this needs to be a permanent feature in a coach’s professional life, but I would be interested to know why someone who extols the value of coaching does not receive it, even if only occasionally. It is important to note here the value of a supervisor – not having a supervisor is a far more serious matter.

**Effective coaching**

There are many approaches to coaching. In most cases the approach defines what coaching is and thus dictates the outcomes. The means define the ends. If that is turned around and coaching is defined by results (that are appropriate to an organization), then the outcomes should give a lead as to what the ideal approach to coaching might be. Let me propose that effective coaching in the workplace delivers achievement, fulfillment and joy from which both the individual and the organization will benefit.

By achievement I mean the delivery of extraordinary results as well as organizational and individual goals, strategies, projects and plans. In this context, achievement suggests effectiveness, creativity and innovation. Effective coaching delivers achievement, which is sustainable. The impact of some coaching may diminish after the departure of the coach. If, however, the emphasis is on learning and the confidence of the player is enhanced (‘I worked it out for myself!’), the increase in performance is typically sustained for a longer period and will have a positive impact on areas that were not directly the subject of the coaching.

Fulfillment includes learning and development. To achieve the business result is one thing, to achieve it in a way in which the coachee learns and develops as part of the process has a greater value – to the coachee and the organization. It is this capacity to learn that ensures an organization’s survival. I also include here the notion that work can be meaningful – that individuals, through coaching, begin to identify goals that are intrinsically rewarding.

With fulfillment comes an increase in motivation. That the coach respects the coachee, his/her ideas and opinions, that the coachee is working in his/her own way, that he is pursuing his/her own goals and is responsible – all makes for a coachee who is inspired and committed. In this way more of the energy, intelligence and imagination of each individual is brought to the service of the organization.
Joy is also an important factor to consider when coaching. When people are achieving their goals, when those goals have some meaning and when learning and developing is part of the process, then enjoyment ensues.

These three components – achievement, fulfillment and joy – are interlinked; the absence of any one will impact on and erode the others. Learning without achievement quickly exhausts one’s energy. Achievement without learning soon becomes boring. The absence of joy erodes the human spirit.

There is one other factor that does not fit neatly into the three outputs of effective coaching, but is implicitly behind them all. This is responsibility. Without responsibility and a sense of ownership organizations quickly become ineffective. Coaching directly and immediately impacts on responsibility. If the coach solves the problem or decides on the course of action for the coachee, then it is the coach who has taken ownership and responsibility. Should the coachee hit an obstacle, he/she will come back to the coach for more guidance. Coaching in which the coachee defines his/her own goals, solves a problem or develops his/her own plan results in the responsibility staying with the client.

These ends, achievements, fulfillment and joy, cannot be delivered if the approach taken is one in which the coach instructs others as a function of his/her own expertise, knowledge or, worse, status. A wholly directive approach removes the need for the coachee to think or be creative, reduces the opportunity to take responsibility and takes any satisfaction or joy out of what limited achievement there might be. Effective coaching requires a predominantly non-directive approach – one that evokes excellence, in which learning is intrinsic and satisfaction derives from the pursuit and achievement of meaningful goals.

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Supporting employees across the world

Michael Reddy

Introduction

Consultants may take it for granted that levels of support for employees are rising and will continue to rise steadily for the foreseeable future across the world. The thrust behind this growth is threefold.

The first is a growing appreciation, most evident among hi-tech and financial companies, of the true value of certain individuals to the business in terms of retention and intellectual capital. This has resulted in attempts now being made, most notably in Sweden and Japan, to quantify such human capital as part of the company’s asset value.

The second is a desire, particularly but not uniquely among American-led multinationals, to match operational quality controls across the world with uniform levels of support. Companies, eg Dupont, with a zero-error philosophy, or those wishing to become the employer of choice within their own market, together with any organization that has identified retention as a key component of strategy will be looking to international market-leaders in the domain of employee support.

The third is the growing army of employees, among them key management and technical personnel, who are involved in cross-border activities, which often entail frequent travel and/or may require them to adjust their domestic work schedule to meet the demands of clients in different time zones. International couriers, press agencies, airlines and transport or distribution companies are only some of the more obvious
members of this group that will be looking to international management consultants for guidance.

Two further aspects may be noted with regard to companies in this group. One is the threat of employees’ work/life balance and the consequent need to provide protection and support to their families. The other is the more potent threat of medical and psychological vulnerability – indeed, even physical danger – for frequent travellers.

All of the above has given rise to a requirement to find providers of employee support services with international outreach. One such provider organization has, over the last 12 months, dealt with the passengers and crew of an airline disaster, terrorist activity including hostage-taking in three different parts of the world (Eastern Europe, Africa, the Far East), a maritime accident in the Gulf of Mexico, an on-site explosion at a Middle East oil installation, a diplomatic incident in one of the former Soviet states, and numerous (over a thousand in the course of a year) critical incidents and emergencies on a smaller scale throughout the world. Such instances are sufficiently frequent to have persuaded some organizations with similar needs to form consortia in order to leverage better rates from providers. These consortia sometimes comprise organizations from different sectors but occasionally include groups of companies within the same sector on the basis that a single provider will form a sharper understanding of the special needs of that particular market.

The breakdown of what follows into five segments is somewhat arbitrary but will give international management consultants a flavour of the sort and sources of services that are now regularly deployed.

**Capitated employee support services**

The most basic and all-embracing support mechanism used by many organizations, sometimes carrying the word ‘counselling’ in its title, is most often packaged as an ‘employee assistance programme’ (EAP) and boasts a 50-year history. It may carry a similar title in different locations; in Hispano-America for example it is usually called *programa de apoyo a los empleados*. Part of the impetus behind the accelerating growth of this particular approach to employee support is the wish among many US multinationals to harmonize such systems worldwide as a means of gaining assurances that providers work to similar service delivery agreements and standards. Global providers in this area are still relatively few
and are likely to be based in the USA, UK or Australia, some with relatively strong working alliances between them.

An EAP usually offers employees a 24-hour telephone helpdesk service. This has the capacity to provide information and helpful support across a wide range of topics including legal, family, financial, health and consumer matters, as well as offering a number (usually around three or four) of face-to-face sessions to deal with more personal, emotional and relationship matters. It will also provide support to managers and offer useful statistical usage data to the employer.

The EAP ‘industry’ in the USA has until recently kept the developing work–life balance providers at arms length, and vice versa. This is changing, however, in line with UK-based EAP providers, who historically have always included work–life balance components. The better providers will have a training and consulting capacity too. Such services are usually invoiced on a per capita basis; the price of these will therefore, for local reasons, often vary considerably, eg US$25 in the USA, £30 in the UK and 100 Swiss francs in Switzerland.

The effectiveness of EAPs has been highlighted by Kathy, a first-class cabin crew member of a major airline. She commented that:

> It’s a marvellous service because you can feel terribly isolated on long haul, and pretty helpless [being] 8,000 miles [away from] a 3-year old at home. The counselling service is a godsend. They don’t only help with personal problems, as they did for me and my husband last year, but they have a huge amount of practical information and guidance – on legal and financial matters, and health and consumer stuff and money management, which the whole family can use. They’ve kept me flying more than once.

**Emergency psychological and human resources services**

These services may well be offered by the same national and multinational provider companies that provide capitated employee support services. These services are, however, designed to address ad hoc situations that arise in any organizations from time to time, which may vary from sharply deteriorating performance or behaviour to conflictual situations, or from small-scale industrial accidents to full-blown crises.

A substantial provider may be anticipating and resourcing between two and three such incidents per day throughout the world. The organization will undoubtedly be dealing with problems that cannot be resolved by local human resources, line management and occupational health
advisers, or that in-company specialists prefer to outsource. Such problems may include transport accidents at some distance from company offices, armed raids, nightclub and forecourt violence involving employees etc, as well as large-scale disasters such as civil unrest, war, earthquake. This kind of ad hoc assistance is usually contracted on a retainer plus fee for service basis, and is normally set in motion by referral from a senior executive.

The importance of this kind of employee support is outlined in the following case. Keith works for an international distribution company and flies frequently. He was unfortunate enough to be caught up in a hijack and, although released quite quickly, was disturbed by the incident. A global critical incident provider on retainer to his employer got to him almost immediately. Not only was Keith grateful for the direct help, which he says helped him rapidly to regain his balance, but that was also ‘the first time I knew the company cared. The whole thing was b****y brilliant and I wrote to the boss to say so’.

**Expatriate support**

There is a growing need for expatriate support in both traditional forms and more recent adaptations. Conventionally, when an executive is given an overseas appointment for a relatively lengthy stay the family is likely to be relocated also. It is common wisdom that in these circumstances ‘failures’ are as often due to the family unit as a whole rather than to the individual executive, despite the seminars and wide range of acclimatization mechanisms that may be offered. Such failed assignments are costly and have led many multinationals to look for more robust testing, taking more fully into account individual and family dynamics.

Alongside this historical expatriate profile a new breed of international executive is evolving who, with the increased mobility and ease of travel, ‘commutes’ rather than relocates. The need for support is no less than with those employees who relocate fully. The needs of this newer breed of international traveller will be for stability and protection of the home base rather than the establishment of a new one overseas. This is an additional attraction of the EAP: it may be extended to, and often already includes, close family members (spouse and dependants living at home) who may turn to the service for help in all sorts of daily and urgent situations. This is a particularly valuable contribution to the travelling executive’s peace of mind.
The home country has traditionally been the main source of support and assistance to the expatriate. With the development of locally provided services, however, a range of complementary services have appeared, often under the title of ‘inpatriate’ services, tasked with welcoming the traveller into the host country. An example of the importance of this type of support has been highlighted by a senior police officer:

I had to be all over the world on one case, a particularly unpleasant one at that. It had started in the UK and I had already had a couple of sessions with an independent and confidential counsellor paid for by the [police] force as part of a scheme to support officers under exceptional pressure. I’m as good as anyone at keeping a stiff upper lip, but just having someone local to download with in most of the places I had to visit – or by phone and e-mail from time to time – gave me the sense of help close at hand if I needed it. In fact I needed it very little, but the fact of it just being there made all the difference. I told my superior officer afterwards that if it hadn’t been for this support I was sure I would have gone off ‘sick’ at some point or needed to come home or developed a ‘back problem’. As it was I didn’t miss a day’s work. It was reassuring too that my wife also had access to the service if she needed to while I was away.

Employee benefits

There has been a parallel shift in the pattern of employee benefits towards more substantial support. While retaining the normal shape in the form of childcare vouchers, eye vouchers, uniform vouchers and the like, this shift is seeing the rise of ‘concierge’ services, which offer the busy executive, whether an overseas commuter or not, the help of a designated agent or lifestyle manager who will (if the executive wishes) almost ‘run his/her life’.

Nothing is too much trouble for the agent of some of these relatively new but fast-growing firms – whether it is booking a holiday, recommending a restaurant, buying a house, having the plumbing upgraded, having the car serviced, flowers delivered to loved ones or key-holding in the executive’s absence. In addition, these special services are aimed at inpatriates as well as expatriates. The cost of tailored ‘concierge’ services ranges from a retainer of £300 to £2000 per person per annum with all individual items (eg attendance of the plumber) charged additionally at cost.
Such services are, on the whole, too new for formal evaluation, but many individual executives are enthusiastic about them and clients come from across a wide spectrum of organizations. Frequent comments are ‘I never expected I would ever rely on such help but it’s changed my life’, or ‘I can’t tell you the load it takes off my mind. I never know when I’m going to be home [and, before this support was offered] all sorts of important domestic things simply weren’t being done’. Such services are at the cutting edge of attempts to offer exceptional add-ons to salaries and bonuses. Additionally, where competition for key employees is intense, these services act as a further inducement to loyalty among staff (particularly in the professional, financial and hi-tech industries).

The addition of psychological help, through telephone and face-to-face assistance, is a natural add-on that should be regularly available to the agent’s customers as a fall-back in sudden crises and as a further means of support to the whole family. A number of international concierge services now see an EAP as an integral part of their own service, especially where the provider is well resourced throughout the world.

Specialized services

The number of specialized international services is likely to grow in the wake of steady international development. In particular, these will include audits of various kinds with a variety of titles, eg cross-cultural audits, employee attitude surveys, employee commitment surveys, behavioural risk audits, and stress and mental health assessments. These will be most prevalent when an organization wants to measure the differential impacts of corporate change programmes across countries or regions. This is true where, for example, a specialist accountancy or investment firm has restructured (as many have done recently) in such a way that overall responsibility for one particular global product/service may be located in offices in New York, Singapore, London, Brussels and so on, where previously such services and products were fragmented across the globe in regional silos.

Conclusion

The field of employee support on a global scale is not only growing rapidly, it is also changing in the direction of combining and melding a number of the elements described above. As such, a human resources or employee benefits consultancy may find that its professional base is too
narrow or too geographically restricted to build a self-standing business. In such cases, these consultancies are likely to seek alliances and mergers with, for example, EAP providers or healthcare organizations. And vice versa. It has already been noted that there is a synergy with very little overlap between an EAP provider and a ‘concierge’ or ‘lifestyle management’ service when the two companies together are in a position to make a joint proposal to a potential client. Whether or not the EAP emerges as the core ‘envelope’ for many, or all, employee support services remains to be seen.

It may certainly be anticipated that the delivery of a wider range of employee support services will develop in the direction of partnerships and interlocking contractual relationships and joint ventures. Employee support is a rapidly expanding corner of corporate life and an additional opening for international management consultants.
The growth and development of communication consulting

Much has changed over the last decade in the consultancy marketplace, but nowhere has that change been more marked than in what is now known as the discipline of organizational communication. Ten years ago there were no specialist firms offering advice or support in this area and few of the big firm ‘one-stop shops’ had a dedicated practice within their consulting portfolios. Today a broad spectrum of consultancy offerings is available, from the practical to the strategic.

We have also witnessed a parallel emergence of seasoned communication professionals within client companies. These individuals are typically expert in pushing communication high up the management agenda and in cherry-picking the appropriate advisors to support the strategies and management initiatives of their corporate paymasters. In fact, in some parts of the world, the quickest way to find your way through the communication consulting maze is just to hire one of these professionals to join your senior management team, sit back and reap the benefits.

Of course, the discipline of corporate communication is not equally developed in all parts of the world. English-speaking countries, on the whole, tend to have more specialist offerings. This is partly due to:

- the huge North American influence on the expanding power of consulting firms generally;
- the prevailing social, cultural and regulatory conditions, where traditional methods of collective bargaining and union representation have largely broken down, and where the question of who is the ‘buyer’
and who is the ‘seller’ in employer–employee relationships is often unclear.

Many sectors are experiencing a reversal of the traditional power structure on which large Anglo-Saxon corporates have been able to attract and retain, in effect, whoever they choose.

In these organizations in which a more inventive approach is necessarily being adopted to the attraction, retention and productivity of their people, the communication buzzwords of today are ‘employer branding’, ‘cultural change’, ‘winning the war for talent’ and ‘capitalizing on diversity’. Because these concepts are largely concerned with what people feel about their employers and their work, they have come to be grouped principally under a communication – rather than a human resources or change management – umbrella.

What kind of advice and services are available?

The kind of service and those that are available varies hugely according to geography and prevailing culture. In both the less developed and the more truly social democratic economies, the service offerings that tend to predominate are outlined below.

- **Employee communication support**: the provision of professional services in internal publications, intranets, film, video and event management. Some firms will help you identify your employee communication needs, develop an integrated communication strategy and undertake the requisite resource planning. Others restrict themselves to the provision of the creative, journalistic, production and project management talents that can enable clients cost-effectively to outsource as much as possible.

- **Co-development of internal and external communication strategies**: the provision of advice, research and practical development work to ensure that messages communicated to, and stances taken with, all stakeholders – from regulators and pressure groups, to customers, staff and shareholders – are at least consistent and at best mutually reinforcing.

- **Internal marketing initiatives**: advice and practical/creative implementation support for specific corporate/organization-wide campaigns such as relocations, changes to employee working conditions or quality improvement programmes.
The client for these services is typically the corporate communication or employee relations function.

In the larger and/or more complex economies (and typically in those with an Anglo-Saxon management style), there is a distinct and increasing trend for the deployment of strategic thinking regarding how an organization communicates with itself and its key stakeholders as a core part of the process of management, and of the ever-present need for organizational change. Here the labels applied to different types of consulting activity are as numerous as the number of firms professing expertise in the area. They typically comprise advisory, facilitation and management development activities for boards and a range of senior line and functional executives. These can be categorized as:

- leadership development and coaching in the deployment of organizational communication, and how leaders obtain the mandate to lead effectively from their constituent stakeholders;
- input to the strategic planning process by helping organizations to ensure that their thinking is based on the properly researched needs, views and opinions of stakeholders, especially customers and employees;
- the design of people-centered change processes;
- team-building at various levels to ensure that leaders and managers are fully equipped to ‘live’ the corporate values, to champion change or to create a culture of good communication within their area of management responsibility;
- incorporation of communication competence into management skill sets;
- culture mapping and advice on cross-cultural communication, including cultural integration (eg following corporate mergers or acquisitions) or cultural change (eg improving the customer service ethic, or raising profits through the generation of more cross-selling opportunities).

Getting what you want

In the fast moving – and internationally uneven – world of communication consulting, it is particularly important to make sure that the consultants you select really are capable of adding value to your
organization. General methods for selecting and assessing consulting output are covered elsewhere in this book, but there are a few special aspects of the communication world that are worth singling out.

**Track record and expertise**

Have your chosen advisors demonstrably got the set of competencies and experiences you think you need? If you really want to take a people-centred approach to the way you manage change in your organization, has your chosen consultancy got the depth of skill you need in organizational behaviour, applied psychology and business strategy?

**Creativity and practical communication knowledge**

Many workforces today are either change-weary, and therefore highly cynical about management communication and anything that smacks of ‘spin’, or are nervous of the personal implications of change in terms of their continuing value to their employers. Is there sufficient evidence of creativity in your advisors that suggests they understand how to engage and involve people in such a way that you will have the best chance of harnessing their energy and motivation to help your organization to succeed?

**Cultural sensitivity**

The ability of advisors to understand your organizational culture and the complex overlays of national, sectoral, professional or other cultural differences evident in your employee/stakeholder population is paramount. Challenge your consultants on the validity and transferability of their ideas, and make sure they put enough tracking devices in place to prevent you from shooting yourself in the foot or alienating parts of your audience with insensitive or wrongly targeted communication.

**Standards you should expect**

A specialist communication management consultancy that has both international experience and exposure (and there are only a handful of these globally!) should be fully equipped to operate across the full range of consulting assignments described below. The consulting staff members working in such firms tend to be of the highest calibre in the industry by virtue of their commitment to a firm that specializes solely in organizational communication and lives or dies by its success in this area. They are
a natural first port of call when you know you have a significant task on your hands.

If your own view of your communication requirement is that it is an integral but secondary part of a larger management consultancy intervention in terms of your structure, strategy or use of technology, then start by looking at the in-house capabilities of your existing business consulting advisors. Here, the success of the communication component of your consulting brief will probably be determined by the degree to which the communication consultants work in a fully integrated fashion with their other consultant colleagues who are covering different parts of your brief.

If, on the other hand, you need a simpler type of tactical or creative support, look for (typically small and often local) specialist firms who really have a specialist technical or creative skill and cherry pick what you need. Expect high-quality creative and hi-tech skills – at least of an equivalent standard as the best creative or technical agencies serving your organization against an advertising, marketing, new product development, design or customer relations brief.

Typical assignments

The following list of typical communication consulting briefs should help you decide whether or not you are shopping in the right sector for the kind of help you need:

■ We have many employees based abroad. How do we communicate effectively with a large number of employees based in several different countries around the world? How do we help them all to feel ‘connected’ to the same organization?

■ We realize that our greatest competitive strength lies in the quality of service delivered by our front-line staff. How can we motivate our people to provide a consistent customer experience that matches the image we want to project in the marketplace?

■ We are merging two organizations together. The management challenges we need help with are:
  – minimizing the loss of key specialist staff and star performers;
  – keeping market confidence high in the cost benefits that will derive from the merger;
integrating two strong cultures and trying to keep the best of both;

engaging employees in the vision and values of the new entity and enabling them to identify their own role in making it successful.

We need to introduce significant changes in working practices. How do we ensure not only that employees are receptive to change but that we harness the best of their ideas and get them to drive change in their own part of the organization?

It is increasingly difficult to attract and retain the high quality of staff we need to maintain our competitive edge and break into new markets/technologies. How do we rapidly generate a reputation as an employer of choice in our sector?

We’ve hit a crisis. Misleading allegations in the press are causing our own employees to doubt the integrity of their leaders. How can we turn the situation around?

A communication management consultancy can help you address these and similar problems. Activity will typically center on:

facilitating senior teams to come to a shared vision and a set of achievable communication objectives, based on a clear understanding of the different communication needs of different groups of employees in the organization;

taking full account of the cultural sensitivities and the organization’s readiness – and capability – to change in the way senior management wants it to: qualitative and quantitative research will typically be employed to map culture, employee perceptions and current communication practice;

facilitating and coaching managers to ensure their leadership style and activities are actively championing the organization’s change and communication objectives;

ensuring appropriate temporary and permanent communication media are in place to promote the relevant amount of productive, consultative two-way feedback and participation in relevant decision-making processes;

advising on the way management initiatives and change processes are introduced to the organization to maximize employee support and involvement;
helping organizations to improve their own measurement activities to make sure they understand how effectively they are communicating and where resources need to be focused.

Money well spent?

Unlike many other forms of strategic consulting or practical implementation management, communication is an area where many feel that all that is required is applied common sense. Even when business leaders admit the need for professional help or external input, few see the value of investment in communication as being as important as, for example, structure, strategy, market analysis or technology – typically in receipt of the substantive consulting budgets. Although it is ultimately a pointless exercise to expend too much time on such a comparison, it is clear that organizations characterized by a well-communicated set of values or principles and/or an engaged workforce, where the flow of ideas and feedback is strong and which are seen as attractive places to work, have many advantages in the competitive marketplace. A sample case of how communication consultancy can benefit an organization is given in Box 4.8.1.

**Box 4.8.1 A sample case**

As communication ‘problems’ typically centre on specific stages of organizational development and culture, it is hard to talk in terms of standard briefs or case studies. The following example, which represents an amalgam of several current client examples, demonstrates a relatively typical brief and consulting output.

**The organization**

The organization, operating in a traditional service sector, comprises several hundred employees in several locations. It is experiencing market deregulation, new forms of competition and significant business opportunities in new technologies.

**The brief**

How do we engage and involve employees to minimize their resistance to change and so enable us to capitalize on the new market opportunities fast?
Consulting assignment

*Phase one: planning and preparation*

- Define the values and behaviours needed to sustain the ‘new’ organization and determine how the culture will need to shift to support these.
- Optimize the way senior teams work together to demonstrate shared objectives, a united vision and active role modelling of the changes they want everyone else to make.
- Communicate the scope and intent of the changes to all.
- Introduce the needed changes to the organization in a way that motivates and involves all employees, causes them to take forward change on a local and personal basis and raises their enthusiasm.

*Phase two: implementation*

- Support the change management process with a comprehensive communication strategy for all aspects of the way change will be designed, experienced and embedded in the organization and its operational processes.
- Transfer responsibility for delivering the new values and behaviour to the employee population as a whole.
- Build powerful feedback loops at all stages of the process, to facilitate better (and, in problem areas, pre-emptive) management decision making.
- Maintain visibility for the vision and for the leadership throughout.
- Measure and track cultural shifts and communication effectiveness.
Customer relations

Clive Bonny

The aim of this chapter is to describe some key processes that a consultancy service applies when assigned to improve customer relations. This will help the buyer of consultancy to qualify the extent their service provider follows good practice during assignments.

The international management consultant Stephen Covey described one of the seven habits of successful people as ‘starting with the end in mind’. This chapter therefore starts with an analysis of how consultants focus on the needs of the customer at the end of the supply chain. This identifies key results to be achieved. Additional enabling processes that precede results are then examined by using two case studies drawn from actual assignments. This article is based on the supposition that the aim of client relations is to achieve customer ‘delight’ and not just customer ‘satisfaction’.

The failure of companies to achieve customer ‘delight’ can often be attributed to a failure to keep in touch with changing customer needs. The larger the supplier, the greater the difficulty in focusing the workforce to obtain high-quality, up-to-date information regarding client wants and needs. There are several challenges:

- the time taken from product design to market can fall behind changes in consumer requirements;
- the widening ranges in product and consumer segments are becoming more difficult to match;
- competitor speed in reproducing similar offerings is faster;
- consumers are looking for added value;
- suppliers overlook relationship management skills.
The standard management practice of the supplier performing a survey by mail or telephone is unreliable; single-sourcing feedback may omit stakeholder input and clients may not wish to directly criticize their suppliers. Consultants can bring objectivity to the survey questions and the responses, and demonstrate to customers a supplier’s commitment for accuracy and integrity of feedback. Questions such as ‘How does supplier X compare to suppliers Y & Z’ and ‘How responsive do you find Mr X and Mrs Y?’ are more likely to obtain frank feedback when asked by an independent third party.

The consultant should prepare before such contacts by reviewing the client file and checking the account manager’s understanding of the client’s needs. The latter can include observing behaviour on the telephone and at meetings or presentations with the customer in order to assess the level of rapport and their proficiency in surveying customer requirements.

The consultant’s role can be described to customers openly so the customer recognizes the involvement of a third party as an opportunity to strengthen relations with the supplier. This is particularly effective when there is conflict or mistrust between buyer and supplier. In such circumstances there is even less chance of feedback if undertaken by the supplier. Behavioural assessment of performance at work should be competency-based, ie assess specific and visible actions that help or hinder interpersonal communications. For example, when conducting an initial customer visit, does the account manager prepare by obtaining the most recent relevant company information? When meeting for the first time does the account manager clarify both parties’ roles, objectives, strategies and support network? Network mapping each organization’s people, objectives, values and processes is a prerequisite for understanding the opportunities for co-working between supplier and buyer towards common goals with a shared methodology.

The following case study (Box 4.9.1) outlines the challenges, actions and outcomes of a consultancy project undertaken in an environment of restricted market opportunities and internal restructuring to reduce costs.
Box 4.9.1:  
*Case study in business partnering – using values to add value*

The purpose of this case study is to demonstrate how an already successful organization cost-effectively applied external development resources to further build on its success in customer relationship management.

**Background**

The company had a multimillion pound turnover and contributed to the parent company’s triple A rating on the stock market. Specialists in vehicle finance and maintenance, it had been recognized as the fastest growing supplier in its field. The industry’s trade association found the company to have the highest levels of customer satisfaction and, in independent surveys, its senior executive team was also recognized as the highest performers in its sector.

**Challenges**

The market is highly competitive, with major international finance companies bidding against each other and against vehicle manufacturers’ own in-house finance packages. There was increasing pressure on margins and higher customer expectations of service levels. Consequently success was dependent on innovation to maintain differentiation in the eyes of the customer. At the same time, the company had to increase profit on assets employed by improving efficiency.

Cost of sales represented a significant overhead and the regional sales team’s performance required more consistency. The sales director decided to review the structure of the sales force in consultation with the top-performing regional sales manager and with an external qualified consultant.

**Action**

This review resulted in restructuring the sales force and removing the regional management layer to save costs. All salespeople nationally reported directly to the sales manager, whose first step was to undertake a skills audit with the support of the consultant who had previously undertaken the company’s Investors in People (IIP)
diagnosis. The audit involved field accompaniment and team workshops in which individuals created their own skills logs and reviewed each other’s strengths and weaknesses.

The outcome was the identification of core competencies, the creation of a training plan and agreement on the most appropriate management styles to apply for each individual. The workshops were co-designed and co-facilitated by both the sales manager and the consultant. They included open sharing and discussion of new goals and processes to ensure the teams understood and were committed to a programme of change.

One of the core organization competences was ‘business partnering’. This was driven by the company’s explicit promotion as a ‘business partner’ to every customer. The team wanted a more active demonstration to clients of the partnership approach and held a series of short workshops focused on attitudinal and behavioural change in personal communications with customers. This included analysing and linking people’s personal styles with the values of the team and those of the customer.

Outcomes

The work on styles and values showed the team how to adapt and modify its communications both internally and externally to build stronger interpersonal relationships. This in turn resulted in more interdependent team-working and greater trust, enabling the manager to avoid a command–control style and adapt one of supporting and facilitating change. The increased number of direct reports improved, instead of diminished management effectiveness.

A greater openness between individual territory salespeople and improvements in team-working led to salespersons widening their portfolios offered to customers. This extra capacity of account managers encouraged customers to spend more with their primary contacts, increasing loyalty and renewals.

Summary

The translation of this concept of business partnering into active reality perceived by customers created a unique factor to differentiate the supplier from its competitors. Starting the process of change by
addressing the fundamental values of individuals established a firm foundation and desire for change. Converting sets of values into identifiable behaviours and developing specific skills ensured new attitudes were reflected by new behaviours. These competencies then became visible to customers, whose satisfaction was manifested with more business.

The sales manager commented that ‘a planned and structured programme related to winning both hearts and minds has been key to a successful internal restructuring and external repositioning of our sales and customer account managers. Relationship management initiatives must start with the values of business partners’. Last year the company increased profits by 22 per cent despite a downturn in its industry. Its strategy of values-based relationship building won them many new customers with recognized brand names who, like themselves, do business with people they trust.

In this case study the consultant role was to facilitate the strengthening of relations between buyers and suppliers without creating a dependency on the consultancy. This was achieved by the consultant transferring knowledge of relationship management processes, and by training the supplier in interpersonal skills. In order to accomplish this, the consultancy needed first to ensure that the suppliers internal support staff and managers had a customer-focused attitude and an infrastructure of targets, systems and processes, which helped the relationship managers in their client-facing work.

This requires a more sophisticated consultancy intervention, starting with top-level strategy, then addressing operations and activities down the reporting line. The next case study (Box 4.9.2) outlines the processes which the consultancy applied in order to support effective client relations at the front line.
Box 4.9.2: Case study in the design and development of customer-focused processes

Background
The managers had achieved significant success to date and were now a valued contributor to their corporate and shareholder objectives. In order to maintain and increase this level of contribution the senior management team wished to establish a stronger infrastructure with customer-focused process improvements. A brief initial survey of process strengths and weaknesses identified managers’ perceptions of the areas for greatest potential improvement. This showed how issues could be addressed without detracting managers and staff from their necessary day-to-day activities.

Scope
Senior management recognized the fundamental need for its business to become more customer-centred, while integrating the internal and external supply chains. It wanted a coherent and integrated strategy to support company-wide goals, measures and accountabilities. This required the creation and communication of a business plan, which was flexible enough to meet the fast-changing nature of the market and which was to become a focus for team-working across the organization in order to align the priorities of the organization as a whole.

Line managers desired tools and techniques for problem analysis and prevention, and to install processes to more effectively manage their teams. This required their understanding of current and future business priorities and their ability to successfully manage change to proactively improve performance. The scope of external consulting support therefore covered two phases:

- strategic business planning for senior managers;
- a customer-focused process to include design and development of customer processes and problem-solving tools and techniques for team leaders.

Methodology
The consultancy approach was underpinned by consultation around process change. This required:
openness in sharing the how and why with clients and in explaining risks as well as benefits;

- team-working, with all stakeholders supporting company-wide ownership of the clients objectives;
- respect for people when proposing change that affects individuals at work;
- innovation to ensure each challenge was examined afresh and solutions were tailored accordingly;
- achievement of assignments following agreed outcomes within clear terms of reference.

Each project had clear links to business objectives with measures and milestones to map progress. Ownership was kept internal, with the external consultant positioned as facilitator and coach. Each project also followed the principles of the learning cycle: plan, do, review. This ensured active assessment of the business outcomes and benefits during assignments, which subsequently allowed for appropriate mid-term amendments to the programme.

### Key activities and results for strategic business planning

A strategic planning workshop was set up to determine organization-wide business critical issues, key objectives and measures and accountability within the organization. This was prefaced with a staff survey so that gaps between managers’ perceptions and those of staff members could be analysed and prioritized. Tactical planning workshops for functional managers converted strategic goals into departmental objectives and measures. This was prefaced with a customer survey to analyse current issues related to customer expectations. This phase required consulting support to:

- assist in the design and rollout of a staff survey;
- analyse the survey results and prepare the initial workshop;
- facilitate the strategic planning workshop;
- review the workshop and recommend the communication of outputs to line managers and staff.
Design and development of customer-focused processes

This responded to the following key objectives:

- define the customer experience;
- identify process improvement or design requirements;
- provide process improvement skills to front-line employees;
- provide a problem-solving methodology;
- demonstrate measurement capabilities in the process;
- address leadership involvement in the initiative;
- create and provide a consistent message to employees and demonstrate how the initiative would be reinforced over time.

The consultant recognized the need to create cross-functional improvement teams in order to minimize deficiencies in core processes. Employees were given the opportunity to master skills and tools for effective team-working, problem solving and process improvement driven by customer experiences. This transferred knowledge of key skills and tools while simultaneously mapping the customer experience and creating new processes.

The following components of the project ensured successful implementation:

- reviews with senior managers;
- implementation planning with process owners;
- project management reviews;
- team-leader workshops covering front-line issues of process (improvement awareness, such as team-working skills, problem-solving tools and methods, techniques for measuring process improvement, action planning, learning with employee and customer feedback, training staff with project reviews that included understanding customer relationship strategy, planning with project team members and training process owners).

Consultancy resource

The organization development programme was supported by external consultancy with three components:
clear deliverables to track results;
aligned methodology with enabling customer processes;
qualified advisors with a delivery team of an external consultant to help plan and implement the programme, a support consultant and a programme director to monitor and quality control.

Training workshops
The training workshops included awareness of customer relations so that people could:

- identify their role in the improvement of customer relations;
- recognize the moments of truth in customer activities;
- apply best practice to improve processes that had a high positive impact on customers;
- recognize the importance of getting support and involvement across functions.

This focused teams on the customer in order to ensure that resultant improvements were relevant to customers.

Team-working
This was vital so that people could:

- understand the purpose of process improvement teams;
- identify what makes teams successful.

This gave the knowledge for people to work on process improvement teams and the factors that made teams successful.

Identifying cycles of service
Identifying the cycles of service was necessary so that people could:

- identify the moments of truth that customers faced;
- analyse processes from the customer’s point of view.

This linked to the training to improve processes. It showed how to analyse customer experiences and mapped out each step of a customer’s experience from a customer’s point of view in order to improve the process.
Improving moments of truth

Improving moments of truth was important as it meant that people could:

- assess customer expectations in a cycle of service;
- identify factors that detracted from the customer relationship;
- develop process improvements that could be implemented immediately;
- plan how to recover when mistakes were made.

This focused on how to improve the customer experience. Some aspects could be fixed immediately, while other improvements took more time. If a particular process was poor, staff members could minimize the problem while a longer-term solution was created. Recovery was a method for keeping customers feeling positive despite breakdowns in the core processes.

Customer interviews

Customer interviews were implemented so that people could:

- determine customer issues;
- assess their level of importance;
- picture what success looks like;
- identify resources needed;
- identify potential constraints.

Teams started on their process improvement projects and found what the customers wanted in future.

Prioritizing and proactively improving moments of truth

This covered choosing the most critical moments to work on so that people could decide on which moments of truth to focus on. A danger in process improvement was the desire to do it all at once. Teams needed to assess which ‘fixes’ had the most impact and the logical starting point so a quick success could be won. People could design points of contact that customers experienced and identify how to build a process to support the new point of contact beyond the reactive fixing of problems.
Tracking success

In order that people were clear about the goals critical to the success of the project, measures needed to be in place for teams to compare the ‘before’ state with results afterwards. Teams had to choose the most applicable measures for their process improvement project and, where appropriate, create new measures to ensure that their desired results were achieved.

As well as success measures, teams created a list of all the tasks involved in the process improvement work, clarifying roles and responsibilities. Teams function best when each person on the team is clear on his/her role and goals. Team members agreed on their roles and assigned responsibility for the tasks they set in an action plan at team meetings, during which they established project deadlines and deliverables. This allowed the team to plan key dates and milestones as they worked through their process analysis and improvement. Checkpoints were set to monitor progress. Process tools were applied after being supplied in a notebook showing Pareto charts, process maps and flowcharts, cause-and-effect diagrams and force-field analysis.

Summary

A consultancy approach that builds customer relationship skills in line with customer service strategy is essential to the success of such projects. Aligning people and processes with external customer needs will ensure success, provided there is active and visible top-level support and involvement with all the stakeholders. This requires a planned and structured approach with a high level of communication and training across all levels in an organization.

In both case studies, the work was spread over six months to enable staff and management consultation to take place, allow change to be embedded and minimize consultancy fees. Both projects also ensured that the consultant transferred ownership and skills to the supplier to allow future programmes to be managed with less external support.

These projects were delivered in line with the principles of the international benchmark standards of Investors in People and Good Corporation (a framework of best practice for stakeholder management). These began as UK-based standards; the successful application of them by
UK employers led to their acceptance internationally. The GoodCorporation standard supports stakeholder relations by enabling management to assess the effectiveness of their internal and external supply chains. It identifies blockages in corporate communications and creates guidance for self-managed learning to align the goals of all stakeholders. In both case studies, the companies selected consultants who were trained and accredited advisors for these international benchmarks and who were qualified in process improvement across internal and external functions.

This chapter shows that consultancy interventions in customer relations should consider people and process issues both inside and outside the organization. Such interventions should be based on proven international standards for the successful implementation of change. Last but not least, consultants should be adept at transferring skills with explicit processes that begin with the end in mind: what do customers want and need?

References

Covey S Seven Habits of Highly Effective People

Further information

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More information can be obtained from the following Web sites:

www.consult-smp.com
www.goodcorporation.com
Knowledge management has been a lucrative area of practice for many consultants. As a result, existing knowledge, which may or may not be relevant to future intentions, is being more effectively shared in many companies. However, the new knowledge needed to deliver greater customer and shareholder value is not always being created. Past approaches to knowledge management have focused excessively on sharing an existing stock of knowledge and paid inadequate attention to the development of the new knowledge required for achieving priority objectives and equipping people with knowledge-based support tools.

Companies around the world have initiated organization-wide culture change, re-engineering and knowledge management initiatives in the hope of improving corporate profitability. However, in comparison they often do little to help individuals in key roles and particular workgroups to improve their performance. General approaches aimed at all employees are adopted, rather than job-specific and tailored interventions.

Research undertaken by the Centre for Competitiveness of the University of Luton has found that successful companies take practical steps to enable their people to manage change, compete and win (Coulson-Thomas, 2002). Projects undertaken to incorporate ‘critical success factors’ into job-support tools suggest many companies and consultants are overlooking a significant opportunity to improve performance in areas vital for corporate survival and growth.
Board members need to ask themselves some fundamental questions. What proportion of people are actively creating, packaging and exploiting know-how? Are the various forms of knowledge from designs, Web sites, patents and copyrights to processes, skills and customer and supplier relationships that exist being fairly valued, fully exploited and converted into profit and ultimate shareholder wealth? Are the insights and practices of superstars being captured in support tools that can increase the performance of their colleagues?

Knowledge creation is becoming increasingly important. Moving up the value chain may depend on new forms of differentiation and additional ways of adding value. More bespoke responses to the requirements of individual customers might require new attitudes, skills and support tools as well as redesigned processes and enabling technology. Efficiency and cost-cutting drives need to be complemented by efforts to increase productivity and generate higher margins, for example from improved exploitation of intellectual capital.

The proportion of final value delivered to customers that is represented by know-how continues to increase. This trend may accelerate as emphasis switches from re-engineering and retrenchment to value creation and the generation of incremental revenues. Consequently, people will need to become more effective at creating, packaging, sharing, applying and generally managing and exploiting information, knowledge and understanding.

**Developing a corporate learning strategy**

Knowledge management should be an end-to-end process from identifying knowledge requirements and gaps, through knowledge creation and the sharing and packaging of know-how to its application to improving performance, doing new things and delivering additional income streams. However, many knowledge management initiatives have focused almost exclusively on the middle or sharing section of the process. The missing dimensions of knowledge creation and exploitation and knowledge-based support tools represent a virgin frontier of opportunity for alert consultants.

Current training activities, development preoccupations and learning priorities can be a significant determinant of tomorrow’s attitudes, skills and knowledge. Boards need to ensure that training and development inputs result in knowledge and intellectual capital outputs. In many
companies these activities deserve closer scrutiny. Could business development and key workgroups be better supported? Are people being helped to be more successful at their jobs?

An examination of the corporate learning plans and priorities of 69 significant organizations found that many courses had passed their ‘sell-by’ date, while essential requirements and critical corporate priorities were largely ignored (Coulson-Thomas, 1999). Millions were being spent on fashionable concepts such as empowerment and general ‘teamwork’ training, yet little if any effort was being devoted to job-specific support. People received standard courses regardless of their individual interests and needs. The focus was also overwhelmingly on the internal training of employed staff. External development needs of customers, contractors, suppliers, supply-chain partners and business associates were ignored.

Knowledge creation and entrepreneurship were also overlooked. The emphasis was on squeezing and cutting costs, rather than income generation. Training and development were not perceived as a source of incremental revenues, even though the resulting research report identifies no fewer than 25 different categories of commercial learning support services that could be offered (Coulson-Thomas, 1999). Intellectual capital from simple tools to advanced techniques can also be licensed or sold. There is enormous potential for knowledge entrepreneurship (Coulson-Thomas, 2003).

Managing current stocks of information and knowledge might or might not be relevant to individual aspirations, customer requirements or corporate objectives. But new insights, discoveries and breakthroughs are often the keys to leadership in competitive markets, particularly when the know-how sought or created relates to critical success factors for competing and winning (Coulson-Thomas, 2002).

Education, training and development expenditures are still widely regarded as costs rather than vital investments in the creation of knowledge, intellectual capital and value for customers. Switching the emphasis from cost cutting to innovation, business building and value creation would result in both enhanced corporate performance and greater personal fulfillment. The most successful enterprises will evolve into communities of knowledge entrepreneurs.

The ability to learn quickly and effectively is a key source of value and competitive advantage. Boards and managers should actively champion enterprise and learning. Knowledge development should be explicitly rewarded. Pioneers do not play ‘me too’ or ‘catch-up’ according to
yesterday’s rules. They are energetic creators, imaginative innovators and restless explorers. They devise and set up new games with different rules.

Knowledge creation and the knowledge entrepreneur

Learning processes can be created, improved or re-engineered and learning support tools acquired. Learning should also be built into work processes, and standard training offerings should be abandoned in favour of specific and tailored interventions to support particular work groups and knowledge entrepreneurship. The Knowledge Entrepreneur (Coulson-Thomas, 2003) provides practical checklists that entrepreneurs, directors and consultants can use to create customer and shareholder value by packaging and exploiting know-how.

Knowledge creation should start with what an organization is setting out to do. Next, roles and responsibilities, processes and ways of working and learning to achieve desired objectives have to be designed and agreed. Role model behaviours and, importantly, the knowledge, experience and skills likely to be required can then be determined, along with any additional tools, techniques and methodologies that may be needed. Centres of excellence or panels of experts could review areas of a company’s ‘body of knowledge’ to keep them up to date.

The sale of specialized knowledge or the licensing of intellectual capital such as particular approaches or techniques can contribute additional income streams. However, a study (Perrin, 2000) found that most of the 51 companies surveyed fail to properly manage and fully exploit the 20 categories of intellectual capital examined. The term ‘intellectual capital’ encompasses all forms of corporate knowledge that can be converted into profit, including know-how and processes, patents and copyrights, as well as the skills and experience of employees and relationships with customers and suppliers.

‘Leaders’ already generate significantly more income from intellectual capital than ‘laggards’. They expected the contribution of know-how to product or service value to rise substantially or significantly over the next five years, while the laggards expected it to increase only slightly, remain the same or decline. The leaders understand key management of intellectual property issues, while the laggards fail to make know-how an important driver of shareholder value.

Leaders are much more motivated than laggards to exploit their intellectual capital. Developing new revenue streams, enhancing profits and
increasing existing revenues are given a higher priority. Leaders recognize that intellectual capital can be used to create new opportunities and attack and penetrate new markets. They are also more likely to measure their performance at managing and exploiting know-how.

Customer information, design rights and research and development (R&D) know-how were the three most significant income generators. Both leaders and laggards anticipated that all 20 categories of know-how examined in the report would become increasingly important. The leaders expected revenue growth of over 30 per cent from five categories of intellectual capital, namely licences, brands, market intelligence, Website/Internet and management methodologies. However, the majority of companies were failing to properly manage most types of intellectual property, which suggests they may require external help.

So whom should consultants target? A wide range of executives can contribute to the effective management of intellectual capital. The three most active groups are:

- chief executives;
- marketing directors;
- financial directors.

About a third of the annual reports and accounts of the companies surveyed contained some informal reference or passing mention of the contribution of know-how, but fewer than 10 per cent of balance sheets showed a value for intellectual capital. Most of the companies did not report intellectual property developments to the board. Many also keep a rudimentary inventory of what they own.

The various categories of know-how range from electronic databases, printed documents and slides, through designs and other visual images, to audio and video material and animation. People responsible for recording and protecting them need knowledge management frameworks and repositories that can handle a diversity of formats. One example is K-Frame (www.k-frame.com), winner of the eBusiness Innovations Award for Knowledge Management presented at the Organization for Economic Cooperation and Development (OECD) enterprise summit in Bologna.

K-Frame allows intellectual capital from text and spreadsheets, to multimedia and information taken from the Internet to be captured and stored within a single portable framework. Fuzzy searches can be undertaken, including those on audio and video material. The search function
can cope with spelling mistakes and even looks for words in audio files and voice-overs. Knowledge creation tools and report and presentation generators can be included.

Such a knowledge management framework can support other activities such as the production of corporate credentials or annual reports. Thus multimedia content could be issued to interested parties by means of a CD-ROM. Critically a framework can be used to support job-specific knowledge-based tools, as we will learn in a moment.

Many boards should undertake a formal review of the management of intellectual capital, and formulate proactive strategies for harvesting more value from it. Incentives should be put in place to encourage this. The focus should be on areas where knowledge management activities can have most impact on those success factors critical for achieving key corporate objectives, eg equipping important work groups with relevant support tools.

The Knowledge Entrepreneur (Coulson-Thomas, 2003) suggests key questions that facilitating consultants could ask. For example:

- How significant is know-how as a source of customer and shareholder value?
- Is its contribution assessed and tracked?
- Is the sharing of information, knowledge and understanding measured?
- Are people supported with knowledge-based support tools that improve job performance?
- Are sufficient resources devoted to thinking, learning and the acquisition, creation, management and exploitation of know-how?
- What proportion of turnover and profit do new products and services contribute?
- What value is ascribed to newly packaged intellectual capital?
- Is intellectual capital identified, packaged, badged, valued and protected?
- Is intellectual capital periodically revalued, and appropriately treated in the annual report and accounts?
- Is a knowledge management framework, such as K-Frame, in place?
- Does this allow the company to quickly capture, access, present and exploit know-how?
Leaders are far more determined than laggards to exploit corporate know-how, and are therefore much more effective at monitoring intellectual capital performance and revenue contribution. They are also more likely to identify know-how as a primary driver of shareholder value, focus on the roles different management functions should play in creating and exploiting intellectual property and address the relevant people, culture, process and information technology (IT) factors.

**Knowledge exploitation for differentiation**

Copying, ‘me-too’ approaches, benchmarking and sharing commodity knowledge are not the route to market leadership. The ‘superstars’ question, challenge, explore and discover. They use the know-how of their superstars together with corporate capabilities to craft distinctive proposals that provide customers with new offerings and genuine choice. They regard their knowledge, processes and ways of working as a source of competitive differentiation.

In our confusing and chaotic world consumers are assailed with a multitude of conflicting messages. Being noticed is crucial for a business that needs to attract new customers. Differentiation and tailoring to individual requirements can also enable the avoidance of commodity product traps and generate the higher margins needed to fund development. Advances in manufacturing, process and IT give us the potential to reflect our individuality. However, despite multifarious possibilities we find very often when we strip away advertising claims that various suppliers offer essentially the same product.

People should strive to provide customers with additional options, genuine choices and better alternatives to those that are currently available. Boards should seek alternatives to bland consensus and middle ways. They should champion reflection, debate and challenge, and so instil a desire to innovate and an urge to discover.

People may need to be helped to distinguish fundamentals from fads, substance from surface and reality from illusion. Checklists for doing this and questioning contemporary assumptions, together with exercises for formulating new marketplace offerings are available (Coulson-Thomas, 2001). People can be equipped to challenge the relative importance of action and reaction, complexity and simplicity, activity and reflection, and change and continuity. Shifting the balance between them can produce genuine alternatives.
The tangible consequences of knowledge creation and exploitation include improved employee and customer satisfaction, an enhanced image and an increased share valuation. Boards need to consider whether current training activities are contributing to uniformity and resulting in a standard attitudes, knowledge and skills set, or stimulating diversity and knowledge creation.

Companies that aspire to be different can create learning environments, such as a corporate university, that respond to the interests and aspirations of individuals and encourage innovation and knowledge entrepreneurship. Staff can be seconded for specified periods to work on strategic knowledge creation and exploitation projects. Think-tank environments can open up ‘blue skies’ thinking and the imaginative consideration of alternatives.

Using job support tools to increase individual and work group performance

Although in some companies much effort is devoted to making information, knowledge and training available on a corporate intranet, in others people recognize that captured know-how may not be relevant to current priorities, future aspirations and key requirements for building their businesses. Also, the expertise to do something better, new or different may require additional skills and more appropriate tools as well as access to existing knowledge.

Often the most cost-effective way of quickly improving individual performance and corporate productivity is to provide workgroups with practical knowledge-based tools (Coulson-Thomas, 2003). People often need help when applying relevant knowledge: the right job support tools can capture and spread best practice and increase understanding with each use.

Knowledge-based job support tools are practical knowledge-based toolkits designed to help people do better jobs. For example, sales support tools developed by Cotoco (www.cotoco.com) for clients such as 3Com, Bolero, Cisco, Dana, Eyretel and ICB have included slides with voice-overs, interactive presentations that support sales methodologies, demonstrations of products in operation and explanations to help customer understanding. They have contained configuration tools for developing solutions, pricing engines that calculate cost to the customer, decision trees for account planning and cost-justification tools.
Quality and regulatory requirement checks have also been built into job-support tools. Most tools automate routine tasks and provide support for every stage of the sales process from prospecting and qualification to negotiation meetings. A library of detailed background information can help users to answer customers’ questions on the spot. Marketing materials can include templates, case studies, testimonials and independent endorsements.

Seamless links can be provided to Web sites and online information and applications. Feedback mechanisms can be used to gather information from the field. Guides for upselling and cross-selling can extend the comfort zone of sales representatives to further product areas. A tool can be programmed to identify specific cross-selling and upgrade opportunities.

Such tools can enable the consistent application of best sales practice and ensure a high standard of proposals. Marked improvements in product and market knowledge occur. Other benefits include reduced error rates, higher win rates, greater customer retention, fewer support staff, increased order value and less sale force churn. By using such tools people may find it easier to meet submission deadlines; additionally, a shorter sales cycle can bring orders forward. Users can spend more time in front of customers and prospects and less on routine administration. Better prospecting and improved qualification can result in a greater focus on the most productive accounts. A shorter new staff induction process may also result.

Effective job support tools use those formats that best help understanding, from text and graphics to animations, visual images and video and audio material. Complex material can be more easily communicated and fewer visits may be required to achieve a sale. Consultants can build tools using a knowledge framework, such as K-Frame, with search and fuzzy search facilities that can cover a wide range of formats.

Prospects can use tools to discover new options. When operating it themselves some customers order more than they would in the presence of a sales representative. They feel in control and are able to explore alternatives in their own time. Automated calculations enable them to quickly assess the consequences of different approaches.

Support tools allow managers to delegate responsibilities and encourage more bespoke responses. The automation of routine tasks frees up time for the greater differentiation and tailoring that may enable a price premium to be charged. There is less need for separate commercial, quality and regulatory checks or for specialist and local language support.
Ten different language versions, including Chinese, Japanese, Korean and Arabic, of a tool developed for Bolero have been issued.

Reliance on support staff can also be reduced considerably. Users of Eyretel’s tool felt so confident in the presence of customers that the ratio of support to sales staff fell to a third of the previous level. Users of support tools report significant increases in productivity and the ease with which best practice can be spread. Quick paybacks of the cost of developing them can be achieved: returns on investment of 20:1 or more can be obtained.

Sales support tools are particularly suited to the launch of new products. A single repository able to handle material in many different formats can hold all the information and knowledge needed. Technical details can be quickly communicated to a variety of groups in several locations around the world. Animations and video footage can be used to show offerings in use, and secrecy can be maintained until the moment of release.

Lessons for consultants

Job-support tools offer many opportunities for consultants. Take-up is encouraged and tangible changes in behaviour can be achieved when they provide the easiest way to accomplish desired outcomes. Users have found that the way they communicate with a prospect can in itself be a differentiator. A systematic and customer-focused approach enhances a supplier’s reputation and helps to build customer relationships.

There are also some potential dangers. Without a proper roll-out plan, the full potential of a proposed solution may not be achieved. Just putting a CD-ROM into the post and assuming its eventual use is unlikely to succeed. People need to understand the significance of what is being provided.

Within any community of knowledge workers, some are likely to be more effective than others. Every opportunity should be taken to review existing approaches during the development phase, capture effective short cuts and discover how high achievers operate. Improvements based on best practice and the insights of superstars are much more likely to get better results than simply automating current practices.

The greatest benefits from knowledge-based job-support tools are usually achieved where relatively homogeneous groups of people undertake similar tasks. Companies should avoid investing in fixed and inflexible tools in areas that may be subject to rapid change unless arrangements are made for continuing review and regular updating.
Once support requirements have been agreed, rapid and tangible progress can usually be made. Even complex tools can often be developed and tested within a few weeks of a ‘go ahead’ being given. However, the introduction of a new tool will need to be carefully planned if people are to obtain the maximum of benefit from it. Back-up and maintenance arrangements may also be essential to ensure the tool remains at the cutting edge.

References


Further reading


Further information

The brochures Developing a Corporate Learning Strategy and Managing Intellectual Capital to Grow Shareholder Value are available from:

Policy Publications
4 The Crescent
Bedford MK40 2RU
Tel: +44 (0)1234 328448
Fax: +44 (0)1234 357231
E-mail: policypubs@kbnet.co.uk
Web site: www.ntwkfirm.com/bookshop

All the publications cited can be ordered via the Web site.
Introduction

Organizations are chasing their tails to keep up with rapidly changing market pressures, customer demands and technology developments. Traditional ways of doing business are losing their relevance. Predicting future threats and opportunities has become impossible. Enterprises now need to be able to react to new events as and when they occur.

As organizations seek a clearer understanding of how to keep ahead in an increasingly competitive and shrinking marketplace, key areas of concern emerge:

- effective targeting of markets;
- exploiting of opportunities for cross-selling;
- cost-effectively meeting customers’ needs for better service;
- becoming more responsive to customer demands without incurring higher operational costs or stockpiling inventories.

At the heart of these requirements is the need for strategic integration as all these goals have in common the need to capture, analyse, share and exploit strategic business data – data that is scattered across an organization, often in duplicate and triplicate. To pull data together, to make sense of and exploit it to advantage, requires business systems to be aware of each other and to be able to interact. This is integration.
The need for continuous change

In the era of mass production, an organization’s infrastructure and workforce tended to be mechanistic and inflexible, with little regard to individual customer demand. Organizations were in silos; supporting technology tended to be aligned to those same silos with the primary objective of automating process and deskillling the workforce. Applications building was focused on single goals in discrete areas, with little attention paid to whether or how systems could be integrated with each other.

Mass customization, however, is leagues away in terms of the demands it makes on organizations. It means that all processes, skill sets and workflows, as well as information technology (IT) systems, have to be modularized so that they can be plugged together in a ‘pick-’n’-mix’ way. It means breaking down the barriers between functions and creating an organization that can grow based on the unpredictable and ever-changing needs of the customer and short-term, turbulent markets.

The infrastructure to enable business integration has to:

- have no inherent added cost;
- be able to react almost instantaneously to new work flows, methods and processes;
- include the development of new ways of working in partnership with both the customer and third-party suppliers;
- ensure the removal of internal frictions.

For most organizations this means a major culture change, which will affect people, process, organization, infrastructure, technology and knowledge management. The reality of the world for most organizations is that they have large portfolios of systems and processes built over time that continue to grow daily. These systems have many interdependencies and are uncoordinated. Technology is diverse in terms of platforms, operating systems, databases, languages and geography. There is a heavy dependency on legacy systems. Each new development or change in business direction causes further stress to current integration. Inevitably, there is a slow response to the need for business change as there are many ‘touch points’ to be modified each time.

Every move to disentangle, improve or change this environment becomes high risk because of the many interdependent interfaces. Even
the simplest of changes or upgrades can have unforeseen and far-reaching consequences. Inevitably, this leads to high costs when changes are made, or high costs because there is a continual invention of ‘work arounds’ and ‘make dos’. The whole organization becomes inflexible, either through fear of the consequences of making any changes or through lack of capability. Every day that passes compounds the problem. Faced with such a major difficulty, it is important that the correct decisions are taken right from the start and that action and management approaches are appropriate.

Changing the way integration is delivered

The need for continuous improvement and mass customization has been well explained without recognizing the demands this puts on project delivery. Organizations still seem to be split in terms of developing the new and servicing the existing, whether that be application, networks, infrastructure or operations. There needs to be a joining up of the change process, in terms of both the linkage between business process, technology and people, and the total change cycle.

The problem is that organizations are impacted at all levels by change pressures of different orders of magnitude. At the highest levels, market demand, macro-economic forces, competitive pressures and technological advances are defining business direction. On a daily basis, operational management is responding to individual customer needs, workforce capability, financial constraints, legacy infrastructure and technology upgrades. Some simple changes need to be made to tie these two sets of change pressures together.

To provide the missing link, the daily reaction to change needs to be linked to the strategic planning which in itself should be a constant process. Planning horizons need shortening so that delivered change is more effective and processes for development of the new have to be the ones used for the day-to-day business environment.

Mobilization of the organization and its suppliers has to be eradicated, and transition and deployment phases radically reduced. Crucially, the development and delivery timescale has to be accelerated and ‘de-risked’. Change has to take account of the day-to-day business and the day-to-day business has to take account of change. Therefore, line and functional management have to take responsibility for change, and must not have it done ‘to them’ or ‘for them’.
All this means not only a radically different and dynamic organization in itself, but also a radically different and dynamic relationship with the company’s integration and technology suppliers. It means contracting for collaboration within a framework with a number of key suppliers who then work closely within that framework to deliver specific individually defined packages of change. This is not a new idea: look at how the automotive industry contracts with its tier-two suppliers, and how it involves them at the strategic planning stage of new models in order to shorten development lifecycles and effect delivery to promise.

Keeping continuous change in step across the whole business, its supporting systems and its people requires the skills of a dedicated manager. If change is to be part of the day-to-day business, just as IT has become transparent to the business, then there has to be a line function or role of ‘change manager’. This does not mean that responsibility for change is not part of the function of every manager, it means rather that change management should be treated in much the same way as human resource (HR) management. In leading companies, line managers are expected to pay much attention to the management and development of people, while still having an HR function responsible for ensuring that the correct strategies, frameworks and processes are in place and adhered to.

The importance of architecture

In order to keep all of the change processes together there needs to be an over-arching architecture – acting in much the same way that the picture on the box of a jigsaw puzzle is a guide and context to the construction of the puzzle. With a wider perspective it becomes easier to choose the correct priorities and deliver continuous change in an evolutionary way. This is changing the emphasis of IT investment and development from happening at an application level to happening at an architectural level.

The trade-off of moving to an architectural approach to IT development, particularly when building externalized capabilities at a front-office level, is that organizations must sacrifice much of the customization they strove for with earlier IT systems, where applications were built or customized to suit the company’s or department’s individual requirements.

In an open, connected world where the objective is information sharing, bespoke development and proprietary ways of working can only stand in the way. Although the use of methods such as enterprise application integration (EAI) can get a business so far in encouraging greater
connectivity and collaboration internally within the organization, trying to provide externalized connectivity with EAI is not a long-term, winning strategy. In the short term, this works to provide a service to a limited number of external partners who all have to agree to adopt a common product from a particular vendor, which can then be connected on a back office to back office basis. This soon, however, becomes complicated. What would be your reply, for example, to a customer insisting that you adopt their product strategy in order to do business together?

The only prudent way to achieve long-term, flexible connectivity with a range of existing and future external partners, is through innovation at an architectural level. Here, organizations can treat the back office, front office and Internet dimensions separately, and find optimum means of combining legacy systems with the ‘new world’. Today, this basic structure is recognized by the major software vendors in so-called ‘Web services’ offerings. (‘Web services’ is the name given to interactive process connectivity on the Internet.)

The architectural foundation for Web services is based on the capability offered by browser technology. This provides an intelligent network-based services model, allowing user-driven activities both to find information and to use processes for interaction leading to transactions.

Indeed, this is happening already – the value of the first shared process, the World Wide Web, has driven a global acceptance of a common set of standards. This represents a true revolution in the application of IT – one that drives new technology architectures to move beyond content, to the increased business value lying in the transaction (that is, the interaction of the end-user with the content, to create an ad hoc business process). The aim now is to make this transaction, rather than the holding of actual content, the heart of the architecture. This is the key to the sort of flexibility and responsiveness for which today’s organizations should strive. Such architectures seeks to combine new technologies, legacy systems and users in a complete and holistic architecture that is able to use products from many different vendors as well as interconnecting with other enterprises in a secure manner.

**Some companies are already doing it**

The intense impact of the Internet on commerce and market globalization, together with the increasing volatility of the larger economies, are
accelerating the need to adapt to changing market conditions. Some companies appear to be thriving in this volatile environment. Examples of success stories include computer manufacturer Dell, which adopted new approaches to doing business that are redefining their industry and creating new competitive dynamics.

Organizations that depend too heavily on inflexible, predefined business processes, and the IT systems that support these, lose competitive edge. As we have seen, agility – the ability to adapt in real time to new events – is everything. As organizations see the bigger picture and integration on an enterprise-wide scale, they become less restricted by the limitations of traditional business processes, non-integrated, proprietary technologies and unconsolidated islands of corporate data. This enables them to react to what is happening in the market by creating new business processes dynamically, rather than having to try to predict the future, or worse, ignore it.

By collapsing the supply chain and creating virtual enterprises through innovative use of the Internet and Web services, organizations can turn their energies to the art of managing relationships instead of trying to do everything themselves. For example, Dell uses a ‘just-in-time’ manufacturing strategy to meet customer demand for individually configured computer systems, which means it doesn’t have to incur the costs and risks of obsolescence associated with the stockpiling of components and other inventories. It has achieved this by integrating its IT systems with those of its key suppliers, enabling these to respond rapidly to changing demands for stock.

In a Web services world the different customer service options are served by the same application components, requiring minimal redevelopment, incurring relatively low costs and enabling unprecedented speed to market with new services.

Conclusion: the joined-up message

Truly joined-up enterprises not only strive to implement the latest in Web services and integration techniques, they also understand that the rules have changed forever:

- It is people, not technology, that deliver business integration. Organizations must therefore grow their own skilled, internal change management teams that understand the ‘soft’ aspects of integration as much as the hard ones.
If continuous change and the ability to remain adaptive is genuinely the company’s goal, the business must become its own integrator, adopting best practices for change management, systems integration, risk management and all other aspects of the business re-engineering process as a central company strategy.

As organizations become more virtual in structure and exploit relationships with external partners to keep costs down while ensuring a complete offering to the customer, the contractual relationship between cooperating companies must change. Client/supplier relationships must be replaced with true partnership arrangements, where all parties are accountable for the job done, or the products and services provided.

Keeping a clear idea of measurable, testable goals is difficult but essential. Reaching them will depend on the use of a flexible game plan, based on architectures, core assets, principles and services.

References

Laing R D *The Politics of Experience*
M-commerce: the next wave of management consulting

Tomas Korseman and Daniel Shepherd

Introduction

This chapter will explore the emerging m-commerce (i.e., mobile transactions) and services market and how consultants can assist companies in entering this arena. We shall briefly look at the forces that are paving the way for m-commerce and the impact that these have on the market and on organizations. The level of importance to the chief executive officer’s (CEO’s) agenda will be discussed, given that m-commerce will not only address, but also add another dimension to some of the strategic business issues that a company faces, in relation to both revenue enhancements and increases in efficiency and productivity. The chapter will then introduce a model to illustrate the ways in which a company can adopt an m-commerce strategy. We aim to demonstrate that companies can have differing approaches depending on their internal capabilities, asset base and strategic intent.

Market forces

The convergence of the Internet and mobile communication has been hyped as a revolution in the way people work and communicate and has been forecast to become one of the fastest growing markets ever. A large proportion of the market has typically been associated with the concept of m-commerce. M-commerce was due to rise in line with social and economic trends that translated into people having increasing levels of disposable income, yet less time in which to spend it. Neither of these trends has come
to be and many a market observer has now shunned m-commerce as it has arguably failed to take off in the way that had been anticipated.

It is our contention, however, that the m-commerce market is still in its infancy, a pioneering phase that has taken longer than expected. We do not contend that the market is primed to explode now, although we are seeing some moves in the right direction – not least the breakthrough formation of the New Mobile Payment Services Association, through the collaboration of Orange, Telefónica Moviles, T-Mobile and Vodafone. Ultimately, it is the drive to drill down further into customer relationships and obtain greater ownership over the mass market’s buying patterns that will push m-commerce towards success.

Capitalizing on commerce and mobile services, however, is not restricted to players in the telecommunications arena. Companies from almost any sector have numerous possibilities to apply new business models to acquire, retain and expand customer relationships.

Before the Internet, companies focused on the trade-off between ‘richness’ (the ability to target customers with heavily customized products and services) and ‘reach’ (the ability to reach a distributed customer base). E-commerce eliminated this trade-off, enabling companies to sell a rich offering of products and services to a large and distributed customer base. M-commerce, enabled by the replacement of second-generation (2G) with third-generation (3G) mobile technologies, is set to redefine the boundaries of richness and reach, providing greater richness through even greater personalization (eg location-specific) and more extended reach through the portable nature of the mobile device.

The conversion to 3G technologies is expected to equip everyday mobile users with a wealth of new services and applications over the next five years. Through the combined use of a number of different mobile devices, people will be able to access the same content and services wherever, however and whenever. Mobile users will enjoy the convenience of having access anytime and anywhere to the Internet and a number of value-adding mobile services that are individually defined, driven by personal choice. Furthermore, because the mobile device will be equipped with location-sensitivity intelligence, services can be individually ‘pushed’ subject to the user’s location. Thus, m-commerce and mobile services will work best when their core attributes (convenience and portability) are emphasized.

M-commerce suggests that the mobile device will be used to buy and sell. Although it is realistic to envisage people using mobile devices as a means for acquiring goods and services, it is improbable that this will translate into direct competition for banks and credit card companies,
given the substantial barriers to entry to financial services. This is why telecom players are currently focusing on a smaller set of simple data services, mainly within mobile entertainment and gaming, while other vertical industries are primarily interested in benefiting from micro-transactions for the purchase of small and common goods.

Some companies are better positioned than others to reap the benefits of m-commerce. Obviously the customer relationship owner is best positioned to become the m-commerce distribution channel and is likely to take a share of the revenue from each transaction and to control the service offering. However, the intensity of the battle for customer relationship ownership is balanced by the inability of a single company to interface with customers satisfactorily and meet all of their needs. This experience curve is unlikely ever to be overcome and therefore partnering is going to be fundamentally important to the m-commerce business model.

Given the varying impact of technology and communications on different markets, industries and organizations, it becomes a top priority for senior management to determine how best to lead its company into the m-commerce arena. Consultants typically work with senior management to define, qualify and quantify m-commerce opportunities and are then well placed to evaluate specific impact points on organizations and so to facilitate change through m-commerce adoption.

The impact of market forces on the organization

CEOs’ main strategic measure of success is growing their business through a combination of:

- revenue generation and margin maximization;
- operational improvements in efficiency and productivity.

CEOs, in fact, have only become more demanding in that new initiatives that are to impact these metrics are also subject to investor-like scrutiny that demands that mobile solutions be implemented quickly (typically within one quarter) and provide a return on investment (ROI) of less than one year.

The m-commerce phenomenon presents new business opportunities to address these concerns. The main way to conceptualize the opportunities is to dissect the drivers for growth/revenue and productivity/efficiency (ie dissect the drivers for profitability) into the specific growth processes that underpin each, as illustrated in Figure 4.12.1.

Consultants will help the CEO to diagnose how effective the organization is at using converging mobile technologies to:
Figure 4.12.1 The m-business profitability pyramids

Source: Borgo Consulting and Frost & Sullivan
identify, target and convert new customers, and to retain and evolve existing customers (customer acquisition/retention);
- explore new products or services now possible (diversification);
- use the mobile device as a channel to market (distribution);
- use the mobile device as a medium for communicating with your customers (communication);
- automate business processes (automation);
- integrate the supply chain (supply chain integration);
- integrate the workforce with your back office systems and your suppliers (accessibility).

Given the number and variety of areas to focus on we have presented only one profit-stimulating business process from the growth and revenue enhancement ‘pyramid’.

**Strategic marketing**

The decision to adopt an m-commerce strategy and the design of a vehicle for market-entry provide opportunities to extend a company’s brand, to enhance customer relationships and to drive revenues from previously impossible market offerings. Such opportunities spur the need for a strategic marketing plan that achieves these objectives over the mobile Internet.

Companies will wish to leverage existing assets as far as possible. Therefore, key areas of analysis will be the extent to which products and services, supply and distribution networks and customers are compatible with mobile applications. This will, to a great extent, be driven by a top-level decision as to whether the company wishes to utilize m-commerce or the primary business model as a support channel to market. Either way, a two-pronged approach will be required.

On the one hand, m-commerce opens up a whole new array of possibilities for what can be delivered to the client. Here we are thinking of the integration of localization and other personalization technology, where a ‘pull’ strategy to marketing, which stipulates demand from the client, can be implemented as effectively as a ‘push’ strategy. Conversely, the focus on the consumer should not be lost. Companies will need to look to the market to assess requirements and match these to both their strategies and capabilities. This assessment will provide the foundation for a strategic approach to the development of a value-added services portfolio that will support the core products and services but will add the incentive to utilize the mobile platform.
M-commerce strategies

We have looked at how and why m-commerce is developing and what is driving it, as well as the impact that the underlying trends of technology and communications are having on the structure of the market and the dynamics of companies. We have also looked at the broad impact that m-commerce has on companies’ approaches to various key strategic activities, as well as the role that consultants play in assisting their clients through the process of identifying the impact of market trends and the scope of this impact on a number of strategic activities. In addition, it is important to identify the particular ways in which companies can adopt m-commerce strategies and the way in which consultants can help to guide their clients through what is essentially a strategy selection process. Clearly, not all companies will wish to go down the same m-commerce route, given the interests that may be at play as well as particular product or distribution barriers that prevent companies from exploring certain channels.

Companies will adopt m-commerce strategies for a variety of reasons; these will include using it as:

- a competitive weapon (in which case we can probably infer that they are emulating another player’s move);
- a revenue generator;
- a cost reducer;
- an opportunity to extend a strong brand.

There are essentially two ways that a company can achieve any of these results to varying degrees; this approach is rooted in the most basic tenets of strategy. In theory, companies can either seek to gain further expansion of their customer base while focusing on existing products and services, or seek to diversify their product and service portfolio within their key markets. In this context, we present a model that incorporates these strategic alternatives in Figure 4.12.2.

In practice, there is no absolute trade-off between expansion and diversification strategies. Rather, companies will position themselves somewhere within that matrix and pursue both to varying degrees. Therefore, we have associated high and low levels of focus to each of the axes, giving four quadrants, defined as:

- m-support: a strategy whereby a company utilizes the m-commerce channel as secondary to existing channels, which may or may not already involve e-commerce. Apart from strategic or political reasons, companies
may pursue this strategy on the basis that their products, services, distribution networks or customer base lack synergy with the mobile Internet.

- **m-expansion**: a strategy whereby a company wishes to further tie in existing customers and proactively generate new customer segments through creative use of new distribution strategies that are enabled by m-commerce. The focus will be on delivering additional existing products and services to an expanded marketplace.

- **m-innovation**: a company will utilize the m-commerce channel to explore new products or services that are now possible. The company may wish to enhance the user experience for the existing customer base. The focus will be on delivering new products and services to existing customers.

- **m-transformation**: a company adopts the m-commerce channel as a primary means for both marketplace expansion and product/service diversification; this is the most advanced business model. Not all companies can or should pursue this approach.

It becomes a management consultant’s role to assist companies in identifying and defining what their strategic intent is in relation to entering the m-commerce market. But this is only the beginning; companies will need to address the many issues that will allow a successful implementation to take place. The extent to which this support will be needed will clearly depend on the objective the company defines and its position within the m-commerce adoption matrix. However, such support will typically involve, among other things, partnership search and selection, business design and organizational change, and content and service strategies. Over time there will also be strategic developments that consultants will assist companies in realizing in relation to both method and timing to
move up the matrix to higher levels of expansion and innovation, potentially transforming the company’s business model.

It may be useful to briefly look at the impact that different strategic choices can have on approaches into the m-commerce market by looking at a live example. The quiz show *Who Wants to Be a Millionaire?* was broadcast for the first time in the UK on 4 September 1998. Within the first year the show was sold to 77 countries and today 100 countries have the licence for the show. Celador, the owner of the production, only stipulates that the decoration, rules and music should be the same in all versions.

After having launched the most commercially successful TV quiz show ever, Celador realized the potential of extending the reach of the brand by finding new channels to market, and targeting and involving individuals directly. Celador also wanted to attract users who would otherwise not spend time watching the TV show. *Who Wants to Be a Millionaire?* is now available in many different formats: on arcade gaming platforms available in bars and restaurants, as a physical product to be used by families at home, as a computer game and as an Internet-based game on many of the Web sites owned by the TV stations owning the licence for the game.

From here it was not hard to see the potential to include the mobile medium as another complementary channel for the brand. The mobile device would provide an additional gaming platform that is much more linked to an individual user – Celador partnered with game developer Codetoys to create a mobile quiz based on short messaging service (SMS). The SMS version has, since its launch, become one of the most successful mobile games ever, with millions of messages generated each day.

Going forward, the mobile version of *Who Wants to Be a Millionaire?* will be relaunched using the latest mobile technologies, such as multimedia messaging (MMS) and Java, adding colour and multimedia components to the game that could stimulate true mass market uptake and increase its success even further.

Celador’s market entry strategy is an extension of its existing distribution strategies, making it essentially an m-expansion strategy according to Figure 4.12.2. Celador has currently positioned itself at the lower end of the investment and control spectrum, therefore also emphasizing that its mobile strategy is a support channel to its existing products and services. The extension strategy basically involves providing customized services that are defined by end-user requirements.

Currently the rationale for Celador’s partners in the business model sits with the fact that it will be leveraging the millionaire brand to attract end-users. For Codetoys, this means that mobile network operators will
be attracted to its games portfolio, while for the mobile operator, it means that customers will be using more data services on the network in addition to plain voice calls. The business model is based on the mobile network operators paying an application licence fee and sharing a portion of end-user fees with Codetoys, which in turn pays Celador a licence fee for the right to use the millionaire brand.

**Conclusion**

The mobile Internet presents a clear opportunity for companies to position themselves within the m-commerce and mobile services arena. To do so successfully, companies must develop strategies that leverage their current asset base and internal competencies. Clearly, these internal drivers must be matched with the external demands for products and services from the market and specific consumer groups.

The reasons why a company would wish to enter the mobile arena are many, but can essentially be boiled down to two extreme decisions: namely that of diversification and that of expansion. These are not ‘either/or’ strategies that a company is forced to choose between – rather companies will elect to pursue both to a degree that they can through synergies with the mobile platform or the level of commitment to transforming the business into an m-business.

The role of the management consultant within the m-commerce market is distinct from other forms of consultancy, not so much from a process or relationship perspective, but rather from a competency perspective. From a process perspective, consultants will carry out many of the traditional tasks like building business cases, designing business models, providing financial models and defining road maps to implementation. However, when determining a strategy to enter the m-commerce market, there will be a greater emphasis than ever before on uncovering what products and services the consumer will want and designing value-added portfolios around the results.

However, more important than the process will be the emphasis on certain competencies that are required of the consulting firm that will allow it to help a client understand convergence trends and the impact of those trends on organizations. Such competencies will involve experience in those sectors that are driving convergence, telecommunications and media, as well as the underlying facilitator, technology. These competencies will be sure determinants for the design and implementation of a successful strategy to enter the m-commerce market.
Enterprise resource planning to e-business: the opportunities*

Sarah Taylor and Barry Curnow

Introduction
Clients have invested heavily in enterprise resource planning (ERP) and can be forgiven for wondering about the implications of the shift to e-business. Much has been written about the opportunities for the consultancy industry but what does it mean for clients? In order to set this in context we will reflect on the development of our industry, its relationship with technology and the implications for the future of consultancy.

History
In recent years the development of management consultancy has been inextricably bound up with that of information technology (IT). We should remember, however, that management consultancy was around long before the first computers: Arthur D Little was established in 1886, Arthur Andersen in 1913 and McKinsey & Company in 1926. The last 10 years have seen phenomenal growth in the sector, with global revenues rising from less than US$10 billion to over US$100 billion between 1991 and 2001.

*This chapter was prepared from a talk originally given to a consulting audience by Bruce Petter, Executive Director of the Management Consultancies Association, in December 2000.
Who would have thought 20 years ago that five of the world’s largest IT consulting practices would grow out of traditional audit-based firms? Who would have thought that IBM and Cap Gemini Ernst & Young would be ranked as global leaders in consultancy?

Over the last 10 years IT decisions have moved from the backroom to the boardroom, as technology has become a key business driver. There is no longer such a thing as a pure IT project or a pure strategy project. Clients are demanding ‘end-to-end’ solutions combining management consultancy and systems integration. Technology has enabled clients to operate on a global basis and their consultants have had to match their global reach.

The development of ERP

ERP was the first major IT investment for many clients, often a rite of passage that marked a company’s transition to the new technological age. The need for year 2000 (Y2K) compliance provided an extra impetus for ERP as organizations chose to invest in it rather than modify their legacy systems. Consultants had a key role to play here in ensuring that business processes were appropriately ‘re-engineered’ and that those within the organization supported and implemented the changes. Unfortunately, many implementations were done hurriedly without consultancy input and, as a result, failed to deliver the expected benefits. ERP enabled organizations to manage their operations more efficiently and to reduce their costs, but in some cases it has still not delivered real value.

Another phenomenon of the last 10 years has been the massive growth in the outsourcing industry, much of it IT related. The US outsourcing market was estimated to be in excess of $300 billion for 2001. Here again, management consultants can make the difference between a highly successful outsourcing contract and one that delivers little value.

A recent survey carried out by PMP Research provides a breakdown of consultants’ revenues (Figure 4.13.1). Non-IT-related work represents only 12 per cent of revenues for the group questioned.

The statistics for MCA firms in 2000 showed that IT consultancy and systems development represented over 25 per cent of income and outsourcing consultancy over 30 per cent. That’s over 50 per cent of consultancy income from predominantly IT-led projects.

Both surveys reflect the fact that as IT moves up the business agenda, it also permeates all areas of management consultancy.
Recent trends

There are four main recent trends: ERP; small to medium-sized enterprises (SMEs); enterprise application integration (EAI) and e-business.

ERP

Understandably, those who invested heavily in ERP in the 1990s are reluctant to discard it and start again and indeed there is no reason for them to do so. No one disputes that ERP provides a solid foundation for an efficient back office and supply chain.

However, as the focus of client management shifts from cost savings and internal processes to adding value through improved customer management, ERP vendors are now offering a whole new generation of products which enable organizations to be more responsive to customer needs:

- Customer Relations Management (CRM);
- e-business;
- sales-force automation;
- warehouse management.

Many clients have also learned from their first experience of ERP that consultancy support is needed to get maximum return on investment through effective change management, process re-engineering and communications.
SMEs

EAI is allowing SMEs to purchase affordable ‘off-the-shelf’ ERP solutions, or to bring together a selection of ‘best of breed’ solutions. This will provide opportunities for those consultants who work in the middle market and those involved in incubator or venture capital activities. For many Management Consultancies Association (MCA) members – even the largest – the ‘middle’ market is a new key area of concentration.

EAI

EAI will give customers more choice and will force ERP vendors to unbundle their products and integrate them with ‘best of breed’ products for CRM, e-business and similar applications. Ultimately, there will be more choice and flexibility for the customer.

EAI removes the need for large and costly systems integration projects and enables integration to be more flexible and responsive. The role for consultants here is to ensure that the right products are used for each organization and that products can be replaced or updated according to changing circumstances.

Knowledge management

Another growth area is the field of knowledge management software. Firms are recognizing the need to retain the knowledge and skills within the organization, but in a very different and much more flexible working environment. There are some real cultural problems here, and therefore, real consulting opportunities as well.

E-Business: the digital revolution

It is estimated that 30–50 per cent of the fee income for large consultancy firms is now generated by e-business work. There are a number of discernible developments:

- technology driving change;
- incubators/investment;
- new entrants;
- alliances;
- flotations/stock options;
- war for talent.
In a recent PMP survey consultants were asked whether they believed that the demand for ERP solutions was slowing down. A slowdown in ERP activity has been anticipated for some time, and while consultants were not experiencing it in 1998, by 1999 the softening in the marketplace was clearly identifiable.

MCA statistics showed a drop in IT consultancy revenues in 1999 after an exceptional year in 1998 (Figure 4.13.2).

![Figure 4.13.2 Is demand for ERP solutions slowing down?](image)

The principal reasons for this slowdown were market saturation and the fact that the Y2K had actually arrived (Figure 4.13.3).

![Figure 4.13.3 Reasons for slow-down or increase in demand for ERP solutions](image)
Although some commentators believe that this slow-down is temporary, the underlying reason that might prevent a resumption in take-up is that ERP solutions at the top end of the market are no longer seen as leading edge and that the emphasis has switched to e-business and CRM development. In other words, the relentless pace of technological change has rendered yesterday’s perfectly good functionality less fashionable alongside today’s capability – made possible not least by the success of, and feedback from, the near global adoption of ERP by corporate enterprise.

The range of interpretations for the moderating demand for ERP solutions is illustrated in the following survey responses (Figure 4.13.4).

“Because a lot of organisations already have ERO. But to be competitive it is now critical that they develop areas of functionality such as e-commerce, business to business procurement and supply chain management.”

“Because no one has any need to spend three years implementing a financial system. Things can be done more quickly – the web has changed everything.”

“Because of 2000, most people have replaced their software and hardware.”

“Because of SAP they are extremely aggressive.”

“Different ways of implementing systems such as application service provision – rather than implementing in-house.”

“For the simple reason that the market has been saturated and also because of the perceived inability of organisations to receive the return on investments for these systems.”

“It is changing, there is a new climate – ERP vendors need to shift their value position offering new modular products to clients – it is changing towards a new business climate.”

“Superseded or diluted by cheaper middleware solutions – depends on how businesses operate over the next few years.”

**Figure 4.13.4** Comments on the slow-down in demand for ERP solutions

*Strategic Alliances – IT Consultants and Vendors – Cycle 4 – 1999.*

With the advent of the Internet and the dramatic growth of e-business, technology is no longer just an enabler but a driver of change. E-business is forcing organizations to address their customers, partners and suppliers in an integrated way. This, in turn, is having a fundamental impact on the management consultancy industry: the large firms estimate that up to 50 per cent of their income is now coming from pure e-business consultancy.
Many consultancy firms have become key players in the new economy through their incubator and venture capital activities. For example, Accenture, McKinsey and Bain all have incubators that develop and launch dotcom start-ups, often providing consultancy in exchange for equity. Accenture’s e-units allow staff to share in the wealth created by their venture capital operations around the world.

A number of pure Internet consultancies have emerged, such as Scient, Viant and Sapient, many transferring skills, experience and staff from the USA, where the e-consultancy market is more mature.

Many consultancy firms are entering into alliances with software suppliers, telecommunications or communications conglomerates in order to provide a broader range of services to their clients and extend their global reach. Cisco still has a 10 per cent stake in KPMG Consulting. In 2000 Cap Gemini purchased the consultancy arm of Ernst & Young has launched a global telecommunications consultancy firm with Cisco. Deloitte is working with WPP to provide e-marketing solutions through Roundarch.

The Securities and Exchange Commission (SEC) is trying to increase controls on the consultancy work provided by audit firms to its clients. One response is to float the consultancy business. KPMG achieved an initial public offering of its US business, PricewaterhouseCoopers (PwC) is considering a similar move and Accenture has published its prospectus – although as we go to press the latest rumour is that EDS is interested in PwC’s consultancy business. Flotation also provides the opportunity to access money markets for the much-needed capital for expansion and, in the war for talent, stock options are becoming a powerful weapon. However, opinion in the industry is divided on flotations and, doubtless, a variety of other solutions to the problems of SEC interference and need for capital for expansion will emerge in time.

Many consultancy firms experienced high staff turnover as competitors poached their good people or the lure of the dotcom became irresistible before the bubble burst. In response, many of the more traditional firms have to rethink their whole structure. Young high-flyers want, and expect, to become partners sooner and to share in the profits.

**Future investment in IT**

PMP research into future IT investment shows e-commerce as the most likely area for IT investment (Figure 4.13.5). It is seen as a key
consultancy opportunity as clients seek to realign their businesses either to capitalize on the opportunities afforded by Web technology or to react to the threat of competitors doing so.

The PMP survey showed that ERP, as well as business intelligence, data warehousing, sales and marketing, would continue to provide consultancy opportunities. In reality, these areas are interrelated and reflect the client’s different stages of systems development. Areas of growing significance are cross-enterprise applications (or EAI). Consultants revealed that they would be placing greater emphasis on partnering in the future.
Consultants were also asked what they thought were the key factors in a successful vendor partnership. The key driver was identified as e-commerce strategy at 15 per cent; significantly ERP is down to fourth place at just eight per cent (Figure 4.13.7).

**Figure 4.13.6** Whether firms will place greater emphasis on working with ‘best of breed’ vendors in the coming 12 months

**Figure 4.13.7** Views on partnering strategy over the next two years
The future

Following the dotcom restructuring and the economic downturn, what does the future hold for management consultancy beyond ERP in the new world of e-commerce? Consultancy firms are becoming directly involved in the next economy rather than simply enabling it to function. Their venture capital, incubator activities and alliances are making them key players and active participants. Their extensive networks across and between industry sectors puts them at the heart of the ‘next’ economy.

The next economy moves much more quickly than the old; this requires consultants to be more flexible and entrepreneurial than their old economy counterparts. Strategy has to be constantly modified and objectives re-evaluated.

The client–consultant relationship is changing and the boundaries are blurring. Consultants can become part of the client organization for periods of time, may invest in them and ultimately share in their profits. Consultancy firms, which have historically competed, are now working together on client projects.

Consultants will play a key role in e-procurement, digital marketplaces, supply chain, CRM and outsourcing. Many of the larger firms are already launching separate e-business brands, eg Roundarch (Deloitte/WPP) and Metrius (KPMG Consulting).

Venture consulting will increase as consultancies use their networks and skills to identify and nurture business opportunities. This will also provide those firms with a means of attracting and retaining their best people, allowing them to develop and use entrepreneurial skills in the security of a large firm. In addition there will be greater convergence within and outside the industry as firms cooperate and merge in order to better service their clients.

The future looks bright, but of course technology alone cannot provide all the answers. However, if the right technology, sound business practice and innovative consulting are harnessed, the possibilities are extensive. The strategists have to understand more about IT and the IT vendors more about strategy and business. Both have to understand the cultural implications of the rapidly changing workplace, which is affecting everyone in this industry.

We must never forget that the achievement of real business value is paramount. Indeed it is the only reason that clients will continue to value and use the services of management consultants.
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Promoting British Expertise Worldwide
Introduction

We are often asked how firms or individuals should go about working internationally rather than at home and this particularly applies to the developing world. There are many misconceptions, ranging from complete ignorance on how even to get started to total overconfidence. At times, for example, there is what I would call the scattergun mentality: ‘We intend to work throughout the world!’ An admirable ambition but not generally achievable when starting internationally from scratch.

The perceived wisdom is that working on consultancy projects in the developing world is fraught with problems, so much so that it is a step many firms are reluctant, or even refuse, to take. This is a great pity – the long-term rewards of working successfully in such countries can be of enormous benefit to the recipients, many of whom are suffering from abject poverty. It is an excellent way for the firm concerned to gain experience and enhance its profitability and a useful way potentially to establish trading partnerships between the client country and that of the consultants. In my experience, the healthiest companies financially are those that maintain a ratio of roughly 60 per cent of projects at home: 40 per cent international projects. Inevitably, there are hurdles to be jumped and pitfalls to be avoided, but provided consultants set about doing work internationally in a planned and well-structured manner, there are only marginally more problems to surmount than there would be at home.

In this chapter I would like to discuss the ethos of working in the developing world, the techniques for identifying work, for establishing consortia and the different potential areas of funding and bidding for
projects. It would also be useful to highlight some of the risks involved and to make some comments about being paid!

Background

In most countries of the world, even the poorest, there is a history of using consultants to assist in the distribution of both aid and economic development. Such consultancy is not, of course, confined to management and institutional development but encompasses all sectors ranging from agriculture, health care and infrastructure to, as economic stability is achieved, such areas as sport and tourism, cultural development, retail, etc. There are few sectors – irrespective of their technical nature – in the developing world where a large element of management techniques is not required. The provision of advice is not confined to consultants; anyone in this area must be prepared to work in conjunction with those in the voluntary sector and the non-governmental organizations (NGOs), etc.

Naturally, developing countries have a fierce sense of pride and independence. The result is that a small minority resents the imposition of international consultants, feeling that they are quite capable of doing the job themselves. An even smaller minority does not even understand the concept of consultancy and regards the expenditure involved as a waste of resources. I was, for example, given a hard time by a minister in the Asia Pacific region over why his newly graduated engineers should not do the task of a highly experienced international consulting engineering practice. It was only when I gave him the analogy of a patient being given a heart transplant by a newly qualified doctor without experience that he started to get the point!

At the same time those new to international work should beware of making the mistake, as many of their predecessors have done, of thinking that developing countries have no national consulting capability of their own. It is often difficult to identify appropriate firms, but a vital ingredient is to establish local partnerships. However good a consultant may be at his/her specialist subject, without local advice it is simply not feasible to produce a balanced result. Examples are legions of companies that have gone into developing countries and tried to impose criteria more appropriate to California, London or Rome. This highlights the reason why those who win repeat work have offices in locations where the preponderance of their employees are local staff. I will return to the topic of choosing partners later.
Identifying target markets and the types of consultancy required

Some 15 to 20 years ago it would have been possible to say that virtually all developing countries required all types of consultancy, but, as already highlighted above, a substantial element of the work can now be bid for and successfully completed (and at a lower price) by local consultants. Indeed, there was a measure of resentment that for too long the international financing institutions (IFIs) and bilateral donors have continued to give work to international consultants when an equivalent national capability existed in the recipient country.

Those countries borrowing money, for example from the World Bank, resent having to pay international fee rates; at the same time their national consultants resent the fact that they are paid a lower rate for what appears to be the same job. This has led to the IFIs adopting a not unreasonable policy of trying to allocate at least 40 per cent of projects to local consultants or firms resident in the region with local employees. Once again this is a reason for establishing a local office with local staff.

Given this trend, it is clear that anyone wishing to work internationally must be capable of providing a combination of hi-tech or state-of-the-art advice and the experience that can enable the recipients to shortcut the development process and avoid the mistakes and pitfalls that others have encountered. This is the most convincing argument regarding why countries should import consulting advice.

The Internet has revolutionized the way projects are advertised. All IFIs, such as the World and Asian Development Banks, the European Bank for Reconstruction and Development (EBRD), the European Commission and many national agencies, such as the UK’s Department for International Development, now advertise projects on their Web sites (these incidentally can be accessed through BCCBs). Projects are also advertised in the local newspapers of the country or region concerned.

Although this is potentially a good method of acquiring some types of projects, it is the companies that have done their homework earlier who will get themselves on the fast track. They will have visited the country of interest, made preliminary contacts, even established partnerships or tentatively appointed agents, and started to sniff out potential projects. In some cases, by the time a project is advertised, the client will have a pretty good idea of some of the firms they would like to shortlist and have met
the personalities involved. Such a head start is considered vital by most firms experienced in international work.

In a developing country the potential for identifying work in the private sector is, by definition, going to be somewhat limited, but should not be underestimated. The technique is similar to work for government, although of course such contracts are not going to be advertised as they are in the public sector. It is therefore imperative that those seeking work should get to know the target market. The resources of effective commercial representatives in embassies can be key in identifying such potential opportunities. Another method is to establish partnerships with other consulting firms that are more experienced; the advantages of this are explained more fully below.

‘Piggy-backing’

The biggest impediments to a new firm being selected for shortlisting regards the client’s or IFI’s lack of experience in the country or region concerned, or the client’s lack of experience in working for that specific IFI. One technique of getting the necessary consulting experience is to become a subcontractor of someone who has, ie a ‘piggy-back’ technique. BCCB is approached by potential governments or individual clients from all over the world on a daily basis to find UK consultants, but six times out of ten previous in-country experience is required. Our advice to those consultants wishing to get started is invariably to work for a fellow consulting firm, unless of course the type of consultancy is unique and a client will accept a firm’s services anyway. Such identification of potential partners is one of the roles of international consultancy associations.

Partners

Working together with local consultants is no different from working in partnership with firms in one’s own country, with one notable exception: there are often cultural differences to be borne in mind. Too often these can be exaggerated, but experiencing them can help international consultants to better adapt their work to the local environment.

The techniques for determining whether a partner of the same nationality is competent, financially sound and reliable needs no explanation from me. For a developing country project, however, it is often difficult enough when seeking either international or local partners to identify suitable firms, be they other consultants or contractors, and even
more difficult to determine their professional standing. For a long time the IFIs have been pressed to organize better databases throughout the world of local firms, including consultants. Too often unfortunately such information is patchy, seldom complete and not based on professional competence.

Limited assistance in identifying firms can be given by the commercial staff in embassies, consulting organizations and Web sites. It is money well spent to use the services of professional firms whose role is to give advice on such matters (especially financial), together with more general political and financial risk, for the country concerned. Once again fellow consultants – unless they are in direct competition – can also be very helpful. In my organization alone, for example, member firms were last year not working in only three countries of the world; the level of corporate knowledge is therefore very high.

**Funding**

One of the greatest ‘fears of the dark’ concerns the ability to get payment for carrying out this type of consultancy. Of course there is a need for prudence, but today, for the most part, anyone working in developing countries can apply the same acid test as they would at home. Inevitably the cases of bad debt are the ones that are highlighted and the vast proportion of satisfactory business transactions never reach the headlines. That said, it is sensible for someone beginning such work for the first time to either be, as stated earlier, a subcontractor of another firm with experience or working under an IFI-funded grant or loan. However, if, for example, the World Bank is providing a loan (and the same goes for many other IFIs), the contract will be with the client country and not with the bank itself. The bank, however, can usually provide a sensible safety net to ensure that payment is made for satisfactory work.

In spite of this, it is advisable (and in some cases compulsory) that some form of consultancy indemnity insurance be taken out. Similarly, credit guarantee cover (for payment) is sensible. Most countries, except those with extensive political risk or in major financial difficulty, have some form of formal cover provided by, for example, the Export Credit Guarantee Department (ECGD) in the UK, and this can be negotiated for many different types of activity.

When the situation is less secure financially, such cover may not be available and consulting firms would be well advised only to do work
where payment arrangements are solid, underwritten by the IFIs, or by, for example, a multinational company. Some private insurance brokers can also arrange cover. It is also worthwhile checking what the arrangements are in the event of a legal dispute. Even if judgement is awarded, it may be difficult in a small minority of countries to ensure that a judgement is served and enacted.

Taxation and currency

The majority of countries in the world have bilateral personal taxation agreements. Furthermore in the preparation of projects, the tax liabilities in terms of corporation and all manner of other taxes, should be made clear. However, this is not always the case, and as such it is essential that you are quite clear on what your tax liabilities will be in carrying out and being paid for the consultancy. There are well-documented examples of consulting firms that have, on the face of it, made an excellent profit only to find that the price they quoted for the project did not include the tax liability.

Another area to be checked concerns currency exchange restrictions. Clearly there is no point in doing a project only to find that the currency must by law remain in the country concerned. And finally, what currency are you being paid in?

Registration, expression of interest, shortlisting and project award

Before a firm will even be invited to submit a proposal, many IFIs, national governments, etc, require consultants to be permanently registered with them and/or to make an expression of interest for a particular project. Unfortunately virtually all international organizations have their own procedures and it is only by careful study of the appropriate Web sites or attending suitable courses that you will learn who requires what. Oh for worldwide standardization! Clare Short, the then UK Secretary of State for International Development, highlighted the problem in Tanzania where some 43 different IFI and bilateral funding agency procedures were in use. Nevertheless such study will be rewarded – there is plenty of work to go around and careful preparation of proposals will result in shortlisting. There are, however, no short cuts.

Often nationality can be an issue, and a good technique is to have member firms from the client country and, where possible, from more than one
country. It is becoming increasingly evident that those seeking international consultants are much more likely to select a consortium with members from more than one nationality. Take care however! Some organizations, eg the Asian Development Bank, will only accept nationals whose countries are members of the bank. Also, sometimes shortlists may only contain, as they do for the EBRD, two shortlisted firms from any one country.

**Winning the project**

It may seem a blindingly obvious statement but a few inexperienced firms put all their efforts into writing and winning a proposal without looking at the practicalities if they actually win – movement of personnel, initial finance, appropriate equipment, accommodation, timing and a host of other details. Being caught on the back foot over such preparation can lead to an indifferent start to the project. It is therefore axiomatic that a sensible degree of outline planning should be done when winning the project looks like becoming a strong possibility.

**Project delivery**

Carrying out the project can produce no more difficulties than it would if done at home – discounting, of course, terrain and climate! However, there is one significant point that should be underlined: many projects evolve as they go along, but should the client (particularly if an IFI is also involved) want extra work performed, this should not be done on a hand-shake but should be negotiated and agreed in writing. One of the principal causes of payment difficulty is generated by inadequately authorized contract extensions.

**Getting paid**

In a comparable way, nothing should be left out of a written contract. One area that can generate discord is bonus payments for a successful outcome. Again the wording of these must be totally unambiguous and legally enforceable.

Should a firm experience payment difficulties and an IFI is involved, it will often be incumbent on that IFI to assist the firm in reaching a satisfactory outcome. Other avenues are to use consultancy trade associations with experience in dealing with recalcitrant clients or, again, to use the services of an embassy in the country concerned to put pressure on the
client country (if it is a public-sector project). It is often better to use a trade association such as BCCB to work for you rather than to be deemed a troublemaker and risk the goodwill so valuably needed to obtain future projects. I have had experience of IFIs reluctant to use companies they feel complain too stridently.

The follow-on

Few projects in a developing country should ever be regarded as an end in themselves. Even before winning or carrying out the first project, consultants should be looking at the potential to bid for others. Developing countries, the funding institutions and potential partners in consortia don’t have time for those who want to do a one-off project – except in special circumstances.

Conclusion

In a short chapter such as this it is all too easy to highlight problem areas to give the impression that international projects are too difficult to undertake. I am fortunate in representing well over 300 firms, all of whom are working successfully throughout the world. The majority of them win projects in some of the world’s most challenging markets. And you can too! There are five points that I would underline:

- Remember, many firms and individuals in developing countries have far more skill than the developed world may give them credit for. It does not therefore pay to be patronizing.
- Use all sources of advice.
- Initially, keep your ambitions modest.
- Working in developing countries is not as difficult as people would have you believe!
- The rewards are normally financially reasonable, but rich in terms of seeing progress made in the country concerned.
Management consultancy in the oil and gas industry: managing the contradictions and complexity of corporate social responsibility

Michael J King

Making a difference

As major oil and gas companies face up to the conflicting demands of shareholders, employees and the social environment, management consultancies can play a very positive role in helping to determine options and priorities, and to deliver business change – typically underpinned by information technology (IT). Before the best way of deploying IT for business advantage can be determined, however, you first have to assess business priorities and address the conflicts faced by major corporations. Although these conflicts are not unique to the oil and gas industry, the global spotlight is constantly directed on it – particularly with the intervention of Greenpeace and others in operational and policy areas – so that whatever it does is exposed to the rest of the world.

This chapter explores today’s most pressing corporate dilemma for the oil and gas industry – corporate social responsibility (CSR) – and sets some pointers as to how management consultancies, like Schlumberg-Sema, can add value and make a difference.
Contradictory expectations

Expectations of the corporate organization have increased significantly. Not only do they have to deliver economic wealth, they must also deliver it against a social and environmental agenda.

Although the world of CSR is evolving, it is still creating what Cor Herkströter, Chairman of Shell at the time of the Brent Spar incident, called ‘contradictory expectations’ – customers demanding greater choice and product performance, but with less environmental damage. This challenge is not confined to the extractive industries but our analysis suggests that oil and gas often leads the response. We also think that the process of ‘contradictory expectations’ will increase.

Let us take a look at some of the key drivers behind this change in the business environment. We will then examine how management can make the most effective use of consultants to drive forward the enterprise’s CSR response. Finally we will discuss the benefits of positive responses and use cross-industry analysis of CSR performance to demonstrate that this is not mutually exclusive to delivering superior financial returns.

What is CSR?

The many different interpretations of CSR can cause considerable confusion.

When President Bush talks about ‘corporate responsibility’ he is referring to ethics within a legal framework where directors are held responsible for the actions of their company. But is legal accountability the same as social responsibility?

The World Economic Forum’s\(^1\) definition of corporate citizenship offers an extra dimension. It defines CSR as:

> the contribution a company makes to society through its core business activities, its social investment and philanthropy programmes and its engagement in public policy. The manner in which a company manages its economic, social and environmental relationships, as well as those with different stakeholders, in particular shareholders, employees, customers, business partners, governments and communities determines its impact.

Similarly the World Business Council for Sustainable Development\(^2\), with a growing library of best practices, defines CSR as ‘the commitment of

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\(^{1}\) http://www.weforum.org/corporatecitizenship
\(^{2}\) http://www.wbcsd.org
SCHLUMBERGER SEMA COLOUR EDIT
business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life’.

These are not just abstract concepts. Their relevance is evidenced by the creation of the Dow Jones Sustainability Index (DJSI) in 1998 and of the FTSE4 Good indices in 2001, which have built on the growth of socially responsible investing (SRI) in evidence during the 1980s. These stock market indices have their own assessment frameworks defining CSR performance. As a working model it seems that that of the ‘triple bottom line’ (economic, social and environmental) encapsulates all of the elements of CSR:

- economic return for investors and stakeholders;
- sustainable and sympathetic approach to the environment;
- ethical dealings in the wider community in which the enterprise operates.

Figure 5.2.1 shows how the World Business Council for Sustainable Development defines the triple bottom line.

![Figure 5.2.1 The triple bottom line](image)

The economic element – delivering value to investors, increasing profit for reinvestment and developing new business lines – is a given. However, most organizations will also have elements of the environmental and social domains, such as programmes to reduce waste and harmful emissions, and to manage health and safety issues for the workforce.
Forces driving CSR

Governments have recently looked at new legislation to increase control over the activities of corporations. The Sarbanes-Oxley Act in the USA together with previous Cadbury and Greenbury initiatives in the UK have sought to introduce and mandate best practices in board leadership, risk management and corporate responsibility. Various pieces of legislation exist to cover different aspects of environmental and social performance. There is also a growing pressure on companies to produce social and environmental reports. However, it would be a mistake to believe that compliance is an end in itself. There are significant risks associated with the complacency of compliance.

Figure 5.2.2 illustrates the major forces driving a considered response to CSR.

Global spotlight

Some companies are already experiencing this level of scrutiny from journalists, non-governmental organizations (NGOs) and auditors. Oil companies are frequently at the centre of controversial and sustained media coverage. The global communications infrastructure and Internet have accelerated the pressure that they are under. A chart from *The Economist* (Figure 5.2.3) illustrates the exponential growth of NGOs, many of which could not have operated effectively without this technology.
NGOs are well known within the oil and gas industry – the intervention of Greenpeace in the Brent Spar incident being the most high profile. These groups connect upstream and downstream issues in the minds of consumers, governments and other stakeholders. Frequently the actions of suppliers far down the supply chain can come to haunt well-known corporates, despite the fact that they may have very limited control or influence over them.

**Private sector ascendancy**

Increasing consolidation within the oil and gas industry has created organizations capable of competing on a global stage, which in turn has also created a perception that they are able to operate outside national legal frameworks. The oil sector, with the ‘mega-majors’ and global operations, are prime candidates for suspicion. Although this fear may not be justified, the perception still remains.

Private sector organizations have also taken on a greater role in most countries. From 1990 to 2000 more than US$900 billion was raised from privatizations across the globe – in some instances with state-owned and controlled oil companies being transferred into the private sector (see Figure 5.2.4).

It is often cited that 51 of the largest 100 economies in the world are corporations and only 49 are countries. Although the analysis behind this may be flawed and private sector organizations do not have the power of governments, this is another example of the perception that corporations are all-powerful.
Knowledge, brands and trust

In an era when product and service is increasingly difficult to differentiate, reputation and brand value take on greater significance for organizations and their investors. For the oil and gas industry there are high-visibility risks – hydrocarbon usage and climate change, pollution and the politics of the North Sea to name but a few. Consumers are still price sensitive, but it is increasingly likely that there will be a premium (either through loyalty or margin) for organizations based on their reputation and perceived values.

Another important source of intangible value is knowledge. The attraction and retention of employees, and their desire to leverage such knowledge for the benefit of the corporation, is an important organizational capability and a potential source of competitive advantage. Reputation, image and other intangibles are crucial parts of the mix in the competition for the best staff. At SchlumbergerSema we believe there is a need for supporting technology to move from the provision of ‘just-in-case’ information to ‘just-in-time’ knowledge; as such, we have implemented this internally on a global basis.

Figure 5.2.4 Privatization as a key driver
**Complexity**

A story cited by Ray Anderson\(^3\) (CEO of Interface Corporation) illustrates the complex ethical dimensions when looking at CSR. In the case of chlorofluorocarbon (CFC) development, scientists knew they had invented inert compounds that might accumulate and last for ever in the stratosphere. This raised the ethical question of whether these compounds could be produced safely. The scientists, however, reasoned that ultraviolet radiation would break the compounds down into their constituent elements, thereby eliminating the problem.

To identify the impact of CFCs on the ozone layer, they needed to ask the follow-up question of ‘and then what?’. And that is the point: complexity is not an excuse to avoid CSR. The principles of CSR require that such difficult questions be answered – particularly when the power of corporations is such that they are perceived to have perfect foresight. Decisions and investments need to consider a more complex set of scenarios, based on a wider set of potential stakeholders.

At SchlumbergerSema we believe that integrated IT is required to improve real-time decision making. The complexity associated with this is considerable, but not insurmountable – as shown by our experience as chief systems integrator for the Olympics.

**The corporate response to CSR**

It is our view that companies’ response to CSR splits into three broad segments, as illustrated by Figure 5.2.5.

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\(^3\) *Mid-Course Correction*, Ray C Anderson
The undecided and unaware
The undecided and unaware comprise a small proportion of the corporate base, who are completely unaware of the CSR challenge. Typically, they think it is an issue for extractive industries or for high-profile brand names and nothing to do with them. We believe few, if any, oil companies fit into this segment.

The searchers
The searchers comprise the majority group. They have observed the level of scrutiny of other organizations and are concerned that they might be affected too. They cannot see any consistency in the demands — CSR, sustainability etc — and usually decide to wait until it all settles down. However, the debate itself will have raised awareness of the challenges, which, if communicated in the right way, can provide a mechanism for organizational learning.

The pioneers
The pioneers have given the most thought to the complexities. Will sustainability contradict their legal duties to shareholders? Should they exit from countries with human rights issues or should they stay and try to be an agent of change? They are beginning to recognize that by confronting these issues they can leverage their brand, reputation and knowledge to create value from CSR. They are in tune with their environment and are developing a superior capability to identify risk and opportunity.

The role of management consultants
Corporate responses to CSR are characterized by high levels of uncertainty. Companies need to adapt a ‘learning model’ and a valuable part of this learning can come from the considered use of external consultants. Figure 5.2.6 illustrates that clients will have different consulting needs at different points in the learning process.

Use of consultants may span from a healthy challenge of existing assumptions and objectives through to supporting the implementation of business change, ie helping to align people, process and technology to the organizational objectives. Our assessment of the oil sector suggests that many companies are either in the assessment stage or grappling with the complexities of implementing CSR.
An enterprise-wide integrated response to sustainability offers the potential to create value but is challenging to deliver as it involves cross-functional change within an ambiguous environment. SchlumbergerSema consultants can add value with fresh thinking and answers to difficult questions that people on the inside may find difficult to ask, or indeed answer. We believe our collaborative approach to problem solving is also essential, as it can bring to bear our extensive sector knowledge with breadth and depth of experience from other sectors. Some points to consider before starting on this journey include:

- Be clear about the goal, objectives and benefits.
- Use consultants, NGOs and other external organizations as a catalyst for change.
- Be clear about where consultants can add the most value.
- Determine the organizational model – what is the role of the centre in setting and managing policy?
- Manage the network (the supply chain and industry response).
- Ensure that initiatives are aligned with business objectives and will deliver the desired benefits.
- Build your CSR capability into the organization, processes and culture.
Develop a balanced scorecard, including non-financial measures to complement financials.

The benefits of CSR

We have discussed the principal drivers for CSR and where consultants can help, but what will you gain by adopting a CSR strategy? There are three major benefits: risk reduction, growth and efficiency.

Risk reduction

Failure to act in a socially responsible manner may impact an organization’s ‘licence to operate’. Such sanctions may involve fines, removal of operating licences, embargoes and personal liability for directors. Some investors view CSR capability as a proxy for risk management capability – risk avoidance and response. Organizations credited with an effective integrated response will be perceived as less risky investments. Even if they experience a problem, this will be viewed as a one-off and not a source of ongoing costs and a threat to future revenues.

Growth

CSR provides an opportunity to differentiate products when quality levels are increasingly the same. Although consumers may not explicitly think of CSR, they associate certain values with the brand. As such, they may boycott certain brands if there are perceived ethical issues, eg in late 2001 boycotts were organized in response to Exxon’s apparent decision to support the US government’s refusal to accept the Kyoto protocol.

Efficiency

Operational efficiencies available through the reduction of waste go to the bottom line. An organization whose employees are motivated to identify and eliminate waste has a source of competitive advantage that can improve margins and reduce the cost base.
Realizing the benefits

Figure 5.2.7 shows the oil and gas sector as being among the leaders in its response to the CSR challenge.

The analysis of Figure 5.2.7 is based on data from the DJSI. The energy sector, as a whole, exhibits a performance that is above average compared to that of other industries, as measured along the horizontal axis. The performance of the leading energy company is also above average in relation to leading companies across other sectors, as measured by the vertical axis.

Some corporate planners are concerned that superior performance in CSR will lead to inferior financial performance. Conventional wisdom has long held the view that the sole purpose of business is to maximize profits. It is often stated that any distraction from that goal leads to uncompetitive organizations, increased costs to customers and the destruction of value for shareholders – a ‘lose-lose’ situation. Our analysis shows that this theory does not stand up to scrutiny.

At the time of writing there were 15 energy companies within the DJSI. These companies have been independently rated by the DJSI approach as leaders in terms of sustainability performance relative to peers. Figure 5.2.8 shows the performance for shareholders (as measured
by average annual returns over the period 3 January 1995 to 31 December 2002) of this basket of companies relative to the wider market (S&P500). There is a range of performance, but the majority of the organizations have outperformed the market over this period.

![Average annual returns chart]

Figure 5.2.8 CSR performance and shareholder returns

It is not possible to state from this analysis that these companies have delivered superior returns because of their sustainability strategy. Only the companies themselves will know the benefits that their approach to sustainability has delivered for investors. What is clear, however, is that the best responses build in mechanisms for learning, adapting and growth.

Moving towards a coherent CSR strategy does not have to be a leap of faith, but small steps help to decide what should be done differently on Monday morning. Most corporations already have initiatives to reduce waste, improve efficiency, understand customers and motivate staff – what they may lack is the glue to join those pieces together. However, it is important to remember that there are no shrink-wrapped solutions – that is why management consultants can help.

References

Anderson R Mid-course Correction

1 http://www.weforum.org/corporatecitizenship

2 http://www.wbcsd.org
Introduction

Would you like to double the resources of your firm without any additional cost? Do you believe it is important to effectively control the 65 percent of your supply chain costs that are delivered outside of your firm’s borders (GartnerGroup)? Two very different questions with the same answer – have you taken hold of the opportunity presented by strategic collaboration?

The concept of collaboration was originally developed by the Japanese *keiretsu*, where cross-company relationships within the large trading families replaced the need for legal ownership. When the West caught on, the term ‘partnership’ was initially used to describe the recognized need for traditional supply chain providers to operate with one another in a more ‘win-win’ and less confrontational manner. But, as the benefits of this approach became apparent, the term ‘alliancing’ emerged for relationships that became more strategic in nature. Today, with whole industry sectors such as oil, airlines, automotive, aerospace and telecommunications dependent on supplier–provider relationships to deliver their marketplace promise, ‘collaboration’ has become the more appropriate term to describe this rapidly growing phenomenon.

Already BP has oil platforms it does not operate, Vodafone has networks it does not own and Ford has car plants it did not build. But how do you choose if this approach is right for your organization? Let us consider four questions:

- When is a collaboration relationship appropriate?
- What models of collaboration exist?
How do you operate collaboration relationships effectively?
Where can the collaboration model take you?

Defining the need

Much confusion surrounds both the need for, and definition of, collaboration. In part this is due to the overuse of the word to describe electronic trading relationships during the dot.com mania. Indeed, whether the basis of transacting a relationship is electronic or physical is a poor indicator of its level of strategic importance. Quite simply, organizations should consider a collaborative relationship if two criteria can be met:

- Is the business objective that the collaborative relationship would deliver strategic?
- Are there external parties who have greater resources, capabilities or market power who could enable that business goal to be delivered more easily?

Collaborative relationships constitute only one model along the continuum of possible company-to-company interactions. The first foundation for success is ensuring that the scope of activity being considered for such a relationship level is appropriate.

Collaboration approaches may be used to achieve very different ends, and it is critical to understand the rationale and purpose of such an engagement. The reasons that General Motors collaborates with its tier one suppliers in the automotive value chain are quite different to why British Aerospace (Bae) entered into the four-company collaboration to create the Eurofighter. The founding members of the Star Alliance in the airline sector had a very different game plan in mind from Shell, when it created a six-company collaboration to more effectively operate oil platforms off the coast of Mexico.

Four models of collaboration

In principle, there are four strategic models of cross-company collaboration, which exist to achieve fundamentally different strategic outcomes. In some instances, the same company-to-company relationship can be used to achieve more than one of these goals, but if that is the case they are entirely different facets of that corporate relationship. These four models are:
capability-based collaboration: skills or competencies necessary to deliver an organization’s strategy are provided by a third party;

supply chain-based collaboration: this recognizes that delivery of the firm’s products or services to the end customer is more effectively achieved when strategic suppliers and customers are managed in a collaborative manner;

proposition-based collaboration: the desired product or service offering to the customer community can only be achieved through the combined resources of two or more organizations;

competitive-based collaboration: this uses the exchange of Porterian market power as the basis for mutual benefit.

For completeness, there is a fifth model of collaboration, which takes us right back to the Japanese *keiretsu*, whereby collaborative techniques are used in a situation where merger is the desired legal relationship, but where this is not possible for reasons of speed, legal barriers or corporate desire.

**Operating success factors**

Regardless of the collaboration model that is appropriate to your firm’s specific strategic needs, the process by which effective collaborative ventures are put into being follows a common path – the collaboration establishment process. This route map for collaboration success follows five clearly demarcated phases:

- phase one: evaluating the business case, both independently and collectively for the collaboration;
- phase two: taking part in transformation design and planning;
- phase three: conducting joint implementation planning which will take the aspired goals into operational reality;
- phase four: implementing the shared plan through the key deployment levers;
- phase five: evaluating results of the collaboration against its original business case expectations and driving improvement.

Throughout the process of collaboration establishment, as well as the ongoing management and monitoring of the collaboration, there are four critical success factors that will ensure its success:
Conduct a rigorous process up-front for collaborative partner selection. Never allow existing relationships to be a factor in defining a collaborative partner but instead focus on:

- agreeing design intent;
- developing a gate-based process;
- only having one company on the final shortlist.

Focus on achieving shared goals and values between the collaborative partners. This is at a strategic level, but it is also monitored in terms of operational realization of those aspired outcomes. It can be achieved by:

- adopting the framework of vision, mission and values;
- using parallel descriptors to understand relative perceptions;
- taking real life scenarios to test the goal and values.

Operate an integrated planning process that is not just up-front when the collaboration is bought into being, but is the ongoing mechanism by which the end-to-end processes of the collaboration are managed. Common information is shared through the governance structure of the shared entity by:

- linking objectives to organizational roles;
- balancing incremental and step-change opportunities;
- aligning the plan to measures.

Underpin the collaboration with a single, consistent and shared measurement model around which a ‘plan, do, review’ based performance management processes is performed. Ensuring that all parties are viewing the same information, in the same manner, against agreed performance standards is the base enabler for the collaboration to operate in an aligned manner. This can be achieved by:

- linking top level measures to operational activities;
- using portal technology to unify data and deliver consistency;
- including knowledge management in the scope of the model.

Towards a larger future

This type of company-to-company collaboration is all very well and can be good, but how far can this concept be stretched? Where could it end? Collaborative technology tools have begun to open up new possibilities for realizing the vision of joined up organizations. More significantly, they have painted a picture for what the ultimate prize could be — a fully networked industry.
All operating from the same enabling platform, sharing common standards and protocols, removing the non-added value costs at the organizational interface and flowing customer orders back up the industry value chain to raw material providers. However, this simplistic, perhaps idealistic model, of the future forgets the intense competitive dynamic that occurs in industries that are continuing to consolidate, are further globalizing and are blurring their boundaries with one another.

Choosing a path forward in the digital economy needs to go beyond just opportunities for reduced inventory, lower transaction costs and reduced unit purchasing power. The critical decisions relate to deciding which industry collaborations your firm should participate in, the consequences of doing so, and whether there are aggressive actions that should be taken to move the agenda forward. For example, the Star and OneWorld Alliances in the airline industry are as much about industry power as they are customer service. You can’t join both, so which horse do you back? And how big is the consequence of choosing the wrong one? Being ready to play in the networked economy requires five precursors to be in place:

- Absolute clarity and internal capability to manage the strategy of the organization: knowing what is and is not core and translating that strategy into market, process and organizational strategies, underpinned by performance metrics that can govern the way in which third party relationships are managed.
- A model for different types of business-to-business relationships that the firm operates, from 'spot' suppliers through to full collaborative partners.
- The operational implications of how each relationship type is managed, plugged into the network and the level of information sharing and integration that takes place.
- The competence and process for managing partners along this relationship continuum, both upwards and downwards as strategic need and partner performance change.
- An ability to evaluate customer, supplier and competitor reactions to choices that the networked economy brings, particularly in relation to value chain collaboration.
With these precursors in place, the options made available through increased networking in the economy offer benefits of aggregation and integration. The vehicle through which most of these benefits are now being offered is ‘net markets’ of some description – whether they be direct, private, independent or consortia-led. Choosing an appropriate response to what is still a forming landscape will be based on three factors:

- the level of consolidation in the industry;
- the degree to which the industry’s products and services are stand-alone;
- the current competitive power of your organization.

These choices ultimately show themselves as investment decisions, whether they be for internal projects, equity investments in new entities or contributions towards external industry initiatives. The manner by which these investments can be considered will depend on two criteria:

- the degree to which the investment is being considered as the result of the need to take a defensive action, versus an aggressive or opportunistic move;
- the degree to which the investment is being made due to a clear economic business case existing, rather than a strategic move to position the firm for the long term.

Closing thoughts

Over the past 10 years early concepts of partnering and alliancing (which originated from the Japanese *keiretsu*), the move to lean supply in the automotive sector and the next phase of customer–supplier relationships within the procurement profession have been catapulted into the front line of commercial success. The new world giants built their kingdoms off the back of effective collaborative relationships, and now when firms can recognize that the resources base of other organizations can be accessed without purchasing them, the traditional barriers to expansion have been lifted. New players are becoming global giants without building, making or owning any part of their operations. Just think of Amazon.

With the arrival of the digital economy have come new trading grounds: the collaborative net markets. Some have already fallen by the wayside; others are growing from strength to strength. And with that
strength comes the time to make long-term strategic choices with the slimmest of information and facts. Standing by while others make their choices is not an option. The landscape of this increasing global, consolidating and connected corporate world is forming. Choices bring with them risks, implications and consequences. What choices will your organization make in this landscape?
AUSTRIA

Herbert Bachmaier

The Institute was founded in 1985 and is an association representing management consulting and information technology consulting companies. Together with more than 130 other professional groups, the Institute is a sub-organization of the Austrian Chamber of Commerce. It is not an association based on voluntary membership but an organization under public law, which was created by an Act of Parliament to serve the special interests of the professions it represents.

This special Act of Parliament (the 'Economic Chamber Act') is what primarily distinguishes the Institute from other, private associations on which it is based, because it defines membership as compulsory. Therefore, every management consultant in Austria automatically becomes a member of the Institute. This fact explains why the Austrian Institute has so many members compared to the size of the country.

The Institute is an independent body and the government has no jurisdiction concerning the Institute and the Chamber of Commerce. Activities and policies are decided by the members through democratically elected representatives.

The objective of our Institute is to represent the interests of its members in all types of issues and problems confronting management and IT consultants. Our association has approximately 23,000 members – 2,300 management consultants and more than 20,000 IT consultants.

The Institute is a member of FEACO and ICMCI.
Management consulting and IT disciplines

The members of the Institute normally work in the following disciplines:

- general management consulting
- management practices in information technology
- strategic performance management
- corporate culture
- financial management
- mergers & acquisitions
- controlling
- human resource management and development
- administration
- logistics
- skills transfer and training
- environmental management
- total quality management
- marketing & sales management
- computer applications for management
- innovation and technology management
- system development and introductory support
- software engineering
- IT project management.

Management consultancy in Austria

Management consultancy is a relatively young occupational field in Austria. Potential clients only began to develop an awareness of the profession at the beginning of the 1970s and it wasn’t until the early 1980s that clients began fully accepting management consultants, making the profession a major success story during the course of the last decade. In 1976 only 700 consultants were licensed to work as management consultants in Austria. By the end of 2000 the Institute listed 2,300 full-time management consultants.

Management consultancy agencies in Austria are mostly individuals or very small organizations. There are hardly any large companies such as can be found in other comparable countries. The largest agencies in Austria
rarely have more than 100 employees – rather small by international standards but consistent with the general structure of the Austrian economy, which is composed mostly of small and medium-sized enterprises.

The main reason for this positive development is Austria’s joining of the EU in 1995. This date is a turning point in the political and economic development of Austria and it came at just the right time. Membership of the EU not only forced the country to hand over legislative rights to the EU, but also kick-started an hitherto unknown process of deregulation and liberalization in politics, economics and culture, making room for many new liberal business laws. One of many examples is the liberalization of the telecommunications field, which had an enormous impact on service industries such as management consultancy, the software and information technology industry as well as the advertising and communications industry.

**Incite**

Incite is an innovative new concept devised by the Austrian Institute of Management Consulting. Incite (Institute for Management Consultants and Information Technology Experts) is the Austrian platform for certification of management and IT consultants. Apart from the CMC certification, Incite is introducing the CITC – certification for IT consultants – as well as the CCT certification for business trainers based on the already established CMC certification process. Furthermore, Incite offers special supplementary courses for consultants in advance of certification.

**Germany**

*Klaus Reiners*

**Federal Association of German Management Consultants:**

*profile and tasks*

The Federal Association of German Management Consultants (BDU eV) is the industrial and professional association of management consultants and executive search consultants in Germany. It is the biggest association of management consultants in Europe and a member of the European Umbrella Association of Consultants, European Federation of Management Consulting Associations (FEACO) and the International Council of Management Consulting Institutes (ICMCI), the worldwide association for quality assurance in the field of management consultancy.
Founded in 1954, the BDU presently represents approximately 16,000 management and executive search consultants, who are currently distributed among 550 member companies. The function of the association is to:

- increase the performance standard of the branch of business;
- implement quality standards by means of professional regulations and principles;
- positively influence the economic and legal framework conditions of the branch of business;
- support the demand for the branch of business.

**Occupational right**

Due to the lack of legal regulation or equality with other consulting professions, eg lawyers, tax advisers and qualified auditors, the BDU is seeking adequate occupational rights for management consultants. These will include, among other things, the possibility of coalition with lawyers, qualified auditors and tax advisors, as well as consultation to facilitate the interface between tax and legal consultation.

At a time when complex and complicated company requirements need interdisciplinary solution approaches, the BDU prefers a modern and practical organization that supports free competition and which is much closer to the demands of industry and economy for comprehensive consultation performance. As such, the liberalization of all professions in associations would be the most desirable solution. In this context, the BDU has been trying since 1999 to establish an independent occupation that requires the training of the ‘qualified management consultancy employee’.

**Professional structuring**

Due to the wide range of entrepreneurial, economic and technical consultation performance and the permanent development of Consultation fields, the BDU founded specialized professional associations and consultation specialists for activities such as controlling, marketing, technology and logistics, quality management, information management, executive search and personnel development find a professional platform here. In these professional associations the individual experts of the member companies meet regularly for a professional exchange of experiences and to obtain further education. From this work new consultation concepts as
well as a network of relationships and know-how are being developed, which frequently result in strategic alliances – particularly between individual consultants and smaller companies.

**The BDU and the certified management consulting qualification**

The consideration of strict prerequisites for a BDU membership and the exclusive award of the internationally acknowledged title of certified management consultant (CMC), with far-reaching demands on the person awarded the related title, support the market transparency and document the special efficiency of the BDU member companies. By means of a database or a CD-ROM directory, interested customer companies have the opportunity to find the ideal consulting company that meets their own demands by entering the corresponding search item.

**The prerequisites for BDU membership**

In order to be admitted to the BDU, the management of a business consulting firm has to fulfil strict prerequisites. These include:

- proof of professional aptitude;
- five years of professional experience as a management consultant;
- three years of independent and self-employed work as a management consultant (applies to managing directors of companies);
- three excellent customer references;
- two professional and technical interviews with BDU management consultants;
- obligation to adhere to BDU professional principles;
- professional supervision by the members of the BDU honorary council.

**The BDU structure**

The honorary presidency of the BDU (president and three vice presidents), which is elected every two years at the BDU’s general meeting, is regularly advised by the association conference. Members of the association conference are the presidents of all professional and branch structures. The managing director of the BDU, together with his/her 14 employees in Bonn and Berlin, is responsible for the implementation of association policy, all current tasks and the support of the work within the professional structures.
The structures form the centre of the association’s work. Three times a year 20–50 professional or branch specialists meet in order to receive further training, to exchange practical experiences and know-how, or to discuss questions of management. Professional structures include the:

- AK Berlin und neue Länder (AK Berlin and the new national federal departments);
- AK Baden-Württemberg;
- Business Consultants International;
- eBusiness;
- timber and furniture industry;
- information management and logistics;
- insolvency and redevelopment management;
- international consultancy companies;
- communication management;
- management and marketing;
- public customers;
- outplacement;
- executive search;
- personnel development;
- project management;
- quality management consultation;
- company management and controlling;
- company foundation and company development;
- administration manager of consultancy firms.

**Offices**

Zitelmannstrasse 22
53113 Bonn
Tel: +49 (0)228 91610
Fax: +49 (0)228 916126
The German management consultancy market in 2002

German companies try to cut costs and make increasing use of the competency of management consultants. The demand for organization consulting, i.e. for projects aiming at cost savings and rationalization, increased by 35.7 per cent between 2001 and 2002. As Figure 5.4 GER1 shows, the total revenues of the German management consulting sector amounted to 12.3 billion euros in 2002 and are thus 4.5 per cent lower than in the preceding year (2001: 12.9 billion euros). In 2001 the sector had still grown by 5.5 per cent.

Although classic management consulting (organization and strategic consulting services) saw an increase in revenues of a total of 10.3 per cent, the development in the consulting areas of information technology (IT) consulting/IT services and management consulting decreased by 20.1 per cent and 15 per cent respectively. However, the development of management consulting proved inconsistent.

Clients’ demands for organization consulting services increased markedly, while the number of strategic consulting projects decreased by 13.6 per cent. BDU explained this unusual development for the consulting industry by the clients’ reluctance, above all, to award innovative projects. The development of individual consulting areas – with organizational consulting up and IT consulting, strategic consulting and executive staff consulting down – underlines the fact that important investments in Germany’s future are no longer being made and that development has come to a standstill. Therefore, the BDU expects a stagnating market turnover in the consulting industry for 2003.

The economic crisis affected the top 40 (–4.2 per cent) as well as the medium-sized (–4.7 per cent) and the small-sized consulting firms (–4.8 per cent) in a total of 14,400 firms. The market share of the top 40 consultants remained almost unchanged at approximately 50 per cent. The demand for consulting projects has clearly increased in the manufacturing
sector, which now has a share of 30.9 per cent of total demand (2001: 25 per cent). This corresponds to an increase of approximately 18 per cent. Demand from the public services sector also increased by 6 per cent (an 8.9 per cent market share of demand in 2002 against 8 per cent in 2001).

**Figure 5.4.GER1: Development of the German consulting market (1992–2002)**

Banks and insurance companies have reduced their consulting budgets only marginally (by 0.9 per cent), but they have changed their purpose. The demand of banks and insurance companies shifted from IT innovation projects to cost-cutting measures and process optimization. The IT and media industry saw a dramatic decrease in demand of 20.1 per cent where negative business development led to a squeeze of consulting budgets.

The BDU believes that an increase in revenues of the consulting industry in 2003 is unlikely against the backdrop of insecure economic and political development. It is, however, recognizable that the postponement of projects that has been occurring for over a year has led to a considerable investment bottleneck in the clients’ companies. Reforms in the areas of labour, taxes and health and the resulting economic dynamics will also lead to a need for more consulting. The improvement of IT and
data security count among the most urgent tasks of the companies. Moreover, due to the Basle II provisions, companies are increasingly obliged to introduce comprehensive adjustments to their organizations as well as in their strategic orientation in conjunction with the necessary rating procedures. Industry and business will also need to catch up in order to build up the mandatory risk management systems provided for by the Control and Transparency Act (KonTraG).

In 2002 the management consulting firms could not avoid restructuring. This trend will continue in 2003. The extension or focusing of the service portfolio as well as the optimization of customer relations will become a central task for consulting firms.

At present, BDU organizes approximately 16,000 business and management consultants working for more than 550 management, IT and executive staff consulting firms. In 2002 the member organizations had a total turnover of about 3.2 billion euros, highlighting a slight downturn from the 2001 turnover of 3.3 billion euros.

GREECE

Yiangos Charalambous

Introduction

People, especially entrepreneurs, have been trying for centuries to develop a

‘perfect world’. Various professions, economic theories, political and polemical strategies are continuously being developed in pursuit of this, each promising means, ways and tools of achieving targeted objectives.

Although the ‘management consulting’ profession existed centuries ago, especially in Greece, the initiation and development of a scientific approach to the study of management in industry and commerce really began with the Industrial Revolution in the 19th century. Noted pioneers in the science of management are Charles Babbage, Frederick Winslow Taylor, Henry Fayol, Mary Market Follet and a number of others. In spite of their contribution to this science it was only around 1960 that it was ‘branded and marketed’ from American universities, academics and professionals, irrespective of nationality. This younger generation of pioneers took the heavy burden of promotion upon their shoulders and within a relatively short period of time made the profession of management consulting one of the most interesting, especially to recip-
lients of MBA degrees. Undoubtedly, Greek management consultants, whether in Greece or abroad, have played an active role in spreading the seed of management consulting.

The profession in Greece

In an Ancient Greek drama, the play usually opens at the end of a dramatic story. This article also adopts this approach. Within the limited space available, I have attempted to cover the contributions of prominent members of the Greek business community, professionals and academics whose work and writings are contributing to the expansion and development of our profession in Greece and internationally.

The structure of the management consultancy market in Greece today is as follows. Most of the major international management consulting firms are already established or represented in Greece. The international companies are competing with a growing number of local consulting firms of various sizes that are offering their services to the government and public corporations, small and medium-sized local companies as well as multinational companies that are established in Greece. Also, in recent years many of our members have adopted an international approach, bidding for and winning important contracts in the Balkans, former Soviet States, Eastern Europe, Africa and the Far East. The European Union, the World Bank and the European Bank for Reconstruction and Development are among the clients of some of our members.

Our members provide a wide range of consulting services and are continuously developing new products to meet the needs of their clients in the race for competitiveness in a very rapidly changing hi-tech world. The market for consulting services in Greece is growing at a faster rate than in the majority of European countries, with most of the growth coming from the information technology sector. The demand for energy management and environmental management systems is also expected to increase. Many of our members are well positioned technologically to meet this demand.

The Hellenic Association of Management Consulting Firms (SESMA), formed 10 years ago, already has 45 corporate members in its ranks which employ more than 1,200 professionals. This small number of members reflects in part the growth of the consulting market in Greece but also the high standards set by the Association for membership. Sixteen firms’ applications for membership are presently being examined. In addition,
there are over 100 firms offering management consulting services but which have not yet applied or do not currently meet the criteria for membership. SESMA is an active member of the European Federation of Management Consulting Associations (FEACO).

The expansion of our profession described above has taken place in the last 20–25 years. Being a partner in one of the first accounting firms that established a consulting department, I can recall the ‘scene of loners’ when asked by my senior partner to meet with Nikos Embeoglou (still a prominent member of our profession) to discuss the possibility of cooperation on a project for which PA (then the only large international consulting firm established in Greece) was intending to submit a bid. To achieve this cooperation, I departed from Piraeus on a green bus on a hot summer day. I arrived wet with perspiration at Niko’s office in Kolonaki, in the centre of Athens, and found him behind a desk fully covered with his books, trying to find the information he needed for a matter he was dealing with. Even today this prominent professional is one of the most active members of our profession, always submerged in books and encouraging young people through his work to master this art and/or science. This he does through the Hellenic Society of Management Consultants (EEDE) and Alba University.

EEDE, which now has more than 6,000 professionals as members, plays a leading role both in the education of consultants and in providing facilities for conferences and activities related to the consulting profession. EEDE owes its establishment to the efforts of some of our prominent industrialists, amongst whom are Mr Dimitris Kyriazis, Mr Georganas and Mr Marinopoulos.

The globalized business world

In the globalized, electronic business world of today, Greek academics and consultants, amongst them Professors Nicolas Negroponte and Michael Deltouzos, are researching and developing new tools and techniques which Greek consultants are studying closely and implementing in an effort continuously to improve the services we can offer to clients.

Conclusion

As far back as 429–347 BC, Socrates was exploring the nature of knowledge itself and its applications. It was Plato who told his pupil Aristotle that, within any organization, nobody should earn more than five times as much as the lowest worker. The principle of experience in management was also
studied by Greek philosophers and this is summarized by the statement ‘before you become a helmsman you should serve as a rower’. Finally, quality that adds value to our clients’ operations is described in Aristotle’s statement ‘excellence is not an act, but a habit’.

In conclusion, I would like to note that the newly elected Board of Directors of SESMA, with its new President Mr Thanos Mavros, is aiming to expand and improve the services that our Association offers to members and young professionals, as well as to our clients in the public and private sectors, to whom we extend our thanks for their continued support.

IRELAND

Uncertainty is normality and perception is truth. Ireland is a small open economy on the periphery of Europe. As we have become Europe’s ‘economic miracle’, so we have become more exposed to global events than ever and we appear to have little control. Global events, since my previous article in 2001, include recession, September 11, Enron, Andersen, Sarbanes-Oxley, Nice, the euro and war in Iraq. All have or will directly impact Ireland and management consulting.

When global and national uncertainty is the order of the day it is up to the individual to maintain ethical codes. This belief kept the light of civilization glowing in Ireland while the Dark Ages reigned in Europe. While Rome declined, The Book of Kells was illuminated.

Integrity

Business confidence took a bashing from the events of Enron and WorldCom. Trust is the foundation stone of business. Sadly, we also witnessed the immediate implosion of a great professional brand – Arthur Andersen. The intelligent and informed in this business will have realized that all professionals have been affected by the subsequent lack of trust in our integrity. We are charged by our clients to do the right thing – to give them what they need, not simply what they want. The speed of the Andersen collapse is a solemn reminder of how powerful individual decisions can be.

The vast majority of professionals from Andersen have found employment in other global practices. This should not be a surprise – the calibre of the Andersen professionals is outstanding. Their personal integrity remains despite the compromised brand integrity.
Deloitte & Touche transacted with many Andersen firms across the globe and has become, in the process, the largest full service firm in the world. How long will this be the case? The decision to separate Deloitte Consulting and to change its name to Braxton in June or July 2003 was taken last year to enable audit clients to continue to use the talents and skills of Deloitte Consulting without raising public concern about auditor independence. However, that decision has now been deferred.

Separation and rebranding has been the order of the day. Accenture went through a US$175 million rebranding after the acrimonious split from Arthur Andersen. In my previous article I stated that, ‘the rebranding has become the stuff of legend, the success of which can only be judged on whether Accenture has replaced Andersen Consulting as a brand in the eyes of the target audience’. It is safe to say that this rebranding was a resounding success and a timely one. James E Murphy, the marketing brains behind the rebranding, has provided a case study for many marketing students in the future.

In 1999 Hewlett Packard was courting PricewaterhouseCoopers’ (PwC’s) consulting group. When it had failed to reach profit targets, it was then announced that the company had decided against the US$18 billion purchase. In 2002 Hewlett Packard then shocked the industry by proposing to buy its rival, Compaq Computers for US$25 billion. It is the largest takeover the computing industry has seen to date, creating a giant with current assets of over US$55 billion – a giant called… Hewlett Packard. No major problem in rebranding in this case!

And in the same year IBM acquired PwC Consulting to become IBM Business Consulting Services for an estimated purchase price of US$3.5 billion in cash and stock. Bringing together more than 30,000 IBM employees and more than 30,000 professionals from PwC, the new organization enters the marketplace as the world’s largest consulting services organization, with operations in 160 countries.

With the Accenture rebranding, the Cap Gemini Ernst & Young change, the PwC Consulting initial plan to call itself Monday before it was acquired by IBM and its final rebranding as IBM Business Consultancy Services, and the pending Deloitte Consulting to Braxton, KPMG Consulting is the last firm for us to consider.

Their new brand, BearingPoint, was the result of a process that began in October 2001. They conducted market research and worked with branding experts and focus groups. In February 2002 they reviewed some 500 names provided by employees and branding experts. The shortlist
was screened for consistency with desired brand positioning, usability and meaning in the 134 countries in which KPMG’s clients operate. Following this extensive review, all factors pointed to one name: BearingPoint. The rebranding has been estimated to have cost up to US$40 million. It seems then that one professional service field that seems to be very healthy is creative brand development.

**Independence**

In response to Enron and other scandals involving some of the most prominent companies in the USA, the Sarbanes-Oxley Act was enacted on 30 July 2002. The primary motivation was to stem the great loss of public trust in corporate accounting and reporting practices.

According to a survey from mid-tier BDO Stoy Hayward, the Big Four firms could lose nearly £700 million from the implementation of the Sarbanes-Oxley Act. Non-audit work is likely to be particularly hard hit as it will be seen as a conflict of interest under Sarbanes-Oxley. Even though the controversial act has been hastily introduced it will force many companies to reassess the professional services spend – this will provide all consulting firms, large and small, with an opportunity to compete for new clients.

A PwC study of 1000 chief executive officers (CEOs) showed that in Europe 61 per cent were concerned about overregulation in the USA. Regulations have been under scrutiny in Europe too. In Ireland, the government had started a number of initiatives before the Enron affair. These resulted in the Company Law Enforcement Act, the Companies (Auditing and Accounting) Bill 2003 and the Central Bank Financial Services Regulatory Authority Bills. In the UK changes to the operation of the Financial Reporting Review Panel (FRRP) and the regulation of the audit profession are underway.

The European Commission is developing implementation programmes resulting from a number of recently published studies, in particular, *The Winter Group Report, The Committee of European Securities Regulators Report* and *The European Commission Recommendations on Auditor Independence*.

**Objectivity**

There are four key economies that have a significant influence on Ireland: those of the USA, UK, Germany and Japan.
Growth in the US economy has been stagnant since the dot.com collapse. In truth, the real economic growth from the 1960s has never been matched – although many will argue that the stock market growth has been phenomenal. Having faith in stock market growth is akin to playing the lottery – a tax on those who do not understand statistics. Latest figures show 2.4 per cent growth in gross domestic product (GDP). There has been a stand-off recently due to the uncertainty about war. Now, with the USA on a war footing we must wait until there is a resolution in the conflict before we can finally judge if a recovery is on the way. Unemployment levels in the USA are running at 6 per cent (about 8.6 million people), and with the rising budget deficit, high levels of corporate and personal debt and a US$75 billion war in the Gulf, it would be foolish to predict how soon a full recovery will begin.

In the UK latest GDP growth is running at 1.7 per cent and unemployment at 5.2 per cent (1.5 million people). The USA and UK are partners in the war with Iraq and are closely tied economically. The UK, although still part of the European Union (EU), is now slightly on the periphery as it is not part of the eurozone. There is a belief that the Blair Labour government will adopt the euro; indeed HM Treasury observers were present during Ireland’s changeover to the euro. The political landscape in the UK is unpredictable, with a strong anti-war lobby and ill feelings about involvement; ironically this may hurt the Labour party in the long term and therefore delay euro adoption.

Germany, long the engine room of Europe is suffering from the massive costs associated with reunification. Currently GDP growth is running at 0.2 per cent and unemployment at 10 per cent. This reunification process will take years to complete and until then we will not see a full recovery in the German economy. Europe needs a vibrant German economy.

Japan as the world’s second biggest economy has posted GDP growth of 3 per cent. This is a good figure and illustrates a recovery in that economy. As Japan is not fighting a war or bearing crippling restructuring costs, it is best placed to take advantage of any recovery and to continue to grow. Japan and the other Asian countries will provide a new – certainly from the occidental perspective – centre for global economic activity. The gradual emergence of China to global economic activity represents a powerful global supplier and market.

Within the context of these economies Ireland has GDP growth of 5 per cent. We have been growing for over 10 years now – indeed our growth rates for the period 1995–2000 was 9 per cent per year. We have
turned our unemployment rates from over 16 per cent in 1988 to 1.2 per cent in 2002. Half a million more people are now employed in our economy. In the process, we have developed an agile economy that, like that of Japan, is well placed to take advantage of a recovery. Economic recovery will come; it is part of the economic cycle.

The key changes in Ireland have been changing the currency to the euro and the adoption of the Treaty of Nice. In February 2003 the Treaty of Nice came into effect. After two referenda, Ireland was the last country to ratify the treaty. The first defeat was a surprise and an embarrassment to the Irish government. It is safe to say that the defeat had more to do with the sanguine approach taken by the government in believing that the ‘yes’ vote was certain and that no voter communication was needed. Hence there was an incredibly low voter turn out. This mistake was not repeated. The campaign for a ‘yes’ vote was hard fought and the level of discussion and argument was feverish coming up to 19 October 2002. Voter turn out was nearly 50 per cent, a third up on the last referendum.

Despite our tardiness on Nice, Ireland has recently announced that it will allow workers from eight of the new EU member states immediate free access into the country. In this decision we have joined Denmark, Greece, Sweden, the Netherlands and Luxembourg. The decision is a recognition that much of our economic growth has been due to the availability of labour – initially from our own unemployed and then from returning emigrants and immigrants. Our country changed from an emigrant to an immigrant society over the past decade and we now have to adapt to the multicultural reality. My hope is that we will remember the lessons learned by our own history and how much our emigrants would have appreciated a warm welcome in their new home.

In May 1998, 11 EU member states met the qualifying criteria to adopt the euro with effect from 1 January 1999. The 11 were: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Greece met the criteria and joined from 1 January 2001. Denmark and the UK decided not to join at the time and Sweden did not meet the qualifying criteria.

By general consensus Ireland had the smoothest transition to the new currency. We ran with a dual currency system (punt and euro) for just over a month. Within the first week around 80 per cent of the country’s punts had been handed over and taken out of circulation. The Euro Changeover Board managed the substitution. They not only planned and managed the complex logistical rollout of a new currency but also developed a highly
United Kingdom

The UK management consultancy sector is arguably the most sophisticated outside the USA – from where it came to the UK in the 1920s.

The US practices themselves only began to establish a presence in the UK in the 1950s and this coincided with the beginning of considerable successful communication campaign via TV, radio and print. The management consulting arm of Deloitte & Touche was the only firm employed by every stakeholder managing the euro changeover in Ireland.

Conclusion

I have used standards highlighted by the International Council of Management Consulting Institutes’ (ICMCI’s) Code of Professional Conduct (ie integrity, independence and objectivity) as headings to sections on brand changes within the profession, the new regulation environment we all find ourselves in and to give an overview of how Ireland’s key economic influencers are faring at this time.

I believe that it is the individual who is the primary influencer. It is each person’s decision to adhere to key principles that can, and will continue to be, the primary influencer of global political and economic events. Uncertainty is often a result of our ethical choice between proper societal codes or becoming, as Mark Twain once said, ‘satire incarnated’.

THE NETHERLANDS

Robert Florijn

The Dutch National Institute of Management Consultants is one of the older national institutes. Founded before the Second World War, it has become the national Institute supporting professional consultants as well as academic studies and developments in the field of organizational change, change management, quality of working life, strategy and financial health. Since the beginning, the Institute has had an open mind regarding the definition of management consultancy. Professionals from different academic and professional backgrounds may become members provided they pass the rigorous and individual entrance procedure. Quality standards are high: of nearly 1500 total members almost 700 have CMC status.

Currently, talks with the Dutch Council of Management Consulting Firms are warm and congenial, opening up the prospect of contacts with and entry for the employees of the Big Five and other leading firms.
growth in the UK market. It is difficult, however, to gauge the market as a whole (sole practitioners up to the global players) since no one collects the data in this way. The UK government does not recognize management consultancy as a separate industry and, as the chapter on self-regulation explains, the Inland Revenue in the UK regards management consultancy as a trade. The structure of the representative bodies in the UK makes the task no easier. The Institute of Management Consultancy (IMC) is predominantly concerned with the qualifications and standards of individual management consultants, while the Management Consultancies Association (MCA) is the trade body for leading practices. Neither is concerned with the full range of practices, and membership is not compulsory.

The picture is not helped by the lack of clarity in the UK about what constitutes a management consultant. Much of the statistical information about UK management consultancy is therefore built on the narrow membership base (in purely representative terms) of the MCA, although it is clearly the case that MCA members employ the majority of consultants in the UK. Bearing this in mind, the figures shown in Table 5.4.UK1 demonstrate the overall growth in the UK market since the 1950s.

**Table 5.4.UK1 Increase in UK marketing consultants (1956–2001)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of consultants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>684</td>
</tr>
<tr>
<td>1960</td>
<td>1,813</td>
</tr>
<tr>
<td>1976</td>
<td>2,009</td>
</tr>
<tr>
<td>1986</td>
<td>1,350</td>
</tr>
<tr>
<td>1996</td>
<td>7,267</td>
</tr>
<tr>
<td>1999</td>
<td>14,742</td>
</tr>
<tr>
<td>2000</td>
<td>20,667</td>
</tr>
<tr>
<td>2001</td>
<td>25,718</td>
</tr>
</tbody>
</table>

Source: MCA

What the table also demonstrates is the decline in demand for consultancy services during the 1970s and 1980s. This was reversed by the move of the major accountancy firms into the field in a concerted way. These firms were also merging, enabling them to consolidate their position and absorb more established companies. The market was also given a significant boost by the growing importance of information technology (IT). This has been accelerated by the development of e-commerce.
Expressed in financial terms, and again using MCA figures, the increases in fee income over the same period were even more dramatic (Table 5.4.UK2).

**Table 5.4.UK2 UK management consultancy fee income**

<table>
<thead>
<tr>
<th>Year</th>
<th>UK revenues (£m)</th>
<th>Overseas revenues (£m)</th>
<th>Outsourcing (£m)</th>
<th>Total* (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>1970</td>
<td>43</td>
<td>17</td>
<td>0</td>
<td>61</td>
</tr>
<tr>
<td>1980</td>
<td>43</td>
<td>17</td>
<td>0</td>
<td>61</td>
</tr>
<tr>
<td>1990</td>
<td>706</td>
<td>103</td>
<td>0</td>
<td>810</td>
</tr>
<tr>
<td>1995</td>
<td>968</td>
<td>172</td>
<td>116</td>
<td>1,256</td>
</tr>
<tr>
<td>1999</td>
<td>1,627</td>
<td>578</td>
<td>871</td>
<td>3,076</td>
</tr>
<tr>
<td>2000</td>
<td>2,413</td>
<td>514</td>
<td>794</td>
<td>3,721</td>
</tr>
<tr>
<td>2001</td>
<td>2,922</td>
<td>565</td>
<td>858</td>
<td>4,345</td>
</tr>
</tbody>
</table>

Source: MCA
*Any discrepancies in the figures occur as a result of their being rounded up or down

It is also true that, as a percentage share of GDP, the management consultancy market is the most vibrant in Europe. Services provided by firms in the UK have achieved a greater presence than in any other European country. The following figures, quoted in a report from British Invisibles due to be published at the time of writing, make the point (Table 5.4.UK3).

**Table 5.4.UK3 Management consultancy fee income as a share of GDP internationally**

<table>
<thead>
<tr>
<th>Country</th>
<th>Market (US$bn)</th>
<th>Share of the market (%)</th>
<th>Share of GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>9.9</td>
<td>27.2</td>
<td>0.78</td>
</tr>
<tr>
<td>Germany</td>
<td>11.6</td>
<td>32.0</td>
<td>0.43</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.0</td>
<td>2.6</td>
<td>0.36</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.2</td>
<td>3.2</td>
<td>0.28</td>
</tr>
<tr>
<td>Spain</td>
<td>1.5</td>
<td>4.0</td>
<td>0.22</td>
</tr>
<tr>
<td>France</td>
<td>3.2</td>
<td>8.9</td>
<td>0.19</td>
</tr>
<tr>
<td>Italy</td>
<td>1.8</td>
<td>4.9</td>
<td>0.15</td>
</tr>
<tr>
<td>Others</td>
<td>6.2</td>
<td>17.1</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>36.4</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Source: FEACO (1999)
Clearly, even the European market as a whole (US$36.4 billion) falls behind that of the USA (US$52 billion), which accounts for just over half of the world total. Other developed countries, eg Canada, are significant, but elsewhere the market is at an early stage of development.

What is not yet totally clear is the extent of the downturn in 2002 that hit the global market in general and the UK in particular. This was connected to the damage done by accounting scandals to the confidence of the public and markets. The view of the IMC is that there is an element of urgency in the need to provide reassurance that extends across all professional services firms, including management consultancy, if the long-term confidence in business is to be restored.

As we mentioned earlier, there is a lack of clarity in the definition of a management consultant in the UK. The IMC’s own definition is:

*Management consultancy is the provision to management of objective advice and assistance relating to the strategy, structure, management and operations of an organization in pursuit of its long-term purposes and objectives. Such assistance may include the identification of options with recommendations; the provision of an additional resource and/or the implementation of solutions.*

This is a broad definition and reflects the changing view of clients about their needs and the resultant move from advice to advice and implementation. It was drawn from our existing definition, the MCA’s definition, work done by the International Labour Organization (ILO) and our own client user group of major buyers.

In addition, there are a variety of routes into the profession. Many consultants started their careers as specialists in a technical field, eg accountancy or marketing, and are therefore members of another professional body, eg the Institute of Chartered Accountants or the Chartered Institute of Marketing, for their principal professional expertise. It is this ‘base’ qualification that is seen as giving the necessary credibility. As a result, there is not the homogeneity produced by, say, a practising certificate in other professions. The IMC’s position, as explained in Chapter 2.5, is that consulting skills are both a separate discipline and capable of quite specific testing and accreditation mechanisms. Until this is universally accepted, however, the difficulties around definition and professional identity will remain.

A growing maturity is expressed in the sectors to which management consultants contribute. Taking MCA analysis, the picture is as shown in Table 5.4.UK4.
### Table 5.4.UK4 Management consultancy fee income by industry sector*

<table>
<thead>
<tr>
<th>Analysis by industry</th>
<th>UK (£m)</th>
<th>EU (£m)</th>
<th>Elsewhere (£m)</th>
<th>Total (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishing</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Electricity/gas (excl. nationalized industries)</td>
<td>154</td>
<td>12</td>
<td>17</td>
<td>183</td>
</tr>
<tr>
<td>Water industry (excl. nationalized industries)</td>
<td>77</td>
<td>7</td>
<td>13</td>
<td>97</td>
</tr>
<tr>
<td>Extraction of minerals and ores including fuels:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>manufacture of metals and mineral products (excl. industrialized industries)</td>
<td>106</td>
<td>6</td>
<td>10</td>
<td>122</td>
</tr>
<tr>
<td>Chemical industry/man-made fibres</td>
<td>65</td>
<td>17</td>
<td>17</td>
<td>100</td>
</tr>
<tr>
<td>Mechanical engineering (ie mechanical industrial machinery and equipment)</td>
<td>36</td>
<td>2</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Electrical and electronic machinery and equipment (incl. office machinery and data processing equipment)</td>
<td>45</td>
<td>13</td>
<td>4</td>
<td>62</td>
</tr>
<tr>
<td>Transport vehicles and equipment (eg motor vehicles, shipbuilding, aerospace)</td>
<td>63</td>
<td>6</td>
<td>7</td>
<td>77</td>
</tr>
<tr>
<td>Instrument engineering and other metal goods</td>
<td>35</td>
<td>2</td>
<td>1</td>
<td>39</td>
</tr>
<tr>
<td>Food, drink and tobacco</td>
<td>68</td>
<td>5</td>
<td>7</td>
<td>80</td>
</tr>
<tr>
<td>Textiles, footwear and clothing</td>
<td>15</td>
<td>2</td>
<td>4</td>
<td>21</td>
</tr>
<tr>
<td>Paper, printing and publishing</td>
<td>18</td>
<td>5</td>
<td>8</td>
<td>31</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>101</td>
<td>13</td>
<td>6</td>
<td>121</td>
</tr>
<tr>
<td>Construction</td>
<td>14</td>
<td>1</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>Wholesale and retail trades, and repairs</td>
<td>61</td>
<td>6</td>
<td>15</td>
<td>82</td>
</tr>
<tr>
<td>Hotels and catering</td>
<td>36</td>
<td>4</td>
<td>3</td>
<td>43</td>
</tr>
<tr>
<td>Transport, storage and post</td>
<td>153</td>
<td>27</td>
<td>30</td>
<td>210</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>281</td>
<td>31</td>
<td>27</td>
<td>338</td>
</tr>
<tr>
<td>Banking</td>
<td>323</td>
<td>22</td>
<td>33</td>
<td>378</td>
</tr>
<tr>
<td>Insurance</td>
<td>219</td>
<td>11</td>
<td>21</td>
<td>251</td>
</tr>
<tr>
<td>Other financial services</td>
<td>97</td>
<td>19</td>
<td>21</td>
<td>136</td>
</tr>
<tr>
<td>Business services</td>
<td>44</td>
<td>3</td>
<td>14</td>
<td>61</td>
</tr>
<tr>
<td>Private sector non-profit making bodies</td>
<td>8</td>
<td>1</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td><strong>TOTAL PRIVATE SECTOR</strong></td>
<td>2,027</td>
<td>216</td>
<td>265</td>
<td>2,509</td>
</tr>
<tr>
<td>Central government</td>
<td>437</td>
<td>19</td>
<td>37</td>
<td>493</td>
</tr>
<tr>
<td>Local government</td>
<td>13</td>
<td>1</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>National Health Service</td>
<td>7</td>
<td>1</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Other public bodies</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Nationalized industries</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>International agencies</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>CEC</td>
<td>0</td>
<td>34</td>
<td>0</td>
<td>567</td>
</tr>
<tr>
<td><strong>TOTAL PUBLIC SECTOR</strong></td>
<td>471</td>
<td>55</td>
<td>41</td>
<td>567</td>
</tr>
<tr>
<td><strong>TOTAL ALL SECTORS</strong></td>
<td>2,498</td>
<td>272</td>
<td>306</td>
<td>3,076</td>
</tr>
</tbody>
</table>

Source: MCA

* Any discrepancies in the figures occur as a result of their being rounded up or down
There is, however, a continuing role for the smaller practice and sole practitioner and this is discussed in more detail below. It is generally assumed that these smaller firms would show a different mix of specialisms, with IT playing a smaller role. A study carried out by the IMC on management consultants working for government tended to bear this out (Table 5.4.UK5).

**Table 5.4.UK5 Specialism in UK management consultancy by size of firm**

<table>
<thead>
<tr>
<th>Specialism</th>
<th>Sole</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Total mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>HR</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Programme/project management</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Finance and audit</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Change management</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Business process re-engineering</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Marketing</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Organizational structure and strategy</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Training</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>IT</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Procurement</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>General operations and efficiency improvement</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Quality systems</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>E-business</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Entrepreneurship development</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Facilitation</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Governance</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Report/document writing</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Disaster recovery</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Health and safety</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Information management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(not specifically IT)</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Risk analysis</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Social policy research</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>VFM</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

*Source: IMC*

So what is the future for the UK market? The restructuring of whole industries, required by global competition and the opportunities presented by e-commerce, is unlikely to slow down but has seen some decline after the events of 2001 and 2002. Management consultancy is now seen as an integrated service, matching the wide range of challenges
now being faced. The key role of IT generally, in this context, is also pushing management consultancy firms towards alliances with IT-solutions providers, while consolidation among the practices themselves has been dramatic.

There are also changes within the client community. Users of consultancy are becoming more sophisticated and demanding. They often have former consultants working for them and the case based on objectivity is no longer sufficient. Demonstrable added value must also be given, reflected in the growing use of contingent or risk/reward contractual models. There is also a view, heard at the Institute’s annual conference in March 2003, that the consulting sector needs to increase its effectiveness and productivity. This is especially the case when demand is sluggish; no technological driver for expansion is likely to be seen before 2005. Clients are also seeking consultancy from a wider range of firms rather than automatically turning to the large brand names.

Against this background, the debates around the regulation of the sector and about whether or not it is a genuine profession continue. Codes of conduct, as a minimum, have been put in place by the trade associations, while the IMC in the UK and the International Council of Management Consulting Institutes (ICMCI) worldwide argue for and pursue professionalization through qualification.

So the picture is a challenging one for the UK sector. However, there are signs that the market is beginning to recover after the shocks of 2001 and 2002 and the UK is well placed to take advantage of the upturn as it unfolds.

SCANDINAVIA

Flemming Poulfelt

Department of Management, Politics & Philosophy, Copenhagen Business School

The Scandinavian management consulting sector developed in the period following the Second World War. During its infancy, smaller domestic firms dominated the market. However, in the 1960s the market for management consulting services began to grow, focusing primarily on budgeting, time and motion, and marketing. The increase in demand allowed domestic firms to grow in size while also attracting new entrants into the market. Although, several years were to pass before the domestic firms’ market dominance would be challenged by large international
firms, the duration of this period of dominance varied from country to country. Nevertheless, common to them all is the fact that over the past 10 years, large and particularly American-based players have come to dominate the market. From this domination by international providers of consulting services has followed a certain standardization in the methods applied, although many consultancies will argue for the customized approach. Furthermore, this internationalization has also allowed the scope of the firms to widen. However, differences do exist in the way the markets have developed on a national level.

DENMARK

The Danish market for management consulting services began to grow during the 1960s as the demand for services such as budgeting, time-and-motion studies and marketing rose, thus allowing domestic firms to grow in both size and scope. In 1972 the American company McKinsey & Co entered the market by opening an office in Copenhagen, which was to serve as the company’s foothold in Scandinavia, thereby making the Danish market the first in Scandinavia with the physical presence of an international player. Today, several of the big international players are represented in Copenhagen.

The industry has experienced high growth rates, primarily driven by growing internationalization, the development of new technologies, outsourcing and rationalization and privatization in the public sector. In the period from 1988 to 1990 the rate of growth was around 14 per cent and it then subsequently declined to 10 per cent between 1992 and 1994. However, during the past couple of years the rate has remained stable at around 20 per cent. This growth in the industry has attracted management consultants with diverse professional backgrounds, thus making the industry’s boundaries increasingly difficult to define.

The size of the Danish market has traditionally been estimated by using a supply approach. In 1994, the Association of Management Consultants in Denmark estimated annual revenues to be in the region of US$260 million and identified 300 management consulting firms within the market. In order to be included in the industry, identified firms were required to earn the majority of their revenues through management consulting activities (FMK, 1994). A later survey from 1998, for which a broader definition of management consulting providers was applied, identified the number to be 460. Furthermore, the survey found the
Danish market to have more than doubled in size since 1994, reaching annual revenues totalling US$630 million. This apparent growth experienced in the period from 1994 to 1998 reflects not only an actual growth in the market but also the fact that the scope of the providers had broadened.

Despite the presence of large international firms such as McKinsey & Co, Accenture, PricewaterhouseCoopers and PA Consulting Group, the market in 1998 was dominated by domestic firms. In terms of revenue the group of international players accounts for less than one-third of the market, while the large or medium-sized domestic firms account for close to 40 per cent. Another 20 per cent are accounted for by new players on the market stage such as firms with their origin in engineering or IT. However, during the last two years the international players have grown substantially in size through organic growth and acquisitions.

The profile of many consulting firms has become more and more heterogeneous. Even the firms that had previously been specialized have a broader profile today, and the tendency to narrow down the scope of a consultancy is less prevalent. Several of the large international firms have expanded the number of services they offer. This development has reinforced the lack of differentiation, at least at a generic level, between the different providers of management consulting services. A survey undertaken by Oxford Research A/S in 1998 revealed that the majority of firms, regardless of their size, primarily focus on strategy, organizational and management development. The only area in which the focus of larger firms differs from that of the smaller ones is in the provision of IT-related services. The focus on organizational and management development is a reflection of the type of consulting services most frequently sought by customers.
### Table 5.4.DK1 The leading consultancies on the Danish market in 1998 (not ranked)

<table>
<thead>
<tr>
<th>Revenues 1998 (million US$)</th>
<th>Number of consultants</th>
<th>Country of origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>PwC (PriceWaterhouseCoopers)</td>
<td>54.0</td>
<td>301</td>
</tr>
<tr>
<td>Andersen Consulting (Accenture)</td>
<td>265</td>
<td></td>
</tr>
<tr>
<td>PLS Consult A/S</td>
<td>17.0</td>
<td>180</td>
</tr>
<tr>
<td>PA Consulting Group</td>
<td>31.4</td>
<td>160</td>
</tr>
<tr>
<td>Ernst &amp; Young</td>
<td>22.4</td>
<td>130</td>
</tr>
<tr>
<td>KPMG</td>
<td>13.5</td>
<td>101</td>
</tr>
<tr>
<td>Deloitte Consulting</td>
<td>14.0</td>
<td>100</td>
</tr>
<tr>
<td>Mercuri Urval</td>
<td>21.0</td>
<td>89</td>
</tr>
<tr>
<td>FJ Gruppen A/S</td>
<td>16.0</td>
<td>80</td>
</tr>
<tr>
<td>Teknologisk Institut</td>
<td>10.0</td>
<td>85</td>
</tr>
<tr>
<td>TIC Denmark</td>
<td>8.6</td>
<td>80</td>
</tr>
<tr>
<td>Lisberg Management A/S</td>
<td>8.6</td>
<td>60</td>
</tr>
<tr>
<td>Fisher &amp; Lorenz A/S</td>
<td>5.8</td>
<td>53</td>
</tr>
<tr>
<td>PROMENTOR A/S</td>
<td>8.5</td>
<td>50</td>
</tr>
<tr>
<td>McKinsey &amp; Co</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Kjaer &amp;Kjerulf A/S</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>Dansk Management Forum</td>
<td>7.1</td>
<td>38</td>
</tr>
<tr>
<td>Andersen Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International A/S</td>
<td>7.2</td>
<td>35</td>
</tr>
<tr>
<td>Mercuri International A/S</td>
<td>4.8</td>
<td>34</td>
</tr>
<tr>
<td>AT Kearney</td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>Ankerhus</td>
<td>3.1</td>
<td>24</td>
</tr>
</tbody>
</table>

*Source: Information collected by the author based on a questionnaire to consultancies*

The increase in scale and scope is likely to make the market for management consulting services more complex and less transparent as it grows. One of the driving forces behind this increase in complexity is the complexity in demand. It is becoming increasingly difficult to separate the majority of technical assignments from organizational assignments, which, in turn, cannot be separated from management development assignments, human resource assignments etc. Thus assignments are often interrelated and therefore require a multi-disciplinary problem-solving approach.
NORWAY

The domination by national players of the Norwegian consulting market continued into the 1990s, although two larger international players, Mercuri Urval and PA Consulting Group, had entered the market back in 1977/8. This domestic domination is illustrated by the fact that in 1987, 15 out of the top 20 consulting companies on the Norwegian market were of Norwegian origin. Table 5.4.NO1 below illustrates how market leadership evolved in the following decade:

Table 5.4.NO1 The top 20 consulting firms on the Norwegian market in 1987 and 1998

<table>
<thead>
<tr>
<th>1987</th>
<th>Ownership</th>
<th>Revenue (mill US$)</th>
<th>No. of consultants</th>
<th>1998</th>
<th>Ownership</th>
<th>Revenue (mill US$)</th>
<th>No. of consultants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 IKO-Gruppen</td>
<td>Norway</td>
<td>12.7</td>
<td>78</td>
<td>Andersen Consulting</td>
<td>US</td>
<td>117.2</td>
<td></td>
</tr>
<tr>
<td>2 Habberstad</td>
<td>Norway</td>
<td>12.7</td>
<td>116</td>
<td>Arthur Andersen</td>
<td>US</td>
<td>42.4</td>
<td></td>
</tr>
<tr>
<td>3 Harmark-Iras</td>
<td>Norway</td>
<td>9.2</td>
<td>73</td>
<td>PriceWaterhouse-Coopers</td>
<td>US/UK</td>
<td>32.4</td>
<td>240</td>
</tr>
<tr>
<td>4 Mercurigruppen</td>
<td>Sweden</td>
<td>9.2</td>
<td>60</td>
<td>McKinsey &amp; Co</td>
<td>US</td>
<td>30.1</td>
<td></td>
</tr>
<tr>
<td>5 Resulting Kompetansenter</td>
<td>Norway</td>
<td>5.8</td>
<td>32</td>
<td>PA Consulting Group</td>
<td>UK</td>
<td>23.4</td>
<td>130</td>
</tr>
<tr>
<td>6 VINN</td>
<td>Norway</td>
<td>4.6</td>
<td>33</td>
<td>Deloitte Consulting</td>
<td>US/UK</td>
<td>21.2</td>
<td>114</td>
</tr>
<tr>
<td>7 PA International Consulting</td>
<td>UK</td>
<td>2.3</td>
<td>16</td>
<td>Ernst &amp; Young</td>
<td>US/UK</td>
<td>20.1</td>
<td>142</td>
</tr>
<tr>
<td>8 Semco</td>
<td>Norway</td>
<td>2.3</td>
<td>17</td>
<td>Gemini Consulting</td>
<td>France/US</td>
<td>20.1</td>
<td>38</td>
</tr>
<tr>
<td>9 Bedriftsrådgiving</td>
<td>Norway</td>
<td>2.3</td>
<td>13</td>
<td>Dovre International</td>
<td>Norway</td>
<td>16.7</td>
<td>120</td>
</tr>
<tr>
<td>10 Mercuri Urval</td>
<td>Sweden</td>
<td>2.3</td>
<td>18</td>
<td>KPMG</td>
<td>US/UK/Holland</td>
<td>16.7</td>
<td></td>
</tr>
<tr>
<td>11 Asplan Analyse</td>
<td>Norway</td>
<td>2.3</td>
<td>23</td>
<td>A.T. Kearney</td>
<td>US</td>
<td>14.5</td>
<td>26</td>
</tr>
<tr>
<td>12 Barlindhaug</td>
<td>Norway</td>
<td>2.3</td>
<td>15</td>
<td>Stradec</td>
<td>Norway</td>
<td>6.7</td>
<td>25</td>
</tr>
<tr>
<td>13 UPK-Utviklingspartner</td>
<td>Norway</td>
<td>1.7</td>
<td>11</td>
<td>Guide</td>
<td>Sweden</td>
<td>–</td>
<td>43</td>
</tr>
<tr>
<td>14 AFF</td>
<td>Norway</td>
<td>1.7</td>
<td>15</td>
<td>Hartmark Consulting</td>
<td>Norway</td>
<td>5.6</td>
<td>30</td>
</tr>
<tr>
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<td>Norway</td>
<td>1.7</td>
<td>10</td>
<td>Arkwright</td>
<td>Norway</td>
<td>5.6</td>
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</tr>
<tr>
<td>16 Indevo</td>
<td>Sweden</td>
<td>1.7</td>
<td>19</td>
<td>Mercuri International</td>
<td>Sweden</td>
<td>4.5</td>
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</tr>
<tr>
<td>17 Pasco Ledelse</td>
<td>Norway</td>
<td>1.7</td>
<td>14</td>
<td>Mercuri Urval</td>
<td>Sweden</td>
<td>4.5</td>
<td>45</td>
</tr>
<tr>
<td>18 Enator</td>
<td>Norway</td>
<td>1.2</td>
<td>17</td>
<td>Prudentia</td>
<td>Norway</td>
<td>4.5</td>
<td>27</td>
</tr>
<tr>
<td>19 OSO Consult</td>
<td>Norway</td>
<td>1.2</td>
<td>20</td>
<td>Carta</td>
<td>Sweden</td>
<td>3.3</td>
<td>17</td>
</tr>
<tr>
<td>20 Bedriftsutvikling</td>
<td>Norway</td>
<td>1.2</td>
<td></td>
<td>Agenda</td>
<td>Norway</td>
<td>3.3</td>
<td>20</td>
</tr>
</tbody>
</table>

Sources: 1987 figures come from Ledelse No. 9, 1988 and the 1998 figures are from data collected by Fokus Publishing
The internationalization of the Norwegian consulting market only began during the latter part of the 1980s and continued into the 1990s. This is illustrated by the fact that even the international accountancy firms such as Arthur Andersen and PriceWaterhouse, which established offices in Oslo as early as 1956 and 1964 respectively, did not set up Norwegian branches of their consulting businesses until the latter part of the 1990s.

Despite the considerable growth experienced during the period from 1987 to 1998, the average size of the Norwegian consulting firms has remained relatively small. Thus, the international players have not been impeded by their late entry into the market and have been able to capture the rewards stemming from this rapid growth. To put the development into perspective, the size of the Norwegian market was estimated to be US$109 million in 1988, which was less than Andersen Consulting’s annual revenue 10 years on. This rapid growth in the Norwegian market continued in 1998 with revenues up 37 per cent on the previous year.

Looking at the business profile of the top 20 consulting firms as it stood in 1998, practically all the firms offered strategy and change management or change process type services. However, given the complexity of large change projects undertaken by the big international consulting firms, it is reasonable to assume that such assignments also entail strategy and IT related services as well as implementation.

SWEDEN

Sweden has a long tradition of international trade, which stems from the large number of international corporations the country has fostered through time.

The Swedish market for consulting services had already begun to develop during the 1950s as numerous Swedish companies adopted the time-and-motion method, causing a surge in the number of domestic consulting firms established during the period.

The provision of management consulting services was undertaken purely by domestic firms until the mid-1970s when competition from large American consulting firms began to grow. Although PA Consulting had been operating in the Swedish market since the 1960s through its acquisition of the Swedish firm Ekonomisk Företagsledning, it continued to operate under that name until the 1980s, by which time several international consulting firms had made moves to establish a presence in Stockholm.
It was not until 1980 that the first international consulting firm, McKinsey & Co, opened an office in Stockholm. The 1980s were the decade in which the Swedish consulting firms’ market dominance came to an end. The pivotal point for this structural change appears to have been 1990. However, the recession that hit the Swedish economy in the early 1990s made entry into the market a hazardous venture and several international, as well as domestic, players were forced out. Because of the difficult economic conditions, the dominance of the national firms was broken. By 1998 large American players dominated the Swedish market. This development is illustrated in Table 5.4.SE1 below:

<table>
<thead>
<tr>
<th>1987</th>
<th>Ownership</th>
<th>Revenue (mill US$)</th>
<th>No. of consultants</th>
<th>1998</th>
<th>Ownership</th>
<th>Revenue (mill US$)</th>
<th>No. of consultants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Indevo</td>
<td>Sweden</td>
<td>56.1</td>
<td>254</td>
<td>McKinsey &amp; Co</td>
<td>US</td>
<td>64.2</td>
</tr>
<tr>
<td>2</td>
<td>Invent</td>
<td>Sweden</td>
<td>8.5</td>
<td>54</td>
<td>Andersen Consulting</td>
<td>US</td>
<td>62.9</td>
</tr>
<tr>
<td>3</td>
<td>PA Consulting Group</td>
<td>UK</td>
<td>21.7</td>
<td>139</td>
<td>Boston Consulting Group</td>
<td>US</td>
<td>27.5</td>
</tr>
<tr>
<td>4</td>
<td>McKinsey &amp; Co</td>
<td>US</td>
<td>21.2</td>
<td>50</td>
<td>ALMI</td>
<td>Sweden</td>
<td>22.9</td>
</tr>
<tr>
<td>5</td>
<td>Siar</td>
<td>Sweden</td>
<td>16.1</td>
<td>89</td>
<td>CARTA CA</td>
<td>Sweden</td>
<td>22.8</td>
</tr>
<tr>
<td>6</td>
<td>Habberstad</td>
<td>Norway</td>
<td>16.0</td>
<td>94</td>
<td>Arthur D Little</td>
<td>US</td>
<td>22.3</td>
</tr>
<tr>
<td>7</td>
<td>Cicero</td>
<td>Sweden</td>
<td>13.2</td>
<td>77</td>
<td>Ernst &amp; Young</td>
<td>US/UK</td>
<td>22.0</td>
</tr>
<tr>
<td>8</td>
<td>Maynard</td>
<td>US/Holland</td>
<td>7.7</td>
<td>53</td>
<td>KPMG Consultants</td>
<td>US</td>
<td>19.0</td>
</tr>
<tr>
<td>9</td>
<td>Sinova</td>
<td>Sweden</td>
<td>5.4</td>
<td>32</td>
<td>Coopers &amp; Lybrand</td>
<td>US/UK</td>
<td>18.3</td>
</tr>
<tr>
<td>10</td>
<td>Bohlin &amp; Strömberg</td>
<td>Sweden</td>
<td>5.1</td>
<td>28</td>
<td>Gemini</td>
<td>France/UK</td>
<td>17.7</td>
</tr>
<tr>
<td>11</td>
<td>Cepro</td>
<td>Sweden</td>
<td>4.7</td>
<td>25</td>
<td>PriceWaterhouse</td>
<td>US</td>
<td>10.1</td>
</tr>
<tr>
<td>12</td>
<td>Sevenco</td>
<td>Sweden</td>
<td>4.6</td>
<td>21</td>
<td>Askas</td>
<td>Sweden</td>
<td>9.2</td>
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<tr>
<td>13</td>
<td>Nordic Management</td>
<td>Sweden</td>
<td>3.9</td>
<td>13</td>
<td>A.T. Kearney</td>
<td>US</td>
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<tr>
<td>14</td>
<td>Consultus</td>
<td>Sweden</td>
<td>3.9</td>
<td>18</td>
<td>SLG</td>
<td>US</td>
<td>8.3</td>
</tr>
<tr>
<td>15</td>
<td>Lagerquest &amp; Partners</td>
<td>Sweden</td>
<td>3.9</td>
<td>10</td>
<td>IBM Consultants</td>
<td>US</td>
<td>7.3</td>
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<tr>
<td>16</td>
<td>Semco</td>
<td>Sweden</td>
<td>2.9</td>
<td>18</td>
<td>Rain &amp; Co</td>
<td>US</td>
<td>7.3</td>
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<tr>
<td>17</td>
<td>Ingemar Claesson</td>
<td>Sweden</td>
<td>2.0</td>
<td>14</td>
<td>Bohlin &amp; Strömberg</td>
<td>Sweden</td>
<td>7.3</td>
</tr>
<tr>
<td>18</td>
<td>SMG</td>
<td>Sweden</td>
<td>1.6</td>
<td>7</td>
<td>Crepo</td>
<td>Sweden</td>
<td>7.3</td>
</tr>
<tr>
<td>19</td>
<td>Trim</td>
<td>Sweden</td>
<td>1.5</td>
<td>6</td>
<td>Deloitte &amp; Touche</td>
<td>US</td>
<td>4.6</td>
</tr>
<tr>
<td>20</td>
<td>SRC</td>
<td>Sweden</td>
<td>1.3</td>
<td>4</td>
<td>Sinova</td>
<td>Sweden</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Source: Konsulentguiden 1989 and 1998
Furthermore, as Table 5.4SE1 also indicates, the Swedish market for consulting services experienced a tremendous rate of growth during the 1990s. In 1996 the total turnover of the 60 largest consulting companies totalled US$450 million, of which the top 20 consulting companies accounted for US$250 million. Thus the top 20 companies initially accounted for 63 per cent of the total turnover in 1992. This share then subsequently dropped to 55 per cent in 1996, before rising to 80 per cent of the US$560 million turnover contributed by the top 60 firms in the industry in 1997. Therefore, not only did the market itself grow in size, but the majority of activities today remains concentrated within a few large American players.

A survey undertaken by Konsulentguiden in 1998 revealed that the main focus of the more classic US firms such as McKinsey & Co, BCG, Arthur D Little and Bain & Co is on strategy and business development services (63 per cent). Overall the emphasis on strategy and business/organization development is very clear regardless of the type of firm. An exception, however, is the ‘Big Five’ (PriceWaterhouseCoopers, Andersen Consulting, Ernst & Young, Deloitte & Touche and KPMG), where strategy and business development services only account for 11 per cent of all services offered. This group of firms is the only one to display a wide diversity in the type of services offered. It is interesting to note that HR and competence development services are offered primarily by domestic consulting firms.

The Swedish consulting market has experienced an increased merger activity between medium- and large-sized Swedish consulting firms in response to the increasing competition from the large international players. Thus the Swedish market is becoming more concentrated and the level of competition is likely to become fiercer as large international consultancies, primarily American, enter the Swedish market through the acquisition of medium- to large-sized Swedish counterparts.

Furthermore, the larger international consulting firms are increasingly using standardized methods, enabling the firm to transmit the same image to a large number of customers. This development may pose a challenge for many of the Swedish consulting firms that traditionally have provided more process-based consultation.

Conclusion

During the last few years, the overall Scandinavian market has grown considerably. The growth has to a great extent been driven by the region’s
position as a European market leader in mobile telephony commerce, Internet technology and wireless applications along with the privatization of public services. The emergence of the e-business market has greatly impacted the overall market. The current drivers behind e-business development in Scandinavia rest primarily within the new economy companies, which have had a significant impact on the market. This was reflected in the fact that the Scandinavian business-to-consumer (B2C) market was very strong around the turn of the century. However, a rapidly evolving business-to-business (B2B) market is now replacing the B2C one. This is a development which is most likely to benefit the more traditional consulting providers. Furthermore, as the region experiences an increased number of cross-border mergers, the clients will increasingly turn to the firms with the global capabilities and depth needed to assist them in their cross-border ventures. The Scandinavian consulting market is becoming more polarized, with the large consulting firms becoming even bigger and leaving the smaller players only the lower end of the market. This trend is set to continue, making it difficult for medium-sized consulting firms to survive unless they serve a niche market.

This trend will be further emphasized by globalization, which is causing companies to look for international providers of consulting services, the reason being that as they grow and become more international, they are seeking partners who have at least an equivalent presence globally. Furthermore, demand is becoming more complex. A general consensus prevails between leading management consultants and major buyers of consulting services that most technical assignments can no longer be separated from organizational assignments, which in turn cannot be separated from management development assignments, human resource assignments etc. Clients may define a certain assignment as being technical, managerial or human-resource orientated. However, these assignments are often highly interrelated and therefore require a multi-disciplinary problem-solving approach. Hence the domination of the individual Scandinavian markets by the large, particularly American, consulting firms is likely to continue, further fuelling the trend of consolidation among the domestic consulting firms in their efforts to survive.

The trend towards consolidation is still predominant in Scandinavia as multiple companies attempt to position themselves as full-service providers. This lack of differentiation between the different providers on a generic level, coupled with the complexity in demand adds to the markets’ complexity and lack of transparency. Efforts are currently being
made to improve transparency within the individual Scandinavian consulting industries and to install a common code of conduct/industry ethics, and general professionalism through professional consulting organizations.

Despite the slowdown in the general economy, the outlook for the Scandinavian market is positive with the emergence of a cross-border and pan-Scandinavian market.

OTHER WESTERN EUROPE

SWITZERLAND

André Wohlgemuth

Association of Management Consultants Switzerland (ASCO)

In the 1950s, the quality of management consulting was a hot issue. Swiss entrepreneurs and managers were more than sceptical about the value and purpose of the consulting profession. Some had suffered from bad experiences with hard selling and unprofessional consultants. In response to this situation eight leading management consultants founded ASCO in 1958 and established a clear code of conduct, which is very similar to the International Council of Management Consulting Institutes’ (ICMCI’s) codex today.

Our ethics committee is ready to become active upon a client’s request and, after hearing all parties involved, may recommend the exclusion of a member of ASCO. Our association also engages in all kinds of promotion and development activities for its members.

ASCO is also the association of the management consulting firms in Switzerland. Eleven of the 20 largest management consulting firms in Switzerland are members, among them PwC Consulting, Mercer Management Consulting, KPMG Consulting and Cap Gemini Ernst & Young. The membership also includes the largest native Swiss consultancies such as ICME International, Helbling Consulting, Abegglen Management Partners and Visura.

In 1960 ASCO was one of the six founding members of the European Federation of Management Consulting Associations (FEACO). Today ASCO represents 1,200 management consultants, nearly 40 per cent of the total in Switzerland. ASCO was very active in recent years in raising the value of membership. It offers training programmes for consultants and was the initiator of the first management consulting conference for
Germany, Austria and Switzerland in 1999. The conference was held in Munich with 500 participants. In 1998 ASCO began to organize a recurring top event for managers and entrepreneurs. This new concept was so successful that it is now repeated on an annual basis. Additional professional public relations activities led to a sharply increased name recognition in the business community.

A very competitive market

The Swiss market for management consulting services is not regulated but is highly competitive. Switzerland has one of the highest number of consultants by head of population – higher than in a developed market such as the Netherlands. All large global management consulting firms have offices in Zurich, the largest economic centre in the country. In 2001, Swiss consulting revenues were SF1200 million (US$800 million).

The export rate of management consulting services is high and grows steadily: it rose from 25 per cent in 1995 to more than 30 per cent in 2001. Swiss management consultants tend to speak several languages, have working experience with international clients and are used to dealing with different cultures.

Why is ASCO a member of the ICMCI?

ASCO wants to help members to improve their competitiveness in Switzerland and other countries. In 1995 the annual general meeting of ASCO decided to support ICMCI and the certified management consultant (CMC) qualification, the only international standard for professional management consultants. The task of implementation was delegated to a group of five experienced management consultants. Leading this group gave me the opportunity to contribute from my experience of receiving the CMC/USA in 1992–93.

The group also benefited from experience and documentation received from Canada, New Zealand, the USA and other countries. ASCO was able to start operations in 1996 and became a full ICMCI member in 1997. Our certification documents are available in German and French. There were nine CMCs at the end of 1997 and 40 in 2002.

We didn’t follow the approach of some other institutes that gave the CMC title to all of their members. We only admit CMCs who actively promote the values of the CMC standard. Another important decision was to keep the CMC qualification admission procedure open, not only for ASCO members but for all consultants. As we consider the CMC
certification as a professional and fact-driven procedure, we offer each individual the opportunity to prove his/her qualifications. The only difference consists in a higher certification fee for consultants who do not pay the annual ASCO membership dues.

**Vision and expectations**

ASCO will continue to promote successfully the CMC standard. Our goal is to raise significantly the number of CMCs within the next three to four years. We have established a professional infrastructure with an executive director. Our homepage lists all CMCs and will be linked to relevant addresses in the marketplace. We offer our experience to other institutes and associations. In 1997 we provided the Federal Association of German Management Consultants (BDU), the corresponding association in Germany, with all our documents. We are convinced that long-term success can be achieved not only from professionalism in our work but also from continuity in communication.

Our main expectation from the ICMCI is simple and clear: concentrate the limited resources in promoting and pushing the CMC standards worldwide. We will support all activities with the aim of making the CMC a known brand of top management consulting everywhere.

**CENTRAL AND EASTERN EUROPE**

József Poór

Behaviour researcher, Konrad Lorenz (1965) said back in the 1920s that in order to understand the present behaviour of various creatures it is important to understand and track their history of evolution. The same is true for management consulting. Management consultancy was born in the USA almost 100 years ago. Today consulting is present in almost all areas of business life. However, the main focus areas of consultancy have changed significantly in past decades. The development of consultancy from its birth until today can be studied in various categories. We agree with Kipping (2002), who stated that ‘when taking a long-term perspective, it becomes clear that the evolution of the consulting industry and its preeminent firms is closely linked to the development of management practice and ideology’.

**General trends and recent developments**

In general, before the political changes at the end of the 1980s, in most Central and Eastern European countries the consulting service was
rendered by sector research institutes and controlled by the state or by
different ministries. During the period from 1949 to 1989, the USSR
dominated the region politically and economically. A variety of economic
institutes existed, but only to assist the central governments in their
largely production-oriented 5-year plans. The marketplace and customer
needs were ignored. Technological changes did come from government
laboratories with an eye towards military preparedness, but industrial
research and development (R&D) and organizational innovation were left
far behind. This all changed when the USSR dissolved and today we
witness a rebirth in practically each nation. Much of the action and
economic growth is in the small and medium-size countries, but Russia is
also in the running to put its economy on track.

In several countries management training and consulting centres were
established with the support of the International Labour Organization
(ILO), or that of the United Nations Industrial Development
Organization (UNIDO). In sum, we can say that under previous regimes,
the characteristics of modern management consulting were pretty scarce
in these countries.

Since then changes in the regimes’ consulting linked to privatization
have been developing significantly in all countries. Much funding came
into these countries within the PHARE programmes of the European
Union (EU), and in these programmes consultants played a significant
role in the establishment and implementation of the various projects. In
recent years Japanese productivity centres for social and economic devel-
opment have been established in almost every CEE country to facilitate
the entry of Japanese capital. Consulting associations have been founded
in almost every country on the initiative of the European Federation of
Management Consulting Organizations (FEACO) and the books and
articles of Milan Kubr and others have been translated into various local
languages.

The change that happened in Central and Eastern Europe (CEE) was a
rare event in the history of mankind. The difficult political and economic
transition processes associated with this event were hindered by a
dramatic decrease in the performance of the region’s economies. Today
most of the national economies in the region have started to grow again.

In CEE, as in the rest of the world, the accountancy-based firms are
dominant. They are highly represented in all countries of the region and
are considered as pioneers. They are major competitors of management
consultancies. There are also other important competitors: the Austrian,
Swiss and German small and medium-sized firms have contributed to the creation of a wholly new consultancy landscape in this region. These firms are culturally quite close to the region – when the opportunities presented themselves, they entered the market.

**Figure 5.4.CEE1** Key drivers of management consulting in CEE countries

A growing number of scholars and experts claim that privatization does not automatically improve the effectiveness of governments, companies and social welfare systems. On the contrary, it may well increase opportunities for corruption and bribery. When a company is privatized or managed by Western-type business rules, there is no guarantee that the values and mindsets of the people will change.

The adaptation of financial, legal and technical frameworks in a privatized local company or in companies with foreign participation represents only the first stage in the creation of a Western-type enterprise. Once these are in place, one must start to consider how to get the people and the organization to perform in a competitive way. Even the best infrastructure in the world will not turn companies from command economy to market economy; individuals, groups and the entity as a whole fail to perform appropriately.
There are numerous reasons why organizations turn to consultants. In past decades companies have undergone significant changes: more and more they are outsourcing services of some of their internal organizational departments that were created in previous years. The foreign owners of privatized companies are reluctant to maintain departments with expensive workforces at their local affiliates unless necessary. Today signs indicate that in CEE many areas of consulting, besides privatization topics, are emerging. Areas of management are getting more and more specialized.

According to Kubr (1996), there are five factors that make the intervention of a consultant absolutely necessary:

- giving assistance to an organization to reach its goals;
- solving management and business problems;
- identifying new possibilities;
- facilitating learning;
- realizing changes.

**Table 5.4.CEE1** Portion of Eastern and Central Europe within the European consulting market

<table>
<thead>
<tr>
<th>Countries</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>28.6</td>
</tr>
<tr>
<td>UK</td>
<td>25.8</td>
</tr>
<tr>
<td>France</td>
<td>17.1</td>
</tr>
<tr>
<td>Nordic region</td>
<td>7.5</td>
</tr>
<tr>
<td>Other European countries</td>
<td>18.9</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>2.1</td>
</tr>
</tbody>
</table>

*Source: FEACO (2001), FEACO (2002)*

**Table 5.4.CEE2** Consulting market in FEACO member countries

<table>
<thead>
<tr>
<th>Countries</th>
<th>Bulgaria</th>
<th>Czech Republic</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>Russia</th>
<th>Slovenia</th>
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</thead>
<tbody>
<tr>
<td>Total turnover (million euro)</td>
<td>40</td>
<td>150</td>
<td>217</td>
<td>260</td>
<td>75</td>
<td>382</td>
<td>56</td>
</tr>
<tr>
<td>Number of consultants</td>
<td>2500</td>
<td>3000</td>
<td>3100</td>
<td>5000</td>
<td>1800</td>
<td>7000</td>
<td>670</td>
</tr>
<tr>
<td>Average annual earning per consultant (euro)</td>
<td>16000</td>
<td>50000</td>
<td>70000</td>
<td>52000</td>
<td>42000</td>
<td>47000</td>
<td>84000</td>
</tr>
</tbody>
</table>

*Source: FEACO (2002)*
Until the end of the 1990s the role of the consultant in the consultant–client relationship was basically similar to that of a supplier who provides different products and services. Within a certain period of time the consultant drafted a rather extensive report, which was then ‘delivered’ to the client together with an accompanying letter or in a presentation. In the last two to three years this relationship has gradually grown into a mutual partnership aimed at the effectiveness of the client. This phenomenon will influence greatly how consultants do business and how successful they are in the integrated EU.

**Figure 5.4.CEE2 The changing roles of management consultants**

I will examine the fundamental concepts of consulting in the FEACO member countries of CEE and the important characteristics in their development. Without presenting a full picture, let’s look at the practice of consultancy in these countries and the unique highlights in each nation.

**Management consultancy in different CEE countries**

**BULGARIA**

In the previous regime scientific and branch institutes, universities, the Institute for Industry Development and the Institute of Management carried out the tasks of management consulting (Hristov and Ignatova, 2003). These institutes followed the Soviet School of Management, Political Economics and Science Management (NOT). Many projects and assignments were related to management information systems (MISs). In a few cases, state-owned enterprises (eg Podem, Balkankar) employed foreign consultants.
The Bulgarian Association of Management Consultants (BAMC) was established in 1990 (Hristov, 2001). The Certified Management Consultant (CMC) certification was introduced by active support of the British Management Consulting Association in 1999.

Almost 250 consultancy firms were in operation by the end of the 1990s, most of which were small local companies, employing only a few people. Besides them, there were also management consultancy units of big international auditing companies and the offices of some medium-sized companies. The greatest problem of the consulting business is still the low presence of foreign capital.

Since 1990, the scope and range of management consulting services in Bulgaria have broadened considerably. The Bulgarian consultancy market is rather small, if compared to the markets of other European countries. There are 300 consulting companies operating in this sector with a staff of some 2,500 people. The management consulting market has been stabilized due to less institutionalized and more professional service providers. Besides privatization consulting assignments the most flourishing service lines in this country are corporate strategy, partner seeking, executive search and market research.

In many sectors of the Bulgarian economy, EU-founded consulting assignments are considered to play an important role. The EU programmes for technical assistance provided a unique base for long-term cooperation between Bulgarian and foreign consultants. Bulgarian management consultants export their services to other Balkan countries (Macedonia and Serbia).

CZECH REPUBLIC

Management consultancy has very significant traditions in the Czech economy. Czechoslovakia was one of the most developed industrial countries of the world before World War II. The level of industrialization determined the development level of management consultancy and the range of services related to it (Volosin, 2003). Between the two world wars factory management methods and procedures applied in Czech industry were widely known.

These traditions have wasted away significantly within the framework of socialism. Since the change of the regime, state and private frameworks for consultancy have been rebuilt. Once the ‘godfather’ of the European management consulting movement, Milan Kubr, with his Czech origin,
has actively contributed to the rebirth of this profession in his home country. The Czech Management Consulting Association was created at the beginning of the 1990s and many large international consultancies created branch offices in Prague. These outlets served the Czech and Slovakian markets until the mid-1990s.

**HUNGARY**

The development of the Hungarian consultancy business was fragmented. The beginnings were connected to the spreading of the Taylor method. Following the German model, there was a strong rationalization process between the two world wars. Numerous organizations and consulting companies were established in Hungary, mainly in the area of office and administrative management. One of the most significant among them was Evolut Ltd, established in 1929.

There were a lot of domestic entrepreneurs in the area of consultancy connected to administrative management and accountancy. The same can be said about the industrial sector, where mainly German and Swiss organization experts worked for many Hungarian companies: the Bedaux office has done consultancy work for Goldberger.

The Indorag Dutch engineering consultancy institute participated in many reorganization projects between 1933 and 1943. The development of the domestic consultancy business was very much impacted by the fact that, after the war, the views that were then very popular in the USSR were adopted. According to these views, the independent existence of a science of management and organization is absolutely unnecessary.

At the beginning of the 1950s many institutions which were created after liberation to facilitate company management and organization ceased to exist. This tragic situation improved little until the end of the decade, when the first sectoral organization institutions were founded. Since then the profession has continually changed.

One of the most important changes is that different sectoral organization institutions have been gradually transformed into companies. With the cessation of the sectoral ministries of industrial management, totally independent organizations and consultancy institutions have been formed. The job of experts, who are working for various organizations, institutes or for their legal successors, was the target of many just and unjust criticisms.
Professional management and business consultancy carried out by a third party (organization) for different clients became fashionable in Hungary in the middle of the 1980s. Numerous factors played a role in this change:

- foreign consultancy firms had a very important role in shaping of the new type consultancy culture;
- new and fast-moving privatization offered plenty of opportunities to consultants;
- companies purchased by foreigners and big green-field investments offered new consultancy tasks;
- numerous publications were released in order to help university-level management consulting faculties (eg Budapest University of Economic Sciences, and the Faculty of Economics of Janus Pannonius University at Pécs (Box 5.4.CEE1)) and the publications of Milan Kubr were translated into Hungarian;
- professional organizations, taking care of basic professional and ethical conditions of management consultancy and other consultancy areas, were formed.

**Box 5.4.CEE1: Overview on curriculum of a management consulting course at University of Pécs, Hungary**

- The ‘methodology’ of consultancy, including a range of skills and activities from contacting the client to presenting the consultant’s recommendations to the client.
- Various fields of management consultancy (eg business strategies, organizational development, management concepts and techniques).
- Special issues arising in different corporate functions (ie in research and development, production management, marketing, human resource management, corporate finances) in which companies may need consultancy, as well as the integration of the solutions to these problems in the whole of the organization and in its operations.
The emerging new fields of consultancy, such as the utilization of information technology, the introduction of logistics systems, as well as network development.

Special aspects of consultancy in different types of businesses (multinational companies, small and medium-sized enterprises, non-profit organizations etc).

Taking all the above into consideration, the issues related to the operation and management of consulting firms.

Source: Hovanyi and Farkas’ 2002 course on management consulting, Faculty of Business and Economics, University Pécs, Hungary

The first representatives of foreign consultancy firms had already appeared in Hungary at the beginning of the 1970s, but they were more engaged at the time of the launch of the World Bank’s restructuring programmes. The first joint ventures in consultancy were established in the middle of the 1980s, mainly with the cooperation of German, Austrian and Swiss companies. Since the end of the 1980s the expansion of consultancy firms of Anglo-Saxon origin has been rising continuously.

However, a consultant working in an international business environment soon has to realize that what is good in San Francisco, may not work in a Hungarian family venture. Large international companies like to employ consultants in order to solve their management problems. Some international companies determine for their whole group, with which consultants they will work, while others are more decentralized and independent. They do not stick to consultants who are employed by the central office, but choose among local firms.

With regard to the number of consultancy firms and consultants, the Hungarian market has very nearly reached the relevant ratios for developed countries – 10 million inhabitants, and 2000–3000 people. However, there is a significant lag in daily fee rates (threefold–fourfold) and in per capita annual sales incomes (twofold). On the domestic market, trends mentioned before have appeared, such as company mergers, rapid growth connected to informatics and growing market competition. The majority of Hungarian consulting firms belong to the medium- and small-size category, mostly offering specialized services with a clientele coming mainly from small and medium-sized enterprises. The distribution of consulting revenues among small and large consulting
companies in Hungary and in Europe in 2002 is shown in Table 5.4.CEE3 (Baukovacz and Kornai, 2002).

Table 5.4.CEE3 Distribution of consulting revenues among small and large companies

<table>
<thead>
<tr>
<th>Categories of the consulting firms</th>
<th>Europe (%)</th>
<th>Hungary (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 20 management consultancy firms</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>Medium-sized management consultancy firms</td>
<td>42</td>
<td>0</td>
</tr>
<tr>
<td>Small management consultancy firms</td>
<td>11</td>
<td>47</td>
</tr>
</tbody>
</table>

The most significant representative organization of the consulting profession in Hungary, the Hungarian Association of Management Consultants (AMCH) was established in 1990 and became a fully fledged member of FEACO in 1993. AMCH currently has approximately 65 member companies, representing almost 1,200 consultants. Hungary had been an associate member of the International Council of Management Consulting Institutes (ICMCI) since 1991; full membership was awarded in 1996. The first certification occurred in 1994 when the Institute of Management Consultants (UK) certified six local consultants. Today, there are 150 CMC designees in Hungary. The CMC Committee works within the Hungarian Management Consultants Association.

MACEDONIA

Management consulting firms in Macedonia add value to domestic and international clients by being able to use their expertise. In most cases the services of management consulting firms are financed by international development agencies, such as the World Bank, EU, SIDA, CIDA, USAID etc) (Trajkowski, 2003).

Macedonia’s Management Consulting Association was established in 1995. It has 10 corporate and 100 individual members. The CMC certification process was established in 2001 with the strong support of the Management Consulting Association (UK).

POLAND

Management consultancy in Poland started at the end of the 1980s. The first local consulting companies emerged from the institutions of university colleges funded by lawyers and economists.
Consultancy has become a very rapidly developing sector. According to the Association of Economic Consultants (SDG), at the beginning of the 1990s the most significant project-financing institutions were typically PHARE, the Know-how Fund and US funds. Today these sources are slowly vanishing. Their roles are taken by the EU projects that finance structural funds, and by the very dynamically developing private sector.

The well-known big consultancy firms are represented in the Polish consultancy market structure with 5–10 consultants, together with the management consultancy departments of the Big Four auditing and accounting companies (with 20–30 consultants). The number of local companies is estimated to be 200–300, each employing between one and ten consultants. The general trend towards concentration continues in Poland; the number of medium-sized firms with 50–100 consultants has continuously decreased. It is estimated that services worth about 260 million euros can be sold on the market, and that about 5,000 consultants operate in management support.

The Polish Management Consulting Association (SDG) was established at the beginning of the 1990s. It has 17 member firms, mostly locally owned associations. The CMC certification was started in 1997, since when 40 designations have been awarded.

In 2001 and 2002 the Polish consulting market was deeply depressed. The second half of 2001 brought significant cutbacks in personnel at the Big Four companies and at Polish local consulting firms. Growing numbers of EU-related projects, International Organization for Standardization (ISO) certification and IT assignments can contribute to the development of the Polish consulting market (Glowaczki, 2003).

**ROMANIA**

In Romania, due to the very strong over-centralization of the economy, consultancy hardly existed, not even in that primitive form described in the case of the other ex-socialist countries. However, since the change of the regime, potential conditions for the basis of modern consultancy have been set up. In contrast to other Eastern European countries, further development is seriously hampered by the very sluggish pace of privatization. This results in a lack of state and private purchasing power to give the necessary initial impetus for building up the consultancy business and the market.
The Romanian management consulting market consists of 850 firms and individual players. Within these companies 1,800 consultants are working, of which just 350–400 are certified at national or international levels. The majority of the Big Five consultancy firms are represented in Romania but their involvement in the most important problems of the Romanian economy does not make a significant impact on the real market. In addition, some smaller companies, mainly specialized in head-hunting, and a selection of foreign companies have settled down in Romania; there are also dozens of small, local consultancy firms operating in the market.

A local consultancy network has started to emerge with government and foreign support. One of the most burning problems of the consultancy market is the insolvency of clients and low contract fees. Excluding international projects, local daily consultancy fee rates are no higher than 130–400 euros. The concentration process has been continued as the management consulting profession becomes more defined in the market (FEACO, 2002).

The Association of Romanian Management Consultants (AMCOR) was established in 1992 at the initiation of FEACO. The association has a membership of 40 consultancy companies and 150 individual consultants. The CMC certification was started in 2001 (Plesoianu, 2003).

RUSSIA

Russia is a vast country with a wealth of natural resources, a well-educated population, and a diverse industrial base. According to the latest statistical estimates, there are some 400 firms in Russia and no less a number of sole practitioners in the Russian market. Estimated numbers of management consultants amount to 7,000 working in a market that is considered to be worth 332 million euros. Daily fees differ widely and vary between the fee rate of a large or medium-sized firm (ranging from 250–2,000 euros per day) to that of SMEs (between 50 euros and 300 euros per day). On the one hand, the size of the country provides an excellent opportunity for large firms to establish offices in Moscow as well as elsewhere in the country; on the other hand, the missing infrastructure and the poorly developed transport and logistics environment force international firms to set up their offices only in the capital.

Russia experienced sweeping change during the 1990s, and the accompanying changes within business organizations necessitated the
adoption of human resource systems, policies, and practices to meet the new challenges. Having made much progress, the question today is the degree to which management consulting has come of age and what work remains to be done.

Posadsky (2003) believes that many managers, especially those of the old school, have no specialized training background at all; they became managers in their everyday jobs, gaining professional experience. Their motto is ‘I know better’. The new generation of managers is more or less familiar with consulting, but they prefer expert knowledge (financial consulting, audit, designing investment programmes etc), as they see it as more ‘understandable’ and ‘profitable’.

**SLOVAKIA**

Large international consulting firms established their local offices mainly in Prague. Even after 1993 the majority of foreign consulting firms set up their businesses in the Czech Republic and they still manage their Slovak operations from there — this was true, for instance, of McKinsey & Company. Important consulting firms who have their offices in Bratislava, as well as in other major Slovakian cities (eg Banská Bystrica, Košice) are the consulting arms of the Big Five accounting firms.

Beyond these firms, management consulting services in Slovakia are mainly provided by small private companies, specialized agencies, banks, broker firms, investment companies, foreign trade organizations, different information centres, trade and industrial chambers and some of the universities.

Advisory activities for small and start-up businesses represent a specific area of management consulting. Slovakia has several institutions offering consultancy and support to SMEs. The National Agency for Development of Small and Medium Enterprises (NADSME) and the network of Business Innovation Centers (BICs) and Regional Advisory and Information Centres (RAICs) head the list (Volosin, 2003).

**SLOVENIA**

In 1960, nine Slovenian consulting companies established the Independent Business Consulting Association, which later became a member of the Yugoslav union, Yucor. At this time the total number of consultants was approximately 200. With the disintegration of Yugoslavia in 1991, Yucor collapsed, as did the Independent Business Consulting Association (Arah, 2001).
Slovenia was among the first countries in transition to overcome the consequent depression experienced in the early 1990s. The local consulting companies began to offer services similar to those found in developed European nations, and the quality of the services they offered corresponded to that of foreign consultants. As such, the introduction of modern working methods, the encouragement of new solutions and the high standard of consulting services is and remains the main principle of consultancy. The Association for Management Consulting of Slovenia (AMCOS) was created in 1992 and has integrated into the framework of the Slovenian Chamber of Commerce.

Among the CEE countries, the average annual earnings per consultant is highest in Slovenia. AMCOS became a member of FEACO in 1993; it has 56 members, employing a total of 560 consultants. In 2001 management consulting in Slovenia generated a total income of 56 million euros, representing 0.24 per cent of gross domestic product (GDP). In 2003 one of the biggest conference events of the European consulting world in recent years was hosted by AMCOR in Ljubljana.

**FUTURE**

When investigating the future we must never forget that although some serious theories have come true, others proved to be real blunders. In all of today’s forecasts belief in technical and human development is dominant. Among various future research publications, Brown et al (1995) state that in a rapidly changing environment a substantial number of paradigms could be achieved in the development of the economy and society. Successful companies should be part of this in IT and other areas of the economy. Revolutionary solutions may also be needed. Changes, which are today still only assumed, may be part of our everyday life, if we work to accomplish them. Consultants can play an important role in this process by being proactive and open to change (Sadler, 1999).

As the world is somewhat ‘upside down’, the question arises: ‘what is the future of consulting in the new millennium in our region?’ Mysteries have always existed and they will continue to exist in the future. The same is true for consulting in our region.

Historians know that the calendar is usually a bit off (Sadler, 2001). In line with this notion, the new millennium of this region probably started at the time of regime changes in 1989 and 1990. Just remember how often it was said that the whole transformation process was so incredible,
and that everything happened so unexpectedly. Perhaps the events were ahead of their time, but we have to keep the momentum.

If the nations of Western Europe were able to give up their national currencies, then people in this region would be able to work for a more effective integration. They would have to leave behind their nationalism subsisting on imaginary or real grounds. The new era creates new opportunities both for traditional consulting (facilitating change, implementing privatization) and for new (cross-border, intercultural) consulting. As former Czech president Vaclav Havel stated at the beginning of the 1990s: ‘In Central and Eastern Europe everything is possible but difficult’. If we keep this in mind during our assignments, our consulting activity will be successful.

**THE MIDDLE EAST**

**JORDAN**

Hatem Abdel Ghani  
*Institute of Management Consultants of Jordan*

Management consultancy has been a well-established industry in Jordan since the 1970s. It started with a few pioneering firms dealing mostly with governmental requests for various consulting services as important steps in implementing national infrastructure projects. This state of affairs encouraged many entrants to establish their own management consulting bureaux. Later, in the 1990s, it became apparent that there was a need to establish some sort of association that would be joined by eligible management consultants, as firms or individuals, and the Institute of Management Consultants (IMC) was established in September 1995. Its character was approved by a general assembly which also appointed a board of directors for a three-year tenure.

The number of registered IMC members by the end of 2000 was 78, with 63 individual and 15 corporate members.

**Types of consultancy**

Jordanian management consultants deal with all types of consulting, such as:

- feasibility studies
- marketing and business development
- technical studies
- strategic planning
- quality systems
- development of organisational effectiveness
- Human Relation Development (HRD)
- management systems
- organizational structuring
- strategic studies
- economic research
- tax consultancy
- financial and management consultancy
- evaluation studies and appraisal of companies
- formation of shareholding companies
- diagnostic studies
- trade marks and patents registration
- management and information systems
- re-engineering
- institutional analysis
- project management
- Management Information Systems (MIS)/General Information Systems (GIS) software development
- environmental studies
- information technology
- marketing research
- restructuring and merging
- due diligence and valuation
- liquidation of companies
- telecommunications consulting
- financial consulting
- appraisal and inspection of technical and safety problems
- quality control and HACCP systems
- investment studies
business strategy development.

The industries that frequently commission consultancy are:
- government and other public agencies
- utilities
- manufacturing
- non-governmental organizations (NGOs)
- bi/multilateral agencies
- banks
- insurance.

**Relevant education and qualification standards**

To be accepted as a member of IMC-Jordan, a management consultant should have a university first degree or equivalent in addition to a minimum of seven years’ work experience in his/her field of speciality, of which at least three should have been as a full-time management consultant.

**Use of consultancy in government and state-aided projects**

The government of Jordan and its public agencies are responsible for designing and implementing the major infrastructure projects in the country, such as airports, seaports, electricity, water production and distribution, public health, energy and mining. There are usually major activities requiring a considerable amount of consultancy. Government departments also use management consulting to upgrade their performance, enhance their efficiency and avoid red tape and similar bureaucratic problems.

**AFRICA**

**NIGERIA**

*David Iornem*

**Population**

With over 120 million inhabitants, Nigeria is the most populous country in Africa. Less than 30 per cent of Nigerians live in the cities. The country
covers an area of 923,768 km$^2$, with a population density of 103.9 per
km$^2$. Life expectancy is 46.9 years for men and 50.2 years for women.

Nigeria has over 250 ethnic groups that speak different languages. The
leading ones are Hausa, Yoruba, Igbo, Fulani, Tiv, Kanuri and Edo. The
official language is English.

**Major religions**

Christianity and Islam are the major religions, arguably in equal strength.
Recently, conflict between the two major religions has led to serious
disturbances in the country.

**Major diseases**

Malaria, tuberculosis and AIDS.

**Capital**

Abuja is the new capital of Nigeria. Other large cities with thriving
commercial and industrial activities include Lagos (the former capital),
Port Harcourt, Kano, Warri, Kaduna, Ibadan, Enugu and Calabar.

**Political structure**

Nigeria is a federal republic. Due to years of military rule, the adminis-
trative structures have assumed unitary characters with a great deal of
central control. There are 36 states that are demanding more devolved
powers, an issue that has become contentious with the return to demo-
cratic rule. Nigeria has an executive president, modelled on the US
system, and executive governors for the states. There is a national
assembly comprising the Senate and House of Representatives.

**Recent history**

The British protectorates of Northern and Southern Nigeria were merged
in 1914 to form Nigeria. The country became independent in 1960. In
1966, the civilian government was toppled. The situation deteriorated
rapidly, leading to a civil war between the federal government and the
eastern region, which ended 30 months later. A return to civil rule in
1978 was terminated by the military in 1983.

In 1993 the military organized elections that were free and fair, but
reneged on the promise to hand over power, leading to a serious political
crisis. Finally, a return to civil rule took pace in 1999. Nigeria, therefore,
has a young democracy, which is being guarded jealously in spite of many teething problems. There are 30 political parties.

**National economy**

Agriculture used to be the mainstay of the economy, providing about two-thirds of the country’s gross domestic product (GDP) in the early 1960s. The situation has changed since the late 1960s because of the huge growth in the volume and value of petroleum output. However, agriculture still employs about 66 per cent of the working population. There are very few large commercial farms. Smallholdings are far more common. Minerals available in commercial quantity include tin, columbite, coal, iron ore, zinc, limestone, barrytes and uranium.

**Types of consultancy**

- Human resource management (HRM): manpower development, industrial training, corporate head-hunting and organization development (OD) engagements occupy the time of most consultants.
- Project feasibility appraisal: being a developing country, both the federal and state governments have been the main initiators of large industrial projects. The future will change drastically as there is a trend towards privatization.
- Re-engineering: big companies in the organized private sector use management consultants in their re-engineering efforts. Foreign consultants have had an edge over local ones in this category of consulting – probably because the big companies involved have foreign origins.
- Privatization: state-owned enterprises are undergoing privatization under the surveillance of the World Bank. The process appears to be transparent, a situation that means a level playing field for consultants.
- Marketing: there are opportunities in marketing and advertising consultancy, especially with the big companies.
- Quality management systems: many of the big companies are using consultants to introduce total quality management (TQM) procedures and in attaining the International Organization for Standardization (ISO) 9000 and ISO 14000 quality standards.
Consultancy sectors

- Services sector: this is a growing area covering financial institutions, information technology (IT), tourism, political campaign management, transportation, etc.

- Government: this is perhaps the juiciest of all the consulting sectors for those who are able to penetrate the system. The rewards are considerable and there are many opportunities. There is however, a great deal of corruption associated with doing business with the government. An anti-corruption law has recently been introduced to sanitize the situation, but its effect has yet to be officially assessed. Many feel that much still remains to be done.

- Industries (or sectors) that commission the most consultancy: in order of importance: the federal government and its agencies, the oil industry, IT, financial institutions and the manufacturing sector and services.

Regulatory framework

No licence is needed to engage in management consultancy. However, there are regulatory professional bodies that relate to activities offered by various types of consultants. If you are offering financial services, you must be a member of one of the two chartered accounting bodies, i.e. the Association of National Accountants of Nigeria and the Institute of Chartered Accountants of Nigeria. The Securities and Exchange Commission (SEC) also regulates aspects of financial services consultancy. The Chartered Institute of Stockbrokers works hand-in-hand with the SEC.

Consultants offering HRM services are required to be members of the Institute of Personnel Management of Nigeria, while those offering advertising and marketing services are required, by law, to belong to the Advertising Practitioners Council of Nigeria (APCON). The National Council for Management Development, set up by the federal government, has also introduced an accreditation system for management consultants involved in manpower development and training. In addition, management consultants involved in industrial training need to have their programmes approved or endorsed by the Industrial Training Fund (ITF) before marketing them to industrial organizations.
The main management consulting body is the Institute of Management Consultants (IMC), which is a voluntary regulatory body with a code of ethical conduct that is rigorous and in line with standards approved by the International Council of Management Consulting Institutes (ICMCI).

**Relevant qualifications**

The IMC admits members into the following grades:

- Associate (AMIMC);
- Member (MIMC);
- Fellow (FIMC).

Those who attain 35 credit hours of continuing education also gain the ICMCI qualification of certified management consultants (CMC). There are, however, many management consultants practicing legitimately who do not belong to the Institute. They are mainly professionals in their own primary fields of training such as accounting, IT, banking.

**Qualifications and standards of recruits**

Members are recruited from those with basic qualifications in their respective fields, usually a Bachelors degree, Masters degree or equivalent professional qualification with relevant experience. A Master of Business Administration (MBA) or a Master of Science (MSc) in Management Consultancy, with relevant practical experience, is the ideal qualification for recruits. New entrants are examined.

**Use of consultancy in government and state-aided projects**

Consultants in management and other fields are highly patronized in government and state-aided projects. The defunct Petroleum Trust Fund (PTF) brought the value of the use of consultants to the fore. It is hoped that newly created agencies, such as the Niger Delta Development Commission, Petroleum Equalization Fund, Educational Trust Fund (ETF), the National Council on Privatization and the Nigerian Industrial Promotion Council, will follow in these footsteps.

**History of the Nigerian IMC**

The Nigerian IMC was incorporated in 1983 as an independent non-governmental organization (NGO) to promote management consultancy, economic and social development and management education. It works as
an international voluntary self-regulatory membership body and collaborates with other national institutes.

**Membership**

Membership is open to all nationalities, so long as they have the requisite professional training and experience. Anyone involved in providing consultancy services – that is, ‘services provided for diagnosis, guidance, training and education, and research concerning management’ – may join. Currently, there are almost 400 members.

**Membership qualifications**

Successful applicant consultants may be designated Fellow, Member or Associate Member (FIMC, MIMC, AMIMC respectively) or CMC according to their seniority, training and experience in consulting.

**Membership services**

There is a continuing education programme for members. The newsletter, *The Consultant*, is circulated to members. Other services include a journal, regular seminars and participation in international management fora. The leadership of the IMC is also in a strategic alliance with other consultants in Nigeria in the production of a professional journal, *Management*.

**Code of ethics**

An effective code with a monitoring system to guarantee compliance, quality and high ethical standards is in place.

**Education programmes**

There is a postgraduate Diploma in Management Studies covering international management subjects and emerging issues such as quality management systems, environmental management issues, privatization, globalization, knowledge management and continuing professional development (CPD).

**Joint degree programme with St Clements University**

IMC teaches MBA, MSc in Management and Doctor of Management degree programmes by distance learning. It also selects high-profile candidates with quality publications for the St Clements University Doctor of Letters programme.
The IMC actively participated in developing the curriculum for the MSc degree in management consultancy, which is awarded by the St Clements University of the British West Indies after candidates complete the required course units. The MSc is based on the certification standards of the ICMCI, emphasizing functional competence and the uniform body of knowledge developed by the ICMCI. Graduates of this MSc degree who also have appropriate experience will qualify for the CMC qualification of the ICMCI. This is recognized in over 30 countries including the UK, USA, India, Japan, Australia and South Africa.

**Publications**

A recommended book entitled *The Marketing of Management Consultancy Services*, written by the Director General, Professor David Iornem, FIMC, can be bought from the Nigerian IMC. It costs US$30 including packaging. Orders are welcome. For further enquiries, please contact:

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**SOUTHERN AFRICA**

A number of indigenous languages are spoken in Southern Africa, together with English, Portuguese, Afrikaans and German. The universal business language remains English.

The region has been politically stable for a number of years, with the exception of Zimbabwe. The result of this stability has been a steady economic growth. The economic powerhouse is South Africa, which also attracts most investment.

Botswana and Namibia have small but healthy economies. Zimbabwe’s currency has undergone a tremendous devaluation and its economy has suffered over the last few years. Zambia, Mozambique and Angola have growth potential but their economies are relatively small. There is heavy dependence on foreign aid, much of which generates related consulting opportunities. As many of these economies are command economies relying on the exploitation of natural resources, much of the consulting work is to be found in the areas of:
ecotourism;
community development;
infrastructure development;
power and communications utilities;
agriculture;
mining;
manufacturing sector projects.

South Africa still represents the lion’s share of opportunities, exceeding the combined gross domestic product (GDP) of all the other countries mentioned. However, South Africa’s economy only accounts for approximately 1 per cent of the world’s GDP, which makes it unattractive for some investors.

Most of the global consulting firms have representation in South Africa, with some smaller satellites located to the north. Firms operating in Africa need to partner with local firms that have a significant black empowerment shareholding. Black empowerment has progressed significantly over the last few years, especially in South Africa. There are many small black consulting firms, and a few medium-sized companies; increasingly, large firms are partnering with these smaller enterprises to enable their transformation efforts. The market is still dominated by global practices and information technology (IT) firms, which are creating their own black empowerment structures in order to bid for relatively lucrative government and parastatal business.

Skills development and skills transfer are prerequisites to sustained growth in this area. The skills development programmes in South Africa represent a significant consulting opportunity in their own right. Much of the initial work was funded via grants from the European Union (EU).

Assessing consulting revenues by sector or offering is not a simple matter due to poor market segmentation and the broad scope of the consulting sector. In addition, there is currently no focused market research in this area, despite regular requests for such information through commercial bodies, such as the chambers of commerce and commercial councils. Consulting opportunities are still to be found in:

education;
financial services;
government;
Consulting internationally

- IT/e-commerce;
- parastatals;
- privatization and commercialization;
- skills development;
- telecommunications;
- tourism;
- transportation;
- urban and rural development;
- utilities.

To a large extent, South Africa tends to follow trends in both the USA and UK. The Australian and South African markets have been found to be fairly similar and, as such, firms based in Australia tend to find lower barriers to entry into the South African market.

South Africa has experienced a decline in independent consultancies, with a shift to implementation and product focus in the larger firms. There are many smaller and one-person consulting firms, which generally supply services to the larger, more successful practices and the outsourcing firms. Generalist consultancies tend to have a very broad range of services in order to deal with the lack of commercial depth in some of the target markets.

Many consultancies are moving to outsourced service provision in order to stabilize the erratic revenue streams associated with pure consulting services. Most of the major IT service providers have significant outsourcing divisions and capabilities. A recent survey into the IT outsourced market has been completed and this shows that the South African market is lagging behind US and European trends in this area.

Information and communications technology still accounts for a large proportion of consulting revenues, with softer skills such as human resources, information resources and change management abounding. The recent skills development focus has created significant opportunities for trainers, facilitators, educators and skills development specialists. This trend ought to continue for a number of years to come.

Importation of consultants remains expensive due to the exchange rates and it makes economic sense to use rand-based consultants, even on international projects. Consulting services remain competitive in terms of calibre and price.
The communications infrastructure in South Africa, Botswana and Namibia is relatively sophisticated, with a booming Internet business and a fairly high penetration in the upper income brackets.

There is an active professional institute, the Institute of Management Consultants South Africa (IMCSA), which represents the interests of the Southern African region. Standards are aligned with those of the International Council of Management Consulting Institutes (ICMCI), ensuring global equivalence. As with most other countries, the profession is not regulated by statute in this region. The professional firms do not have a specific body through which they cooperate; as a result of this they tend to use IMCSA (a body for individuals) as a mouthpiece for the profession. IMCSA collaborates with numerous other professional bodies in areas of functional and sectoral specialties and has been active in the skills development programme in South Africa.

THE AMERICAS

BRAZIL

Eduardo de Macedo Rocha

Management consultancy in Brazil has been growing consistently for the last 20 years. As in many other countries, collecting data regarding this market is extremely difficult. Even if the data we are sharing now are not extremely accurate, IBCO (Instituto Brasileiro dos Consultores de Organização) has made an effort through the years to keep track of trends and evolution of the business. Periodic polls (with members and non-members), exchanging information with the largest consultancy firms and monitoring markets through other private and government institutions are our data sources. There are no official government statistics, and most of the data available, including ours, are not entirely reliable.

The downsizing process in big corporations in the nineties drove into this market much of the middle management that was laid off, acting as sole practitioners. In addition, because of tax legislation, most of them have started small firms, which in several cases are not established as consultancy firms, thereby enabling them to apply for small-firm tax reduction benefits for which consultancy firms are not allowed to apply. This practice makes the identification of players in the market extremely difficult.
Bearing this in mind, the following chart (Figure 5.4.BRA1) shows the result of our poll on growth in this market (estimated at US$500 million):

This growth rate is explained by two factors:

- a growing trend in the private sector to outsource activities as a way to reduce labour costs (especially fringe benefits), and
- the need to achieve global performance levels by small and medium-sized companies which face growing competition in their markets.

Figure 5.4.BRA1 Brazil market consultancy growth

In addition, the privatization process sponsored by the Brazilian government during the late 1990s, brought to the Brazilian market some
European consulting firms that had never been engaged in the country until then. Even considering this growth trend, we believe the market has not changed much in terms of US dollars since 1998 due to devaluation of the real (R$) in 1999 and 2002.

A poll conducted by SENAC in 1998, an institute linked to the Brazilian Commerce and Manufacturing Chamber, on behalf of IBCO, revealed interest areas identified by consultancy clients (Figure 5.4.BRA2).

**Figure 5.4.BRA2: Consultancy services identified by Brazilian clients**

*Source: Poll conducted by SENAC RS on behalf of IBCO in Nov/Dec 1998*

This poll has not been repeated since 1999, but our latest-trends poll conducted in June 2002 revealed that, particularly over the last couple of years, information technology and management are areas that are growing (Figures 5.4.BRA7–9). Another poll conducted by Universo da Qualidade (SP), an independent organization, in January and February 2000 with 5000 executives in training and human resources showed the following results (Figure 5.4.BRA3).
Two issues have always been part of IBCO’s main concerns regarding ethics and quality in consulting: client satisfaction and how clients choose consultancy firms (see Figures 5.4.BRA4—5).

**Figure 5.4.BRA3** Consultancy topics in Brazil  
Source: Poll conducted by Universo da Qualidade (SP) in Jan/Feb 2000

<table>
<thead>
<tr>
<th>Topic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDICATION</td>
<td>45%</td>
</tr>
<tr>
<td>TECHNICAL SKILLS</td>
<td>41%</td>
</tr>
<tr>
<td>FEES</td>
<td>41%</td>
</tr>
<tr>
<td>CREDIBILITY</td>
<td>28%</td>
</tr>
<tr>
<td>MARKET IMAGE</td>
<td>22%</td>
</tr>
<tr>
<td>WORKING METHODS</td>
<td>22%</td>
</tr>
<tr>
<td>CONSULTANTS EXPERTISE</td>
<td>20%</td>
</tr>
<tr>
<td>FIRM’S EXPERTISE</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Figure 5.4.BRA4** Client satisfaction poll  
Source: Poll conducted by SENAC RS on behalf of IBCO in Nov/Dec 1998  
The Management Consulting Client Intelligence Report–Consultant News Nov/1999

**Figure 5.4.BRA5** Criteria used by clients to choose consulting services  
Source: Poll conducted by SENAC RS on behalf of IBCO in Nov/Dec 1998 (more than one choice by each participant)
The most recent poll conducted by IBCO with consultants in June 2002 revealed some changes in the relative importance of the criteria used by clients to choose their consulting services, as shown in the following chart (Figure 5.4.BRA6).

We can see that credibility, trust and quality are substituting for fees as criteria for choosing consulting services. This has been confirmed in the
same poll by a slight growth in prices with little or no impact on sales.

**Figure 5.4.BRA6** Changes in the relative importance of selection criteria  
Source: Poll conducted with consultants by IBCO in June 2002 (two choices made by each participant)

**Impact of the introduction of IT**

The same poll surveyed the impact of the growing introduction of IT in businesses in the consulting market. The result is shown in Figures 5.4.BRA7–9.

**Figure 5.4.BRA7** Demand for consulting services  
**Figure 5.4.BRA8** Competition in the consulting market  
**Figure 5.4.BRA9** Actual stage of IT business in business generation
Size of the consulting market

Management consulting is a dynamic and growing industry in Canada that not only generates significant revenues and profits, but also provides value to all types of organizations. Approximately 70 per cent of all business and government organizations in Canada have used the services of a management consultant at least once in the last five years.

There are many challenges in defining the size of the consulting market due to definitional issues around ‘management consulting’, and the fact that many firms in other industries also provide management consulting services. Management consulting comes under code 7771 of Statistics Canada’s Standard Industrial Classification (SIC) system.

Industry Canada also collects statistics based on the North American Industry Classification System (NAICS). The consulting codes are as follows:

- 54161 Management consulting services
- 541611 Administrative & general management consulting services
- 541612 Human resource & executive search consulting services
- 541619 Other management consulting services
- 5416A Scientific & technical consulting services
- 54162 Environmental consulting services
- 54169 Other scientific & technical consulting services

Based on the NAICS categorization, the Canadian market for management consulting services is estimated at $5.7 billion (all funds are in Canadian dollars unless otherwise stated).

Table 5.4.CAN1 Revenue of all Canadian management consulting firms, 1998

<table>
<thead>
<tr>
<th>NAICS</th>
<th>Total revenue $</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>54161</td>
<td>5,736,024</td>
<td>86</td>
</tr>
<tr>
<td>5416A</td>
<td>940,033</td>
<td>14</td>
</tr>
<tr>
<td>5416</td>
<td>6,676,057</td>
<td></td>
</tr>
</tbody>
</table>

Heather Osler
President, Canadian Association of Management Consultants
(This report was researched and prepared by Julie Lissaman May, CMC, on behalf of the Canadian Association of Management Consultants in May 2001.)
The consulting industry in Canada has grown significantly over the past two decades. The industry was growing at levels greater than 15 per cent per year up to the 1990–92 recession. In 1995, Industry Canada estimated the size of the Canadian market for management consulting services (based on Canadian industry revenues) at between $2.3 billion and $3.0 billion. Although data is not available, annual growth rates for the late 1990s were estimated to be in the range of 20 per cent.

Consulting revenue in Canada is concentrated in the most populous regions, with more than half of all revenue from the province of Ontario. Many of the largest firms have offices in at least one or two of the larger cities (Vancouver, Calgary, Toronto, Montreal). In the past few years, the accounting based consulting firms have reduced the number of offices by exiting smaller communities. In addition, with the drive to have consultants billable, and working at the client site, larger firms are experimenting with ‘hotelling’ arrangements, which enable several consultants to share office workspace.

<table>
<thead>
<tr>
<th>Total Revenue $000s</th>
<th>Total Canada per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontario</td>
<td>2,935,726</td>
</tr>
<tr>
<td>Quebec</td>
<td>1,160,266</td>
</tr>
<tr>
<td>British Columbia</td>
<td>710,579</td>
</tr>
<tr>
<td>Alberta</td>
<td>629,197</td>
</tr>
<tr>
<td>Manitoba</td>
<td>109,953</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>64,971</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>55,348</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>39,472</td>
</tr>
<tr>
<td>Yukon &amp; Northwest Territories</td>
<td>14,539</td>
</tr>
<tr>
<td>Newfoundland</td>
<td>9,543</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>6,429</td>
</tr>
</tbody>
</table>

**Canada** 5,736,024
Providers of consulting services

There are approximately 5,000 management consulting companies in Canada, and over 20,000 management consultants, depending on the definition used. According to the 1996 census, women account for 44 percent of those employed in the Canadian consulting industry.

The number of consultants in Canada has increased over the last two decades. In the early 1990s, much of the growth was attributed to the downsizing of senior executives. The Canadian situation mirrors that in the USA, where growth is also triggered by the blurring of boundaries with technology service providers. Increasingly, traditional hardware, software and telecommunications companies are opening consulting divisions. In addition, other professional service firms such as law firms and advertising agencies are beginning to provide management consulting services to their clients.
According to Human Resource Development Canada, two-thirds of consultants in Canada are employed by firms with more than 100 employees. Some 28 per cent of consultants work in firms with less than 20 employees, and many of these people would be sole practitioners.

Figure 5.4.CAN1 Where consultants work, by size of firm
Source: HRDC Industry Profile, Management Consulting Services

The largest consulting companies in Canada are the same large international players that one sees in developed nations around the world. Although some repositioning has occurred, there has been little movement in the composition of the top firms over the past 10 years. The large consulting firms are becoming larger and the smaller firms more numerous, and this trend is likely to continue. Frequently firms which reach 20–50 employees are acquired by the larger companies. Currently, mid-sized Canadian firms include Western Management Consultants, Myers Norris Penny and Johnston Smith International.

The top 20 consulting firms in Canada represented more than one-third of the total industry revenue in 1999. The largest consulting firm in Canada at the end of 1999 was PricewaterhouseCoopers with revenue of $44.1 million from a total staff of 1,749.

Table 5.4.CAN3 Major consulting companies by revenue and staff

<table>
<thead>
<tr>
<th>Rank</th>
<th>Firm</th>
<th>Revenue ($Cmn)</th>
<th>Growth rate per cent</th>
<th>Effective date</th>
<th>Number of Consultants</th>
<th>Number of Partners</th>
<th>Total Staff</th>
<th>Revenue/Consultant ($Cmn)</th>
<th>Revenue/Partner ($Cmn)</th>
<th>Consultants/Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PricewaterhouseCoopers</td>
<td>441.0</td>
<td>282</td>
<td>Jun-99</td>
<td>1511</td>
<td>81</td>
<td>1749</td>
<td>0.29</td>
<td>5.44</td>
<td>18.65</td>
</tr>
<tr>
<td>2</td>
<td>Deloitte Consulting/DTT</td>
<td>388.5</td>
<td>16</td>
<td>Aug-99</td>
<td>n/a</td>
<td>n/a</td>
<td>1825</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Andersen Consulting</td>
<td>226.4</td>
<td>28</td>
<td>Dec-98</td>
<td>1070</td>
<td>14</td>
<td>1350</td>
<td>0.21</td>
<td>16.17</td>
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<tr>
<td>4</td>
<td>William M. Mercer</td>
<td>208.0</td>
<td>22</td>
<td>Sep-99</td>
<td>697</td>
<td>n/a</td>
<td>1275</td>
<td>0.30</td>
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<td></td>
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<td>--------------------------------</td>
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<tr>
<td>5</td>
<td>Ernst &amp; Young Consulting Services</td>
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<td>463</td>
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<td></td>
<td></td>
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<td>620</td>
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<td>0.40</td>
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<tr>
<td>6</td>
<td>KPMG Consulting</td>
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<td>659</td>
<td>55</td>
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<td>7</td>
<td>Aon Consulting</td>
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<td>8</td>
<td>Watson Wyatt Worldwide</td>
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<td>9</td>
<td>AT Kearney</td>
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<td>10</td>
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<td></td>
<td></td>
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<tr>
<td>600</td>
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</tr>
</tbody>
</table>

|   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|
| 11| Ajilon Canada                   | 20         | 15                       | 5                             | 27                        | 10                        | 3                            | 10                            |
|   | Aon Consulting                  |            |                          | 14                            |                           |                           |                               | 86                            |
|   | Computer Sciences Corporation   | 50         | 20                       | 10                            | 10                        | 10                        | 10                           | 10                            |
|   | Hay Management Consultants      | 13         |                          | 80                            | 5                         |                           |                               |                               |
|   | KPMG Consulting                 | 50         | 8                        | 0.5                           | 29                        | 2                         | 3.5                          | 21                            |
|   | Pricewaterhouse Coopers         | 60         | 10                       | 30                            |                           |                           |                               |                               |
| 11| AMS Management Systems Canada   | 42.0       | –3                       | Dec-98                         | 50                        | 9                         |                               |                                |
|   |                                 | 0.84       |                          | 4.67                          | 5.56                      |                           |                               |                                |
| 12| Boston Consulting Group of Canada| 36.0       | 63                       | Dec-98                         | 63                        | n/a                       |                               |                                |
|   |                                 | 0.57       |                          |                               |                           |                           |                               |                                |
| 13| Arthur Andersen                 | 31.5       | 24                       | Aug-99                         | n/a                       | n/a                       |                               |                                |
| 182|                                |            |                          |                               |                           |                           |                               |                                |
| 14| Bain & Company                  | 29.8       | 19                       | n/a                           | 60                        | 6                         |                               |                                |
|   |                                 | 0.50       |                          | 4.97                          | 10.00                     |                           |                               |                                |

|   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|

(Canada 457)
<table>
<thead>
<tr>
<th></th>
<th>Consulting Group</th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
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<tr>
<td>15</td>
<td>DMR Consulting Group</td>
<td>28.0</td>
<td>33</td>
<td>Dec-98</td>
<td>260</td>
</tr>
<tr>
<td>n/a</td>
<td>0.11</td>
<td></td>
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<td></td>
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<td>Hay Management Consultants</td>
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<td>13</td>
<td>Sep-99</td>
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</tr>
<tr>
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<td>Dec-99</td>
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<td>30</td>
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<td>20</td>
<td>CPCS Transcom</td>
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<td>Aug-99</td>
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<td>0.33</td>
<td>6.00</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

*Source: Management Consultant International: 12 January 2000, CAMC Analysis*

<table>
<thead>
<tr>
<th></th>
<th>Salaries,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wages &amp;</td>
</tr>
<tr>
<td></td>
<td>Benefits²</td>
</tr>
<tr>
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<td>contracted</td>
</tr>
<tr>
<td></td>
<td>Maintenance</td>
</tr>
<tr>
<td></td>
<td>&amp; other</td>
</tr>
<tr>
<td></td>
<td>rental³</td>
</tr>
<tr>
<td></td>
<td>Materials,</td>
</tr>
<tr>
<td></td>
<td>Components</td>
</tr>
<tr>
<td></td>
<td>Supplies</td>
</tr>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
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<td>Expenses</td>
</tr>
</tbody>
</table>

**NAICS**

<table>
<thead>
<tr>
<th></th>
<th>Management Consulting</th>
<th></th>
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<tbody>
<tr>
<td>5416</td>
<td>40</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>/</td>
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<td>total</td>
<td>40</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>


---

1. Data for surveyed firms only, accounting for 89 per cent of incorporated firms’ revenue, and 79 per cent of revenue overall.
2. Fees paid to contract employees are not included.
3. Includes rent or lease of land and buildings, rent/leasing of motor vehicles, computer equipment, machinery and other equipment, heat, light, power and water, insurance, taxes, permit and licenses. Mortgage payments are excluded.
4. Includes fees paid to contract employees, interest paid, office supplies, telephone, travel and entertainment, royalties, franchise fees paid, legal, accounting and consulting fees, and other operating expenses.
Of the firms listed, Andersen Consulting (now Accenture) had by far the highest leverage model, with a ratio of over 75 consultants for each partner. As a result, it also had the highest revenue per partner at over $16 million. The other major firms had an average of between four and twenty consultants per partner. Average revenue per consultant ranged from $110,000 to 780,000, with most of the top twenty companies billing between $200,000 and 300,000 per consultant.

Different consulting firms focus on providing different services. Over time, technology-related services are becoming an increasing portion of most firm’s offerings.

**Table 5.4.CAN4 Leading Canadian consultancies: fee split by activity**

*Source: Management Consultant International*

### Metrics on Consulting Service Providers

On average, management consulting firms in Canada earn 22 per cent profit before taxes, and scientific and technical consulting firms earn 20 per cent. Salaries and benefits are the largest component of expenses, accounting for 40 per cent of total expenses. Other main expenses include subcontractor fees and occupancy costs.

**Table 5.4.CAN5 Revenue and expenses by province, Canada, 1998**

<table>
<thead>
<tr>
<th>NAICS 54161 Management Consulting</th>
<th>Total Revenue</th>
<th>Salaries, Wages &amp; Benefits</th>
<th>Total Expenses</th>
<th>Profit before taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>$000s</td>
<td>$000s</td>
<td>$000s</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Ontario</td>
<td>2,935,726</td>
<td>948,419</td>
<td>2,260,305</td>
<td>23</td>
</tr>
<tr>
<td>Quebec</td>
<td>1,160,266</td>
<td>397,342</td>
<td>938,837</td>
<td>19</td>
</tr>
<tr>
<td>British Columbia</td>
<td>710,579</td>
<td>258,233</td>
<td>568,837</td>
<td>20</td>
</tr>
<tr>
<td>Alberta</td>
<td>629,197</td>
<td>218,110</td>
<td>466,825</td>
<td>26</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Services</th>
<th>Mfg</th>
<th>Telecom</th>
<th>Energy &amp; Environment</th>
<th>Prod</th>
<th>Util</th>
<th>Distribution</th>
<th>Transportation</th>
<th>Healthcare</th>
<th>Technology</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ajilon Canada</td>
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<td>5</td>
<td>25</td>
<td>30</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AMS Management Systems</td>
<td>60</td>
<td>9</td>
<td>30</td>
<td></td>
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<tr>
<td>Andersen Consulting</td>
<td>21</td>
<td>9</td>
<td>22</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td>23</td>
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<td>Computer Sciences Corporation</td>
<td>10</td>
<td>10</td>
<td>40</td>
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<td></td>
<td></td>
<td>5</td>
<td>35</td>
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<td></td>
</tr>
<tr>
<td>DMR Consulting Group</td>
<td>23</td>
<td>13</td>
<td>29</td>
<td>13</td>
<td>8</td>
<td></td>
<td>4</td>
<td>10</td>
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<td>Ernst &amp; Young Consulting Services</td>
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<td>14</td>
<td></td>
<td>4</td>
<td>13</td>
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<tr>
<td>Hay Management Consultants</td>
<td>29</td>
<td>15</td>
<td>16</td>
<td>5</td>
<td>4</td>
<td></td>
<td>11</td>
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<tr>
<td>KPMG</td>
<td>9</td>
<td>10</td>
<td>29</td>
<td>3</td>
<td>8</td>
<td>2</td>
<td>8</td>
<td>10</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>PricewaterhouseCoopers</td>
<td>15</td>
<td>7</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>28</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Manitoba</td>
<td>109,953</td>
<td>37,099</td>
<td></td>
<td></td>
<td>81,308</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Saskatchewan  64,971  16,461  47,199  27
Nova Scotia   55,348  18,943  39,238  29
New Brunswick 39,472  8,724  26,928  32
Yukon & Northwest Territories  14,539  3,139  11,730  19
Newfoundland 9,543  2,647  5,819  39
Prince Edward Island  6,429  1,793  4,374  32
Canada       5,736,024 1,910,910 4,451,349 22

<table>
<thead>
<tr>
<th>NAICS 5416A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific &amp; Technical Consulting</td>
</tr>
</tbody>
</table>


**Table 5.4.CAN6** _Operating expenses by type as a percentage of total revenue, Canada 1998_

**Consumers of management consulting services**

Businesses are the largest consumers of management consulting services, representing 71 per cent of services based on revenue. It should be noted that the government portion (15 per cent) may be slightly overstated as it may include consulting services provided to private organizations but funded by government or other public agencies. For example, organizations such as the Canadian Technology Network (CTN) and the Industrial Research Assistance Programme (IRAP) contract consultants on behalf of small and medium-sized businesses.

**Table 5.4.CAN7** _Distribution of client base as a percentage of total operating revenue, 1998_
Canadian consulting companies provide services to a variety of industries, although some firms have much deeper penetration of different industry verticals. Based on the fee revenue of a selected group of the largest firms, the financial services and high-tech firms are the largest private-sector users of consulting services.

Table 5.4.CAN8 Leading Canadian consultancies: fee split by industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Households &amp; Individuals</th>
<th>Business</th>
<th>Government</th>
<th>Foreign Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>5416 Management Consulting</td>
<td>3</td>
<td>71</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>5416A Scientific &amp; Technical Consulting</td>
<td>2</td>
<td>58</td>
<td>25</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>69</td>
<td>17</td>
<td>11</td>
</tr>
</tbody>
</table>


Trade in management consulting services

Canadian management consultants have been successful in work markets, and are a major source of export earnings. The exact dollar value of exports is difficult to track due to internal transfer payments between the different country offices of the large consulting firms.

Figure 5.4.CAN2 Trade in management consulting

Exports are more predominant in the larger firms. It is estimated that exports account for approximately 15 per cent of total billings; however, they may reach over 20 per cent for the largest firms. The lower value of the Canadian dollar has made Canadian consultants economical in the US market, and this country is the source of most export revenue. The export
of management consulting service to the USA has also been facilitated by the North American Free Trade Agreement (NAFTA), and in a broader context by the General Agreement on Trade in Services (GATS).

Many industry analysts see Canada not as a separate entity but as part of the larger North American market, given the numerous affiliations between the major US and Canadian firms and the significant, cross-border relationships held by the major consulting groups.

In addition to providing services in the USA, Canadian consultants do export their services around the world. Canadian consultants participate on large projects in the developing world, which are funded by the International Financial Institutions (IFIs), as well as the Canadian International Development Agency (CIDA). In the winter of 2001, CIDA replenished its Canadian Consultant Trust Funds (CCTFs) at the World Bank and the Inter-American Development Bank (IDB). With these replenishments, CIDA has committed approximately $ 26.5 million over the next four years to be used by the World Bank and IDB to hire Canadians to assist in the preparation of Bank-financed projects.

The Canadian Association of Management Consultants

Management consulting in Canada has been represented by a professional and trade association for over 30 years. The Canadian Association of Management Consultants was formed as a trade association in 1963 to promote professionalism in the industry.

The CAMC has 10 regional chapters, which offer local networking and professional development benefits to members. While administration is centrally coordinated from the Toronto-based national office, each of the provincial institutes is still responsible for conferring the Certified Management Consultant (CMC) designation. This designation is given to practitioners who successfully complete a course of studies, academic requirements (university degree), and practical experience components. The CAMC Uniform Code of Conduct and the CMC designation serve to help differentiate professional consultants from those who merely practise while they are looking for other work.

The CAMC currently has over 4,500 members, of whom nearly half are in the province of Ontario. Of the members, over 2,200 are certified members. Membership includes representation from the large firms, the speciality boutique shops, and independent consultants.
As the ‘voice of management consulting in Canada’, the CAMC is active in government lobbying and promotes the interests of consulting in Canada.

USA

Barry Curnow

Consulting industry growth, contraction and consolidation

In the first edition of this guide we reported that consulting industry growth rates had slowed down in 1999 and that major reorganizations and realignments were taking place among the major firms. We also predicted that the impact of the downturn in the US economy on the consulting industry, while delayed by continuing technology growth and disguised by preparations for initial public offerings (IPOs), would inevitably lead to even more extensive change for consulting.

This was borne out dramatically in 2002 when Kennedy Information declared that global management consultancy revenues actually declined by 6 per cent in the year to US$120 billion (from US$124 billion in 2001, which was itself an 8 per cent rise on the 2000 figure of US$114 billion). Using Kennedy’s own ratios, these figures would suggest a US industry declining to around US$65 billion in 2002 from some US$68 billion in 2001, but still up from the US$63 billion in 2000. (Mark Klein reports in detail on the role of the large firms during this period in Chapter 1.3.)

This decline in the size of the consulting business in 2002 was attributed to a combination of the economic slowdown already under way when September 11 accelerated the process into recession, the various scandals in professional services, and the plateauing of information technology (IT) developments and spending.

Kennedy predicts that 2003 will be flat for the consulting industry; this seems highly likely – if not optimistic – given the Iraq war and its impact on confidence, travel and spending generally, the extent of which is still uncertain. Sales of a number of hard-hit IT consultancies (sold at

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1 The full survey results are available on the Web sites of the College of CMCs and of IMC USA. Further details are available from Linda Hanson, CMC, Chair, Ethics Survey, College of CMCs, IMC USA.
‘knock down’ prices, in the first half of 2003) confirmed the likelihood of continuing significant competition, consolidation and segmentation of the industry. This, according to some commentators such as Mike McGrath, will take place according to the relative value of the intellectual property content of each professional service firm.

Post Enron, both Consultants News (CN) and the College of Certified Management Consultants surveyed consultancies and clients on the question of consulting ethics and codes of conduct. CN put forward the hypothesis that smaller firms might be weathering the economic storm rather better because they were more likely to have and to use explicit ethical codes that they would actively share with clients as part of establishing and keeping relationships of trust. Mark Haas, Chair of the Institute of Management Consultants (IMC) USA Ethics Committee said, ‘if you have a code of conduct but no one knows it, you don’t actually have one’.

The IMC ethics survey

Following a strong presentation by Haas at the San Francisco working meeting of International Council of Management Consulting Institutes (ICMCI) in October 2002, the College of Certified Management Consultants subsequently undertook an ethics survey in early 2003. This was carried out with clients through certified management consultants (CMCs) in IMC USA. The purpose of the ethics survey was to gather information from the business community. The survey questionnaire was available online from January to March 2003. At the time of going to press, the headline findings showed that:

- clients appear to attach huge importance to a client-verified track record (over 85% rating this competency attribute as first or second);
- almost half (48%) rate certification through rigorous client and peer review;
- 46% want career-committed professionals not interims between jobs;
- only 15% rate a signed ethics pledge as first or second;
- only 11% rate a written ethics exam as part of that process.

So, CN and Kennedy Information – leading market commentators and information providers about the consulting industry – emphasize ethical codes, while the clients of professionally qualified consultants emphasize
certification and rigorous professional selection. This perhaps shows two sides of the same coin. What seems striking, however, is that such public discussion is long overdue and is only now slowly edging into the public domain.

2004 is a presidential election year and despite predicting a flat 2003, Kennedy nevertheless forecasts a compound annual cumulative growth rate of 3.5 per cent over the next three years, with 2004 returning to 2001 levels and a significant hike of 6 per cent in 2005. What seems certain is that any such recovery must follow a client and public belief that consultants are putting their own houses in order and responding to the demands for both official and self-regulation, a necessity highlighted by the scandals of the early 21st century.

<table>
<thead>
<tr>
<th>Country</th>
<th>IMC Members</th>
<th>Estimated Consultants in Practice</th>
<th>IMC Formed</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>700</td>
<td>8,000</td>
<td>1989 (from association in 1962)</td>
</tr>
<tr>
<td>China</td>
<td>20</td>
<td>Unknown</td>
<td>1998</td>
</tr>
<tr>
<td>Taiwan</td>
<td>31</td>
<td>200</td>
<td>1996</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>60</td>
<td>300</td>
<td>Irregular (dissolved)</td>
</tr>
<tr>
<td>Thailand</td>
<td>31</td>
<td>Unknown</td>
<td>Being formed</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>60</td>
<td>300</td>
<td>Being formed</td>
</tr>
<tr>
<td>Indonesia</td>
<td>60</td>
<td>300</td>
<td>Being formed</td>
</tr>
<tr>
<td>S Korea</td>
<td>60</td>
<td>200</td>
<td>1992</td>
</tr>
<tr>
<td>Japan</td>
<td>700</td>
<td>8,000</td>
<td>1999</td>
</tr>
<tr>
<td>Australia</td>
<td>700</td>
<td>8,000</td>
<td>1969</td>
</tr>
<tr>
<td>New Zealand</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Philippines</td>
<td>60</td>
<td>200</td>
<td>1992</td>
</tr>
<tr>
<td>Jordan</td>
<td>77</td>
<td>100</td>
<td>1995</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>45</td>
<td>3,000</td>
<td>October 2000</td>
</tr>
</tbody>
</table>

Asia regional overview
ASIA AND AUSTRALASIA

ASIA REGIONAL OVERVIEW

Walter E Vieira

Management consultancy in Asia, except Japan and Australia, is in its infancy. This can be seen from the fact that 60 per cent of management consultancy revenues are from the USA; 25 per cent are from Europe, 7 per cent from Japan, 2 per cent from Asia, and 6 per cent from the rest of the world.

Yet it is also true that the highest rate of growth in management consultancy is in the Asian region. It is estimated that in the period between 2001–2005, there will be an increase of over 30 per cent, in comparison to a 20 per cent increase in the West.

Countries pass through different stages. The initial period is when the role of agriculture is pre-eminent. The next period is when the role of industry is most important. Finally, the most sophisticated period is when the role of services is the highest.

A country like India has graduated into the third phase. In 1950–51, the economy broke down into agriculture at 55 per cent, industry at 32 per cent and services at 13 per cent. In 1999–2000, this had changed to 26 per cent agriculture, 22 per cent industry and as much as 52 per cent services.

The trend towards services also applies to China, Sri Lanka, Bangladesh, Thailand, Indonesia, South Korea and Taiwan. However, Sri Lanka is still at the agricultural stage, while China, Thailand, Indonesia and South Korea are at an advanced industry stage.

The stage of development of a country reflects on the development of the management consultancy profession. An indicator is Table 5.4.AM1:

**Table 5.4.AM1** A country’s stage of development reflects upon the management consultancy profession

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Australia

Management consultancy in Australia has achieved a high level of development. The IMC-Australia is well regarded and recognized by government. They have a proper system of certification, re-certification and ongoing training and development; and the rate of the Institute of Management Consultants’ (IMC) membership growth is high. There is
also a committed and effective leadership. Australia, with its achievements, casts a shadow over New Zealand and its IMC.

**Japan**

Japan has all shades of consultancy – management and technical – covered under the umbrella organization Zen-Noh-Ren. This has about 8,000 members, of which about 700 are management consultants. The management consultancy branch of Zen-Noh-Ren is now affiliated to the International Council of Management Consulting Institutes (ICMCI). Zen-Noh-Ren conducts its own entrance examinations, but will soon follow the ICMCI model for their management consultants.

**The Philippines**

The IMC-Philippines went into oblivion in 1997. It had survived for four years. The Philippines now only have an association of MC firms, which is a trade body and does not involve itself in the certification of individuals or impose a code of conduct.

**Indonesia**

The IMC-Indonesia has gone under after eight years as a result of the financial crisis and political instability. It is now a defunct organization and will have to bide its time and re-start when the situation stabilizes. However, the Big Five continue to operate, reasonably successfully, in Indonesia.

**Malaysia**

IMC-Malaysia seems to coast along neither making progress nor regressing. It has yet to become a dynamic organization.

**China**

IMC-China seems to have many problems with regard to starting and expanding an organization. Such organizations are looked upon with suspicion by the authorities as perhaps the beginnings of trouble.

**Singapore and India**

Singapore and India have dynamic IMC organizations which have a process of certification in place, a focus on training and development, and the imposition of a code of conduct. Both Singapore and India have a programme for the Diploma in Management Consultancy.
Hong Kong

Hong Kong formed an IMC in October 2000 and has already got off to a good start with a Diploma in Management Consultancy and plans for training.

The other countries in the region have yet to start effective operations.

Certification

Because of the amorphous nature of management consultancy, which includes a wide range of disciplines, there is always resistance to a certification process. There seems to be little understanding that the examination covers consulting skills and ethical practices and not the specialization of the consultant.

A large number of management consultants in Asian countries are those who have retired and have gone into consultancy as an extension of their working life. This section of consultants, many of whom are senior managers, resist the IMCs efforts to introduce certification.

Also, in developing countries, a major market share is held by the Big Five and many successful individual consultants or small firms work on an assignment basis for some of the Big Five. The Big Five assert that they have their own induction and training programmes and do not need assistance from the local IMC. With the development of the Certified Practice model, this may now change.

A large proportion of the potential consultancy market in Asian countries is government, public sector or non-profit organizations. Yet often none of these really understands their own needs – and what is worse, most consultants do not realize the potential and the opportunity. So they restrict themselves to the private sector and impose boundaries on the possibilities.

The lead for forming institutes generally comes from successful individual consultants or small local firms. If these are too few in number, then there is great difficulty in getting an institute started. This is the difficulty in South Korea, Sri Lanka, Thailand and Vietnam. In these countries even forming a core group of 20 consultants who meet the criteria set down by the ICMCI seems to be an insurmountable problem.

Some of the countries do not encourage the setting up of associations as a national policy. China, Kuwait and other countries in the Middle East
are examples. These have been described and registered as limited companies, and operations are conducted under this umbrella.

**Conclusion**

Management consultants will be increasingly needed in Asian countries – as the growth rate indicates. As clients and consultants themselves become savvier, there will be a compulsion to separate the wheat from the chaff and certification of individuals and firms will gradually become the norm. With the explosion of knowledge and the globalization of businesses, management consultants will find it necessary to keep updating themselves – ongoing training will become a necessity rather than remain a choice. They will have to learn, in order to provide a service.

With management consultancy evolving into a profession, the ethical dimensions will become increasingly important, as they are in any other ‘profession’. Ongoing learning, outsourcing and networking will all become the currency of operating as a management consultant in the Asian environment.

**AUSTRALIA**

*Richard Elliott*

**Introduction**

Australia is a land of many contrasts: it contains evidence of the earliest civilizations, it borders on being a modern economic miracle, yet much of its development has only occurred in the last 100 years.

Its second settlement (the first being that of the indigenous Aborigines) formed a colonial outpost in the South Pacific that was isolated and subject to a lack of outside thinking other than that of the British. That very separation may have been the stimulus that has resulted in a fresh, innovative and independent approach that has caused extraordinary changes at all levels of public and private enterprise and has made Australia competitive in international commerce.

During the recent Asian economic meltdown Australia’s gross domestic product (GDP) jumped in annual growth and has not looked back. This was the result of an extraordinary change in thinking by all levels of the community. Pivotal to this were the advisers and management consultants who got government, business and unions to recognize the need to be productive, efficient and to work together.
Old land, new ways

Forty thousand years ago, the Australian Aborigines employed management techniques to invigorate the land. In those days, they regularly used fire to generate new growth and life in an otherwise harsh and unforgiving environment. Little changed until the second settlement approximately 200 years ago, when Sydney and Hobart were established as colonial outposts of the British Empire. In the subsequent period, the vast mineral and renewal resources were developed almost exclusively for export to Europe, the UK and the USA.

When Britain entered the Common Market in 1964, it closed the door on its supply chain from such countries as Australia and New Zealand and looked to internal sources in Europe. This caused many years of adjustment and difficulty for Australia as it came to grips with establishing new trade relationships in a highly competitive market.

Until recently, Australia was primarily viewed as an asset-rich country and the raw material supply source for major manufacturing countries such as Japan. But such a simple assessment belies the extraordinary changes that have occurred in the last 30 years. During this time, strategic planners and advisers underwent considerable soul searching, many false starts and complex modelling to determine a suitable way forward. The result is that Australia is now a stronger, more independent society, which is relaxed and confident in its overall ability both within Australia and in the global market. Today, the management tool used to invigorate the land is creative thought and planning.

2003 has seen the longest economic growth for over 50 years. This has resulted in the following:

- unemployment at its lowest for 10 years;
- federal and state government budget surpluses;
- standard of living a third higher than in 1990;
- lowest interest rates in 25 years;
- 3.9% GDP annual growth forecast for 2003;
- 3.75% forecast in 2004;
- lowest corporate tax rate for 20 years;
- rise in company profits by 2.5% in December quarter.

What makes this trend even more impressive is that it has happened despite the collapse of nearly two-thirds of Australia’s major export
markets. The resilience of the economy is due to deep-structured changes to the economic and social management of this young nation carried out by the Hawke Government in the early 1980s.

The central strategy of this revolution and subsequent developments, which will have important implications for both domestic and regional economies for the next 20–50 years, was largely the work of political advisers and economic strategy consultants. Their work, while well couched and researched, was high risk as it challenged the fundamental principles of how Australians worked and were rewarded. It required a change of focus from a resource-based economy to a service-based one, open to highly competitive world trade and investment with a current account deficit and high foreign debt.

The key elements of the strategy were:

- deregulation of financial markets and the banking system;
- floating of the Australian dollar;
- changes in work practices and union philosophy;
- a consultative accord between the Australian government and the Australian Council of Trade Unions;
- deregulation of many government controls (eg the banking system), including reduction of tariffs and import duties;
- disappearance of highly subsidized protection of labour-intensive industries such as the clothing and footwear industry;
- enterprise bargaining for award wages rather than industry-wide agreement.

Although political parties will debate the success and benefits of these and other elements in the reorganization of the economy, the final result has clearly been increased wealth, more choices and renewed hope.

**Value of regional market**

This economic activity has seen management consultancy and business services grow at between 20 and 30 per cent per annum in recent years. Since there has been little focus on consultancy as an industry sector until now, an accurate indication of size is difficult. However, a recent survey suggested that the market has annual billings of A$6 billion and employs over 30,200 consultants. The value of government business within this scenario is A$2.5–3 billion. New Zealand’s annual billings are approxi-
mately NZ$200 million and the sector employs between 2000 and 3000 people.

**Value of consultancy**

Management consultancy, as a profession, is still evolving, with a rapid trend away from the techno-structural approach to a more humanistic style of strategic issues, scenario modelling and performance improvement. With these changes comes a greater range of services and the trend towards providing expert services, rather than just traditional advice and problem-solving services.

This trend is not only true for private-sector firms but also for internal consultants in government or not-for-profit organizations. This has resulted in many internal consultants having to competitively tender with the private sector for their own work. The outcomes have been encouraging in terms of solutions, time frames and value for money.

Another noticeable outcome has been the realization that the relationship between the consultant and the client has become central to most long-term arrangements.

The last major trend is the growing provision of non-consulting activities to capture greater project fees. Typically, these products include software development, systems integration, outsourcing and training.

According to a recent survey undertaken by the Institute of Management Consultants (IMC) of its members in Australia, the most popular services provided by management consultants are business strategy, change management, performance improvement, information technology (IT) and telecommunications, human resources and business re-engineering. In terms of business type, Australian management consulting firms are divided into the following:

- **large multifunctional consulting firms**: capable of providing a range of complex services delivered to a wide range of industry sectors;
- **major accounting firms with management consultancy departments**: providing national and transnational services with regional specialization such as human resource management, organizational development and IT;
- **small to medium-sized firms**: focusing on a regional coverage of general management and business development services with growing interest in specialization;
sole practitioners: generalists with broad management experience;
consulting academics: involved in part-time work on a regular basis;
non-traditional suppliers: examples are investment bankers, brokers, IT specialists, project managers.

The three tiers of government (federal, state and local) are largely serviced by the relatively-sized tiers of management consultants, although in more recent times the concept of project teams of smaller firms has become increasingly popular.

The Australian consulting profession is dominated by small firms. However, there is now a noticeable trend towards networking for larger projects, which has resulted in some remarkable work. As the market grows, the industry is becoming more formalized and clients are looking to the IMC to provide competency standards and ongoing professional development.

PR CHINA

Management consultancy as a concept was introduced into China in the 1980s. It had been enshrined in an ivory tower for quite a long time before becoming a business practice only in the last few years. In the 1980s, ‘idea kings’ and ‘masters of planning’ seemed to create miracles and people were led to believe that one good idea could save an enterprise from the brink of collapse.

Indeed, some businesses did survive as a result of these ideas, although they were, in fact, simple product/service concepts that temporarily solved the problems of the enterprises’ inability to improve their product/service offerings or attributes. As a result of the lack of systematic management propositions in those ideas, the fundamental problems that existed in the operating systems of Chinese enterprises were not at all eliminated. The symptoms were alleviated but the ailment was still there. Therefore, it was not difficult to imagine that those businesses would eventually fall into another round of difficulties, which would not be solved by any ideas.

With the collapse of many well-known companies that had created miracles as a result of past ideas, people started to realize that improvement of their core competence and management capabilities is essential. At the same time, however, most enterprises did not have the required management resources within themselves, which is a result of
the legacy of flawed competition from the planned economy. With the entry of more and more foreign businesses, introducing modern management and marketing concepts, the competition has intensified.

Local Chinese enterprises are beginning to feel the pressure of their eroding market shares, and China’s integration into the global economy as a result of its accession to the WTO has made them re-examine their competitive positions in the market as well as the effectiveness of their current operating system. Although efforts have been made to tempt management talents with high salaries, many businesses are beginning to look at other options, such as the use of technical consultants, economic advisers, marketing experts and management consultancies from outside the enterprises, called ‘external brains’.

Some of the external brains – consisting of scholars, industry experts, economists, professors and journalists – are invited to perform the function of an adviser on issues of product development, market strategies, management control, training of senior staff etc. Other external brains – basically management consulting firms – are employed to establish systems of production management, research and development, organizational set-up, human resources management, corporate strategy, marketing strategy, financial control, management information, corporate culture etc.

The general lack of management resources in China has determined that there is a demand potential for management consultancy; the effort to transform the operating mechanism of Chinese companies at both government and enterprises levels has spelt out the need for management consultancy. However, the unique features of the ongoing economic reforms pose challenges not only to foreign consulting companies, but also to local ones, in terms of giving the right diagnosis and right prescription.

The potential demand for management consultancy has prompted both international firms and local ones to enter the market. No official statistics are available on the total number of management consulting companies in China, but one estimate indicates that there are some 3,000 companies registered under the name of management consultancy. It is believed that there are a lot more companies that may not call themselves management consultants, but perform a similar role.

It is generally believed that management consulting companies are largely concentrated in key commercial centres such as Beijing, Guangzhou, Shanghai and Shenzhen. The local companies vary greatly in
staff size, from five to six staff to up to 200. In terms of revenue, there are only a few who have total revenues exceeding RMB10 million (roughly US$1.2 million), with many more struggling to make ends meet.

In the battlefield of the management consulting market, we can see familiar names such as McKinsey, Accenture, Roland Berger, AT Kearney, Boston and Bain. All of these are actively exploring the market and have now established a strong foothold. These foreign consulting firms brought to China new management theories, methodologies and tools, while at the same time putting competitive pressure on local management consulting firms. Due to their established reputations in the world and their superior knowledge, foreign management consulting firms enjoy favourable competitive positions over their local counterparts.

No one can really be clear about the size of the management consultancy market in China; a multinational management consulting firm believes that the current market size is about US$100 million. The same company forecasts that the market will increase to US$10 billion in 10 years – an even more attractive proposition. This estimate was echoed in the comments of a professor at Beijing University, Mr Huang Dongtao. He believes that the total effective demand for management consultancy will increase 10 times annually and that by 2010 the annual market size will be US$10 billion.

Mr Huang further estimates that there will be over 420,000 state-owned companies and approximately 180,000 private businesses that will need management consultancy services in one way or another. This is also one of the reasons why many foreign consulting firms are joining the competition in China.

The prospects for management consultancy in China in the years to come are bright. But to capture the growth is quite another matter and one that will require a lot of effort. The current market size is the combined result of years of education by both foreign and local consulting firms and of increased exposure of Chinese enterprises to the outside world. The Chinese companies have just begun to recognize the value of management consultancy and the level of acceptance of it is still being built up. Such recognition and acceptance is reflected in a number of consulting assignments to foreign management consulting firms, which include:
a contract of RMB5 million (approximately US$0.62 million) between Wangfujing Department Store Group of Beijing and McKinsey;

the consulting services by Accenture to Heguang Group of Shenyang involving a total price of RMB10 million (approximately US$1.2 million);

the purchase of McKinsey Advisory Services by China Pingan Insurance Company for a price of nearly RMB100 million (approximately US$12 million);

an agreement between AT Kearney and Shenzhen Overseas Chinese Town Enterprise Group.

Those cases are considered to be positive signs of growth in the demand for management consultancy in China. Therefore, the focus of international management consulting firms has now shifted from the previous emphasis on servicing the needs of foreign companies in China to include Chinese companies. As local management consulting firms are still in their infancy in terms of growth and development, they have not yet built up the strengths needed to fight for a significant market share. Foreign management consulting firms are believed to have taken over 90 per cent of the current market.

Pundits point out that there is still a substantial gap between local management consulting firms and foreign consultancies in terms of consulting competencies. The key weaknesses of indigenous firms are:

- lack of core services to address consultancy needs;
- lack of financial resources to develop necessary capabilities;
- low consulting quality;
- inability to handle large consultancy assignments;
- generally low qualifications of management consultancy practitioners;
- weak regulatory framework and organization.

Most important of all, however, the fundamental weakness of the management consultancy industry in China is the absence of systematic management theory catering to the unique situation in China. The unique features of China’s economic structure and its institutional framework are also a topic for studies by foreign providers of management consultancy.
Nevertheless, the Chinese management consultancy industry also has its unique advantages. These advantages, by comparison with its foreign counterparts, include:

- thorough understanding of the local conditions, historical heritage and culture;
- ability to take advantage of the lower operating and transaction costs to service local clients;
- better understanding of the market segments and the ability to correctly interpret information regarding those segments;
- communications advantages in terms of customer relations and marketing channels;
- ease in maintaining effective personal relations, which are key to business development.

The advantages of the local management consulting firms, although partly offset by their weaknesses, are elements that will lead to possible strategic alliances between Chinese and foreign consulting firms.

There has been no direct conflict between foreign and local consulting firms in the ‘up-market’ market segment. This is partly because few companies in China can afford to pay high professional fees for management consultancy and partly because local consulting firms cannot provide services of the required dimensions, even though foreign solutions may not fit very well into Chinese situations. The picture may become clearer in about 3–5 years’ time.

The prohibitively high prices charged by international management consulting firms, however, are considered to be a major weakness by industry people and experts, who maintain that such high professional fees may suffocate the demand for foreign management consultancy. There are also concerns about whether such expensive investments would bring the expected returns.

These concerns are a result of cases in which foreign management consulting firms have failed to help their clients to achieve the strategic goals. Industry analysts have pointed out that some of the consultancy services provided by foreign consulting firms were deemed to be a kind of highbrow game with concepts and spreadsheets, but one that gave little consideration to the unique economic and societal conditions in China.

Many simply ‘copied’ the Western management models and ‘pasted’ them on the Chinese companies. Some Chinese companies that had
purchased foreign consultancy services were bewildered when attempting to implement the strategies that had little feasibility. Some of them felt they had spent money to be told facts that they already knew, without realistic and practical solutions.

Of course, there are also arguments in favour of the efficacy of foreign management consultancy services. The consensus is, however, that, as well as high professional fees, foreign consulting firms need to overcome other weaknesses, such as:

- lack of insight into, and understanding of, the external political and social environment in which a business operates;
- inability to interpret the implications of macroeconomic and industrial policies and their likely impact on an enterprise;
- failure to adapt Western management models to local conditions;
- insufficient understanding of cultural differences and a tendency to provide Western-experience-based solutions.

Both foreign and local management consulting firms need to make efforts to overcome their respective weaknesses in order to become qualified ‘doctors’ for business ‘patients’. In China, there are four categories of ‘patients’ that may need the treatment of management consultancy:

- **foreign-invested enterprises** that will need therapies for developing a management structure and marketing strategy suitable for the local conditions while at the same time meeting their global objectives;
- **state-owned enterprises (including collective-owned)** that have complex symptoms that need to be treated with appropriate therapies to improve not only corporate governance, but also operating systems;
- **joint-stock companies** that are dynamic and fast growing and will need more comprehensive therapies for sustained development;
- **private businesses** that will eventually face a transition from paternalistic management to rule-based corporate governance.

At present, competition for top-class, deep-pocketed Chinese companies exists between foreign management consulting firms. As the competition intensifies, these foreign firms may move down the pyramid to offer their services to smaller companies, where they will meet competition from local firms, who will make every possible effort to sharpen their competitive edges.
The meeting of foreign management consulting firms with the local ones in competition is unavoidable, as the former localize their management resources and the latter internationalize their business norms. It is hard to say who will win the race at this early stage. But for those who are eyeing the opportunities in China, it is important to know where the opportunities lie. There are ten areas of management dilemma that Chinese companies need to address in their future effort to survive the intensified competition and to achieve the desired corporate objectives:

- core competence;
- strategic alliances;
- merger and acquisition;
- innovation;
- business process re-engineering;
- information technology change management;
- brand management;
- channel building;
- customer satisfaction;
- total quality assurance.

These 10 areas will undoubtedly offer opportunities for management consultants, both domestic and foreign. There are time-tested successful models in the West, although local conditions unique to China should be given due attention in dealing with those issues.

THE PEARL RIVER DELTA

The Pearl River Delta (PRD) is evidently the fastest growing region in China; it just happens to be situated in one of the fastest growing economies in the world and is home to some of China’s greatest movers and shakers. When the Yuan dynasty needed a new change of mandate, it was the leaders from the PRD that marshalled in the subsequent Ming dynasty. When the Ching dynasty fell, the revolution was led by Dr Sun Yat San, who came from Zhongshan, near the border with Hong Kong. The region’s ‘can do’, creative energy has always been the mainstay of this economy and over the past five years much has shifted back to the PRD proper following a hiatus in Hong Kong.
The PRD has always been the home of rebels and masters of change. With the dissipation of creative energy from Hong Kong due to a host of reasons, entrepreneurs who are mostly optimists have moved their attention, time, and financial strengths over the border. Likewise, the consultants have followed. In effect, Hong Kong’s loss in talent and entrepreneurial spirit has been the gain of the PRD proper. Anecdotal evidence would suggest that the consultancy market in Hong Kong alone has probably shrunk by half, if not more, while that for the PRD has grown exponentially by the same amount, if not more.

The consultancy markets in the PRD offer management consultants a multitude of fine possibilities and risks. This market is potentially bigger than any other Asian economy – just as, or even more, diversified in its needs and tougher to break into given the cultural barriers and the provincial views of many potential clients. This is a market where good information is scarce, where relationship is deemed to be crucial in one’s dealings and where one’s commitment to the business ultimately means more than the brand name one carries.

To appreciate the types of management consultancy opportunities that are available in this region, one has to understand the context and the dynamism that is occurring here. A good description would be that we are seeing the building of a critical mass unlike anywhere else in the world and consultants who can deliver workable solutions are in strong demand. The next few paragraphs will describe the context that has brought about a reorientation from Hong Kong-based consultancy to PRD consultancy.

**The PRD region: context**

Together with Hong Kong, Macau and the Guangzhou estuaries, the PRD occupies approximately 42,000 km² of coastal plains. It has some of the richest alluvial soil in China, a mild climate, five airports and a linguistic lineage to the surrounding areas. The PRD has grown over the years from direct investment in manufacturing to produce goods for, predominantly, the US and European markets. With an estimated population of 27 million people and a gross domestic product (GDP) that is growing at the upper end of China’s 8 per cent, the PRD region is a distinct growth region that demands a tremendous amount of management consulting talents.

The region is home to some of the best and most efficient container ports, textile giants like Esquel, which commands 85,000 employees worldwide, and probably a branch of every major bank in the world. The region is extremely competitive and consultants with ‘implementable’
solutions that are creative for clients, helping them put into effect shorter supply chains, faster decisions, and more profitable entities, will find a home here as well.

There are several key directions that have given the PRD its Unique Selling Proposition, which revolves around the ability of the region to deliver quality at an eye-blinking pace. Speed and the ability to convert demand into products and services, and to get them quickly to consumers around the world (and into China now) have been, and will continue to be, a strength. Some call this phenomenon quick-response manufacturing (QRM), others call it the supreme management of superior supply chains, flexibility and adaptability. All this comes at a price and often long-term considerations are put aside for short-term expediency. The need for speed draws in supply-chain consultants. Systems builders, management coaches, trainers, systems architects, accountants, lawyers and engineers provide the supporting structure that reinforces the delivery infrastructure for the management consulting industry.

Management of information and people that allows the systems to deliver, from conceptualization to commercialization, to export, to investment, have an ongoing need for continual upgrade. Inevitably, the need to out-compete others will put a demand on consultants to help clients become stronger from conceptualization to commercialization. Strategists with a sound understanding of the dynamics in the region will find a tremendous amount of opportunities.

The size of the consultancy market in the PRD has always been a mystery. A simplistic understanding of the size of the consultancy industry in China has not been useful. Many numbers have been quoted (and often with no clear references), from 130,000 firms in 1999 in China and 10,000 firms in Hong Kong, to an estimated demand of US$100 million worth of consulting in China as compared with the US$1.6 million market in the USA. There has yet to be any definitive study on the size of the markets in China or in the PRD.

Anecdotal evidence, however, would suggest that the industry is large and growing like an amoeba, blossoming and shrinking without any clear discernible pattern thus far. There is a suspicion that the potential market for management consultancy could be at least a 100 times the estimated US$100 million – perhaps a US$10 billion market. This is based on the following logic that:
there is much inefficiency in many organizations – even in the best
governed and run organizations – and they need reawakening;

the size of China’s national economy is growing at nearly 8 per cent
per annum and the governance and management systems are
stretched to their limits;

the huge demand for a continued level of quality goods and services
from those who buy from China will require ways to do things
smarter and faster;

the intense competition as a result of the World Trade Organization
(WTO) will demand more from all enterprises, and they, in turn, will
look towards professional management consultants for assistance.

This is the overall backdrop.

Building and sustaining a practice in the PRD

Building a consulting business in China will test a consultancy’s beliefs in
its ability to deliver using its crafts (sometimes known as its thought lead-
ership) as the core strengths of its team and profession, and in its ability to
synthesize its vast international experience so as to help its clients prepare
for a viable future in China and elsewhere. A commitment into China is a
long-term commitment and is not for firms with a one-year thinking
horizon. This is a long-term, three- to five-year, investment. Those
without financial strengths should seriously reconsider.

Sustaining a business requires a consideration of growth in mainland
China, while managing opportunities in the home market, which for
many would be in Hong Kong. Strong contractual laws, the maturity of
clients, a strong underlying infrastructure in the case of training support
in management, and a historical client base plus high fees still make Hong
Kong the preferred home turf for many. The consultancy business in Hong
Kong, although competitive, has remained a ‘cash cow’ for a hundred or
so firms, and the well-managed consultancies have always maintained a
presence in Hong Kong, while extending their tentacles across the
border. Similarly, the local consultancies in Guangzhou are reaching out
to their Hong Kong brethren to strengthen their methodologies, interna-
tional outlook and delivery capabilities.
**The critical success factors**

Whether one is building or extending a consultancy business or supporting an initiative abroad, the owners of a consultancy practice are faced with a number of business challenges. Building a viable consultancy business in China requires a slight shift in priorities and evidence would suggest that planning, patience and sincerity are critical success factors. Specifically, there are three areas to which particular attention should be paid for a consultancy wishing to operate successfully in the PRD:

- the type of consultancy services that are in demand;
- helping clients to recognize how consultancy can resolve their problems;
- charging for the services.

Let’s deal with each of these topics in turn.

**Market demand**

As consultants who need to manage a consultancy business, we understand all too well the need to continually build a practice that can cater to the demand of the market. It will be difficult to be too specific here given the diversity of markets in southern China and the wide range of sophistication needed in each major submarket such as Guangzhou, Dongguan, Shenzhen, Macau and Hong Kong. Standard commodity types of consulting such as operational and quality improvements are in constant demand where China proper has a vast amount of manufacturing industries, such as automotive, metallurgy, light industrial, agricultural and environmental. Obviously, the types of tailored needs parallel the strengths of the industry sectors in each locale.

Over the next few years, members of the Institute of Management Consultants (IMC), local start-up consulting firms and local universities that have remained a first choice for inexperienced clients will be inundated with demand. Some practitioners have expressed their view that as a reflection of industrial and expansion policies in China (and to a lesser extent in Hong Kong), the following types of consultancy services, among others, will probably be in high demand throughout the PRD in the next three to five years:

- business continuity planning and studies;
- change management and diversity (cultural differences);
- change governance;
- competency-based performance management and training;
- competitive benchmarking and market intelligence (particularly as China’s trade is liberalized following WTO entry);
- core competencies;
- corporate governance and infrastructural development;
- customer services;
- e-commerce and m-commerce additions to core businesses;
- environmental impact and self-funding environmental ventures;
- financial risk management (particularly for banks);
- functional areas such as finance, marketing and sales (turnkey projects);
- human resources administration and management, including training;
- innovation, knowledge management and retention;
- information systems for decision making;
- information systems control audits;
- institutional capacity building;
- managerial training, particularly in creative thinking and systems building;
- market entry and feasibility studies;
- organizations and methods;
- outplacement and search for executives and non-executive directors;
- partner searches and establishment of joint-venture and wholly-owned entities;
- performance engineering;
- privatization or commercialization;
- quality control and assurance, more International Organization for Standardization (ISO) 9000 and 14000 than total quality management (TQM);
- re-engineering;
- reverse engineering;
- speed, quick-response manufacturing and supply-chain management;
- strategy and regional cooperation studies;
strategy formulation;
- systems building and development (IT and non-IT).

In Hong Kong, where the service industries have dominated and where 86 per cent of GDP is derived from the services sector, banking, government, telecommunications, financial services, textiles, non-governmental organizations (NGOs) and, to a lesser extent, property services have historically employed consultants. Comparatively speaking, demand in Hong Kong would tend to be of a managerial and governance nature, while over the border in China, the focus would tend to be on systems development and operational work. Typically, consultancy products and services in the following areas are in demand throughout the PRD:

- quality improvements;
- enhanced speed of delivery through a more streamlined supply chain;
- branding and modifications of export items to cater for local markets;
- downsizing;
- re-engineering;
- strategy formulation;
- market-entry studies.

In contrast, their smaller market shares in Hong Kong are dwindling as much of the operational work moves over the border. Management and the management of information remain in the playing arena of Hong Kong.

In other words, the chances are that consultancy practices that have done well in Hong Kong have already established a presence in the key cities in China, reselling their own products and services that have been tried and tested in Hong Kong. Market leaders like IBM Consulting (formerly PwC Consulting) have not forgotten about Hong Kong and have continued to milk the industry, particularly the government sector. One challenge for outside firms to operate successfully in China is to find clients who understand how to use consultants, have them pay for such services, and cause them, having done so, to come away with the feeling that consultants have been their company doctors rather than their conmen. This is our next focus.
Bridging the expectation gap

There is a wide disparity in professionalism and quality between management consultants throughout this country. This has hurt the professionals who can do the work and unfortunately benefited the charlatans or the inexperienced who cannot. As consulting has always been an intangible art form, those who don’t know how to employ consultants often relied on popular hype and on the reputations of famous brands. Some clients expect miracles and think that by bringing in management consultants they can turn a loss-making enterprise into a GE-like multinational within a year’s time.

Many clients hire international consultants based on their analytical strengths and brand name, but forget about their ability to synthesize their suggestions into workable plans for the local market. Likewise, many consultants without properly managing clients’ expectations or without conducting a scoping exercise to understand the crux of the problem situation, engage themselves in multimillion dollar consultancy fiascos that have turned around and shamed the industry overall. The gap in expectations between what the clients think consultants can deliver and what the consultants can do is wide, and one that will take concerted efforts by the International Council of Management Consulting Institutes (ICMCI), professional consultants and the Chinese government to resolve and overcome in the decades ahead.

The Chinese called their management consultants ‘information researchers’. Often the term adviser is also used interchangeably with consultant and this naturally does not help to clarify the roles, professionalism and value of a management consultant. The lack of understanding of what is management as practised in the West does add to the challenge for the advocates of consultancy. In Beijing, however, the term ‘management information researcher’ is becoming increasingly popular and widely accepted. A simple addition of the word ‘management’ signifies that they believe there are other types of consultants who are not principally expert in the management field, specifically engineering, medical and political consultants.

Much work is needed in this area, but in the absence of such efforts, management consultants will find that educating the client on the art and delivery of the consultancy is a substantial portion of an engagement. The wise consultant will budget for the additional administrative burden into the fees; new market entrants would probably designate such opportu-
nities as loss leaders, which if not treated carefully would probably lead to more losses.

In fact, management consultants will probably find that the aims of their clients in both the PRD and in their home markets tend to be similar, i.e. requiring problems to be solved and not simply stated, although the process and the means of arriving at the solution will be quite different. Implementation with the client is more important in China because the client’s own management depth is not as sophisticated as that of Western executives and the infrastructure that you would normally expect in an organization is framed differently. As an example, standard policies and operating procedures may not be present in many mature organizations. In China, and particularly in the PRD, providing consultancy and complementing that with training is the new norm.

The ICMCI has just begun to promote the high standards and reputation of Certified Management Consultants (CMCs). As there isn’t a national chapter of the IMC as yet, the awarding body of the CMCs is not in place and Southern China has to rely on IMCs in Hong Kong, Singapore and Japan to complement the professional support. This will undoubtedly change in the next three to five years as China is quickly gearing itself up to professionalizing the whole industry, possibly by mandating a licensing scheme for management consultants based on international and United Nations (UN) standards, of which the CMC qualification is consequently an automatic leading contender. Forming new IMCs will be the natural course of evolution and already the ICMCI have been receiving applications from China to establish provincial and regional IMCs.

The main focus of the ICMCI has been to educate the market to understand what management consultancy is, how to use and pay for management consultants, and to assist the industry to develop itself through the establishment of IMCs. Efforts to date that the ICMCI has put in place have included:

- formally appointing an Ambassador to China to facilitate the formation of regional IMCs throughout China;
- supporting the launch of a professional foundation programme in management consultancy in Shanghai during September 2002 with the University of Fudan and Citic Pacific;
- supporting the formation of a China team headed by the Ambassador with support from IMC Hong Kong and IMC Singapore;
■ forming a subchapter at Tsinghua University in 2002 for students in business and economics. With 70 members, it has recently received formal recognition as a student association at Tsinghua;

■ working with leading institutions in China to establish the first international management consultancy conference in Beijing with a theme ‘partnering for world’s best practices’.

Charging for services

Charging for services is an art form in China. Social convention often requires a good dose of banqueting, drinking and site visits before any work begins. Often the expectations of the new client will be to receive some immediate solutions over lunch, as one means of examining the consultant’s pedigree and experience and, at the same time, to get some free advice.

As consultants we understand that clients sometimes find the chargeable hours difficult to fathom, as they do not understand what the consultants do during those chargeable hours. Never mind that we often use chargeable hours as a budgeting item; many Chinese clients would be horrified at this practice. However, they will be willing to pay for results. A small minority is willing to pay for process consulting and understands the value such a partnership arrangement would bring. In general, however, most Chinese clients are not inclined to pay for intangible services, especially where the deliverables with realistic targets are unclear. Of course, this necessitates a longer selling period, where much of the time is spent on helping the clients to understand what is the added value and why they need to pay for the things that may or may not generate positive returns. This is where patience, sincerity and exposure are required.

Experience has taught consultants that in China they are expected to be teachers and advisers first. Experts who have a product or service to sell and are right all the time generally do not do as well in the long run. Mindful of the historical backdrop that led to the development of management consultants during the Industrial Revolution in the West, where consultants actually began as trainers, many consultants have entered into China through the training route. This is one relationship-building strategy that has worked for many. In other words, if the consultants are not trainers, then avoiding the Chinese market altogether for now is probably a sound strategy.
Getting paid fully for consultancy service is a luxury in China and one would be advised to keep the terms and service fees simple; no hidden charges, no out-of-pocket expenses and no balloon payments at the end. The Chinese have always placed the spirit of a contract before the letter, while the foreign consultants have tended to emphasize the letter. This has led to many misunderstandings on the roles and the importance placed on the contract. To the Chinese, a relationship is deemed much more important than a transaction, which is no different for a consultant who has a business philosophy of operating to gain a client for life. In fact, building a viable relationship requires spending the necessary time and attention with your Chinese clients. This is made more difficult without a continual presence which many foreign consultants have to overcome. Some have done this successfully by setting up joint ventures and others simply move their domicile to China.

In the process of getting paid, getting paid on time or as requested requires diplomatic skills. Nevertheless, asking for a payment to begin the service to show sincerity and goodwill is a must in China. Bargaining is a local practice and, given the shallow understanding of professional services and how to employ consultants, there will be some degree of bargaining for the service. A little patience and an understanding of the culture go a long way here.

Deductions can range from 5 to 30 per cent and, typically, to ‘give face’ the consultant is expected to reduce the quote by 5 to 10 per cent. Of course, the consultant can reduce his scope, but this still does not prevent the client from paying him 5 per cent less at the end of the contract. As a result of the weak legal structure in China (not in Hong Kong) the consultant is better off taking the deduction and saving the relationship. One way to work around this is to demand payment up front and practitioners are increasingly mandating this arrangement. All these problems do not include the burdensome tax structure, which, because of the ephemeral nature of the beast, should best be dealt with by your accountants.

**Conclusion**

Much has changed since the industrial revolution in the USA, which created one of the most influential and widespread professions in the world – the profession of management consulting. In the PRD we are seeing the seeds of a new industry waiting to blossom. The Americans aggregated knowledge, structured it into learning packages called
training and created institutions and businesses that would sell solutions for other businesses. That was the heyday of consulting. The Americans didn’t invent management consulting, but they made it into a profession within reach of the ordinary person who has a bright mind, a good heart and a willingness to help, competence and a curiosity for solving the unsolvable – for a fee. That consulting heyday is beginning again, this time in the PRD.

Overall, the management consultancy sector in the PRD region includes a far wider range of services than anywhere else in Southeast Asia and, perhaps most importantly, the widest demand for and availability of services throughout greater China. Despite a relatively stable period of slow growth since 1998 – principally as a result of the Asian Financial Crisis – the sophistication in services has grown to a level that is probably one of the highest in terms of delivery and delivery expectations anywhere outside Asia. Globalization has made Hong Kong and the PRD one of the nodes in the world of management consultancy.

The leading-edge work in the PRD will be different because the context is so very different. If a consultancy is not in China, it has not seriously entertained its future outlook and worked at ways to grow new markets and new consulting methodologies. More importantly, if a China consultancy is not in the PRD within three to five years’ time, it will not really have invested in its own growth and does not really understand the strategic significance of the PRD with regard to China.

JAPAN

Matsui Shigeki

Since its establishment in 1949, Zen-Noh-Ren (All-Japan Federation of Management Organizations) has been operating as a focus body of management-related professional institutions engaged in the dissemination and guidance of management consultancy (MC) for the purpose of promoting management as a science in Japan.

In recent years, Japan has begun to show serious signs of a prolonged recession due to the ‘burst bubble’ economy. To cope with the situation, local companies have been proceeding with restructuring and re-engineering at a quickened pace. Despite this, Japanese businesses are in a difficult position in terms of adjusting employment and restoring the economy as a whole. To survive in the competitive markets, they are facing many managerial problems, particularly in developing their overall
business strategies. We are certain, therefore, that the demand for management consultancy will grow.

The history of management consultancy in Japan dates back to the days of production efficiency improvement such as in the field of mechanical engineering, and now the management consulting industry is contributing to the efficiency improvements in various other industries. The need for management consulting services is expected to increase with the growing diversification, complexity and computerization of management tasks along with recent economical globalization, while the effectiveness and credibility of management consulting services is being closely examined.

In 1994 and 2000, Zen-Noh-Ren, in cooperation with the Japanese government, conducted an extensive survey into management consulting firms, sole management consulting practitioners and user companies of management consulting services in Japan for the purpose of defining the position and the future direction of business enterprises and management consultancy in the context of a changing environment. This chapter contains a summary of these survey results as well as the current status of the management consulting industry in Japan.

The theme of the 1994 survey was ‘The Current Status and Overview of Management Consulting’. The survey was carried out on 2,500 management consulting firms, 5,400 sole practitioners and 1,200 client companies. Those who actually responded included 280 firms, 1,750 sole practitioners and 90 client companies. The first three items of this chapter are based on an analysis of the survey results of those respondents. These results may be slightly dated, but they do help to identify the trends and direction of the management consulting business in Japan.

The 2000 survey was conducted under the theme of management problems companies face in the changing business environment and what user companies expect from the management consulting industry. The survey was carried out on 2,600 companies, 250 intellectuals/experts/professionals and 300 management consulting firms. This time 200 companies, 30 individuals and 70 management consulting firms responded. The survey results were analysed and a summary of the analysis is given below.
Japanese management consulting firms

Overall characteristics
An accurate calculation of the number of management consulting firms in Japan has not been established.

Length of operation
Since management consultancy was born in Japan after the Second World War, half of the firms are about 20 years old and approximately 30 are over 30 years old. The size of firms has grown and the number of employees has also increased.

Type of incorporation
Most of the firms are corporations, while some are limited companies. Several large public corporations are included. Zen-Noh-Ren has 62 members, which comprise 28 private corporations, 27 public corporations and seven others.

Number of employees
Seventy companies or more have more than five employees, and the number is growing every year. Another characteristic is that the firms employ a large number of temporary workers in addition to regular employees, and that the larger the firm, the bigger the ratio of sales staff to other employees.

Annual sales
The sales of 20 of the firms are less than 50 million yen; and 50 of the firms reported sales of over 100 million yen. More than 40 firms record annual sales of over 1 billion yen. Compared by type of incorporation, sale proceeds of most of the limited companies and the sole practitioners are less than 50 million yen, while about 70 of the corporations have annual sales of 100 million yen. There is therefore a distinct gap between the two groups.

Types of MC services requested
The range of management consulting services varies depending on firm size. As a whole, diagnosis/guidance is the most sought after, followed by
survey/research, education/training and management consultancy/advice, which account for over 50 per cent of the total services. Others include information-providing, data service, public seminars etc.

Small firms
Small firms mainly seek services such as diagnosis/guidance, survey/research and management consultancy. Most of the small firms are self-employed individuals, such as tax accountants and social insurance specialists, many of whom offer management consulting services alongside their other services. Long-term management consultant/adviser contracts are on the rise.

Medium and large firms
Medium and large firms request more information seminars and less management consultancy. The ratio of diagnosis/guidance increases for medium/large firms, making them more like professional management consulting businesses. Some large firms focus on think-tank services with an emphasis on surveys.

Client business types
In order of size, clients include wholesale/retail, construction, service industry, governmental/public bodies, manufacturing and information.

Types of contracts
The various types of contracts are – in order of size – adviser contract, project contract and quantity-based contract. Under the adviser contract, the management consultant in charge visits the client for a long period of time on a regular basis. Many smaller firms choose this kind of contract.

Contract value
The value of each contract ranges from 1 million to 5 million yen per order. Fifty per cent of small management consulting firms with fewer than five employees make contracts under 1 million yen per order, while 60 per cent of firms with 100–500 employees earn 5 million yen or more per order, and firms with over 1,000 employees earn a much larger amount. There are clear differences between firms of different scales.
We presume that the differences depend on contract contents and size of client companies. In other words, large MC firms tend to get big project orders from big corporations.

**Recruitment, training and management**

**Recruitment**

The majority of new employees are experienced. Small firms do not usually hire new college graduates. The job of a professional management consultant requires experience and technical knowledge, and if an inexperienced person is sent to a client’s office, it could damage the firm’s reputation.

For this reason, small firms that are not equipped to provide new employees with proper education and training refrain from recruiting new college graduates.

**Screening criteria**

The screening criteria cover three areas: common sense, technical knowledge and aptitude. The most weight goes to aptitude – creativity, persuasiveness, analytical ability and sincerity. It is critical how the three abilities are evaluated in actual screening tests.

Sixty per cent responded that their test items include business ethics and conduct guidelines.

**Duration of education and training**

Many firms train new college graduates for one to three months or one to two years, and experienced hires for three months. Moreover, three-month on-the-job training is provided by experienced employees at many firms.

**Internal organization of firms**

Many firms are organized on a by-job basis (diagnosis, education, research, etc) and some are organized on a by-industry basis (manufacturing, commerce, finance, public, etc). Management philosophies and other managerial characteristics of each firm seem to be reflected in its organizational structure.
Performance, evaluation, quality control and problems

Overall performance of a firm

The overall performance of a firm is measured by its sales/profit rate, repeat order rate, operation rate etc. Quality reports, repeat contract rates, operation rates, delivery times, new technology developments and so on are used as yardsticks to evaluate the performance of an individual professional. Since there are no standard or industry averages of these yardsticks, performance evaluation is made based on past records or individual comparison.

Quality control

Quality control is not a simple task. Consultation is divided into the following three stages:

- Planning
- Execution
- Follow-up.

Quality control at small firms is not easy to check because some have no records of quality control, and others pay little attention to it. Bigger firms, however, tend to give a high priority to quality control and take a systematic approach in its operation phase.

Causes of problems

The four main causes of problems are the following:

- changes in the management strategy of clients due to unexpected change of business environment or client’s overestimation of consultants
- insufficient preparation by clients, partly due to lack of explanation from consultants
- clients and consultants do not get on. Both are responsible for poor relations
- lack of understanding of clients’ needs due to insufficient communication at preliminary stages of negotiation or due to differences in ways of thinking and expectations on both sides.
The above remarks seem to hold the client responsible, but later we will see that the survey of client companies shows that responsibility rests with consultants.

**Measures taken to improve consulting skills**

**Concrete methods**

‘Internal Study Meeting’ is the most common concrete method used to improve management consulting skills. The second most common is ‘Readiness to Develop New Techniques’.

Here again, we can see a clear difference depending on the size of firms. Study meetings and new technique development are used at 30 per cent of firms with five members of staff or less. About 50 per cent of firms with more than 5 staff use these approaches in order to help improve consulting skills. This shows that the bigger the firm size, the more they employ these measures to improve consultants’ skills. Among larger firms of more than 50 persons, over 30 per cent attend ‘Academic Meetings’ to acquire technical knowledge.

**Practical methods for technical development**

‘Encouragement of Individual Research and Study’, ‘Formation of Project Teams’, ‘Tie-Up with Outside Institutions/Universities’ and ‘Setting Up Internal Research Functions’ were mentioned. ‘Individual Research Study’ is the favourite in small firms of less than five people. Larger firms put more emphasis on whole-company systematic approaches.

**Internationalization**

Smaller firms (less than five people) are becoming more international but without significant economic results. Included are such activities as research study, diagnosis, education, consultancy and lecture-giving.

Many requests for market research are also received. The contents are guidance to foreign business, overseas market surveys, guidance to developing nations and tie-ups with foreign businesses.

The foreign countries involved are Korea, Taiwan, Southeast Asia, China and North America in that order. Most of the firms wish to become international. The larger the organization, the more willing it is to spread overseas. Some of these have already begun operations in other countries and are planning to expand their overseas business further.
Individual management consultants

The number of management consultants

Some management consultants are self-employed working as individuals, while others are employed by firms. The self-employed MCs are sometimes concurrently tax accountants, social insurance specialists or engineers. In terms of income, some earn the majority of their income as a management consultant, while others earn as much money engaging in some other profession. Furthermore, management consultancy has not yet been established as a profession in Japan and so is frequently referred to by different names. This being the case, it is difficult to obtain an accurate idea of the number of MCs in operation.

Firms use temporary consultants in addition to their regular consultants. This trend causes the number of concurrent consultants to increase. The 1988 survey estimated approximately 60,000 consultants by adding employees supplemental to 37,000 self-employed and firm-employed management consultants. We cannot say, however, that this figure is accurate. The same can be said about the number of firms. Very small firms, for example, cannot be defined as sole practitioners or firms.

There is another thing to note. Recently some large firms have tended to diversify into general education, open seminars, research, publishing, etc, in addition to their original business, namely management consulting in the narrow sense of the word. Also, it is to be noted that other businesses are advancing into the management consulting business, which makes it hard to define the industry classification.

It was under such circumstances that the 1994 survey was conducted on management consultants and management consulting firms.

Professional areas

Along with the economic development and structural change in recent years in Japan, the business strategy and priorities of corporations have changed. As a result, consulting needs have also changed, and consultants’ areas of competence are changing too. The management consultant’s main areas of competence are as follows:

- management planning – mid-range and long-range plans
- management strategies
- new business development
marketing
production control
human resources/labour relations
education/training
system development/employment
management development.

Age and experience

Due to the nature of the occupational characteristics of the management consultant, the average age of management consultants is rising compared with other professions. Those who have over 15 years’ experience make up 50 per cent of the consultant population, and those with experience of less than five years comprise only 10 per cent. This profession requires many years of experience. In general, young consultants often lack the poise which generates persuasiveness on the job. This is the reason why so many experienced people are hired and also why retirement-age consultants are entering the market. They are mostly self-employed.

As to their academic background, approximately 70 per cent are university graduates, and the percentage of junior college graduates is increasing slightly.

Retirement-age consultants have acquired consulting knowledge and experience by:

- working on the staff at general business corporations
- acquiring the professional MC certificate while working for a company
- working as accountants and adding consulting services to their own job.

Only a few new graduates are employed by consulting firms. Many of the self-employed consultants also work as tax accountants, accountants or social insurance specialists. Most of these consultants have taken up management consultancy after practicing as self-employed management consultants for some time.
**Earnings and work days**

Most of the self-employed consultants earn 5 million to 20 million yen a year. The largest age group – in their forties and fifties – earn 10 million to 20 million yen per year. Of these earnings, the proportion of income from concurrent jobs is unknown.

Many self-employed consultants work under the advisor contract. Others are paid by the project or work according to the framework of the budget.

It seems that management consultants work harder than generally expected. The higher the income they get, the more days they work.

**Areas of business/types of industries**

The self-employed consultants operate in the following industries:

- Secondary industries – construction, manufacturing, machinery, foods, electricity.
- Tertiary industries – commerce, wholesale, retail, other service businesses, government-related education, information.

Commerce covers the largest proportion, which suggests that many of these clients are small/medium businesses.

**Overseas operation**

About 20 per cent of self-employed consultants have overseas experience. Generally, however, they do business in Japan. Sixty-five per cent of those with overseas experience have worked in Korea, Taiwan and Southeast Asian countries. In addition, assignments in China are on the rise.

In order to increase overseas operations, it is essential to acquire foreign language skills. In this respect, they are at a disadvantage as compared with larger organizations.

The overseas contracts include education/training, management strategy, production control, system development/employment, mid-/long-range planning etc.

**Problems with clients**

The causes of problems with clients are as follows:

- poor preparation of clients and their lack of cooperation
- change in client’s business conditions
change of client’s business strategy
change in social environment/external conditions
poor relations with client’s top management/executives.

While some or all of the above observations may be true, it should be noted that they are one-sided opinions of the consultants.

**Aptitudes of consultants**

Some of the important aptitudes of the competent management consultant are as follows:

- sincerity
- persuasiveness
- analytic power
- creativity
- good health
- professional ethical conduct
- business ethics.

There are slight differences of opinion as to the above order of importance. It is noteworthy that ‘good health’ is included in the list, agreed upon by firms as well as clients. As mentioned earlier, consultants work longer than ordinary company employees, leaving little time to spend with their families. It is their personal conviction that the consultants cannot do a good job without good health.

**User companies**

*Market/users of consulting services*

**Based on user’s company size**

Bigger MC users are bigger companies. The bigger the companies, the more problems they have. These companies have a sufficiently large budget to outsource the task of solving their management problems.

**By type of business/industry**

Secondary industry is the biggest client, covering 60 per cent, followed by chemicals, transport machinery and manufacturing of other products. The third industry client covers 45 per cent, of which the
wholesale/retail industry is the biggest customer. Two-thirds of wholesale/retail companies use management consulting services. The construction industry and the service industries are bigger clients to the smaller firms. These results are almost the same as that of the previous survey.

Reasons that some companies do not use MC services

Some companies do not use MC services because:

- they have no work to outsource
- they can handle their company staff
- they are unsure as to whether management consultants are really effective.

Each of the above was given approximately equal importance.

Selection criteria for hiring management consulting firms/consultants

The selection criteria are as follows:

- higher priority given to those consultants who have worked for the client before
- reputation through books/theses produced by the consultant
- recommendation by others/acquaintances.

The above three points carry roughly equal weight in consultant selection. It appears that past performance records and the credibility of the consultant are the key elements.

The most commonly used type of contract is the advisor contract or the project blanket contract. The average fee of the latter is 5 million yen or less per order.

Contents of MC service

Clients use consultants for the following reasons:

- personnel/labour relations
- education/training
- management planning
- system development/empowerment
The above shows that the client companies’ biggest concerns are personnel matters, training and system-related problems. On the other hand, manufacturing, sales and administrative work, which were the mainstream of management consulting in the past, have not increased greatly. The needs for computer applications such as OA, FA, CAD, CAM etc, and financial accounting have decreased. We presume that clients are now handling these areas by employing professional contractors in these fields.

**Scope of service implementation stage**

We will now look at how the management consultants get involved in the client business to help it solve its problems. There are four stages, which consist of:

- research analysis, problem identification
- problem identification to presentation of solutions
- implementation of solutions/guidance
- education/training only.

The current trend is that clients usually request the consultant’s services ranging from the first stage (research and analysis, problem identification) to the third (implementation of solutions/guidance). In other words, clients want to get practical results through MC services.

The 1988 survey showed that the second stage (presentation of solutions) was favoured. Judging from the results of the 1994 survey, we believe that user companies have begun to value the consulting services. In the case of self-employed individuals, the third stage (implementation of solutions/guidance) is the most common. In the case of foreign-affiliated companies, banking and think-tank institutions, they use the second stage (problem identification to presentation of solutions). This is because these organizations put more emphasis on research work and also because there are not many consultants experienced in consulting practices to solve problems.
Clients’ evaluation of management consultants’ performance

The survey shows that about 50 per cent of the clients are ‘satisfied’ or ‘somewhat satisfied’, but 20 per cent are ‘not satisfied’. The ‘not satisfied’ customers have given the following reasons:

- client companies are responsible – not sufficiently prepared or lack cooperation
- consultants are responsible, not sufficiently capable of solving problems.

As stated earlier, the consultants looked at this differently and cited the following reasons for their dissatisfaction:

- sudden change in the management conditions of client companies
- change in the management strategies of client companies
- clients do not get along well with consultants.

The dissatisfaction on the part of the client may have been caused by differences of opinion or viewpoint between the two. Even if it is evident that the clients are at least partly to blame, the consultant party should reconsider the matter to improve mutual relations and restore their reputation.

Capabilities and nature required as management consultants

The following table shows responses made by client companies, consulting firms and sole practitioners to the question ‘What are the five essential capabilities and/or natures required for an individual management consultant?’

Table 5.4.JP1 The five essential capabilities/natures required for individual management consultants

<table>
<thead>
<tr>
<th>Response</th>
<th>No. 1</th>
<th>No. 2</th>
<th>No. 3</th>
<th>No. 4</th>
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<td>sincerity</td>
<td>ethical</td>
<td>persuasive-</td>
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<td>persuasiveness</td>
<td>analysing</td>
<td>power</td>
<td>health</td>
</tr>
</tbody>
</table>
Management consulting firms and sole practitioners ranked ‘sincerity’ as most important, just as they did in the 1988 survey, which shows that clients’ credibility in an individual professional management consultant is the key factor of success in this business. What is a very interesting fact is that ‘ethical conduct’, which client companies regarded as more important, is less valued by the other parties, while health is ranked number five by sole practitioners. Different viewpoints generate different responses.

Use of in-house management consultants

In-house management consultants are increasingly being utilized not only for their companies but also for their affiliated and cooperative companies, subcontract factories and client enterprises.

The main services that they provide include management planning, management strategy, information systems, marketing, production management, education/training and organization development.

It is presumed from their responses that in some cases in-house consultants may have been confused with administrative staff.

In order to cope with such remarkably improved in-house consultants, independent MC practitioners are strongly required to elevate their professional competencies through professionalization and through widening their scope.

Future utilization

The survey regarding the use of consulting services in the future discovered that about half of clients intend to continue using management consultants at the present level or are planning to increase the use of consulting services; but there are not many clients who are thinking of limiting usage to specific issues, nor to a specific range of services.

The following indicates four reasons to use professional management consulting services, in order of importance:

- clients want to undergo business diagnosis of their companies from the third party
- use of external professional consultants is more effective
- use of external professional consultants gives a stimulus to in-house staff
- no qualified and capable staff in the company.
Meanwhile, the most common reason given by user companies for not using the services of consultants is that there are adequate staff capable of handling MC services in the company. Another reason clarified by a number of companies is that they are unsure of the effectiveness of using MC firms. It is, therefore, an absolute necessity for MC firms and sole practitioners to concentrate more of their energy more on exploiting the market.

**Prospects for the future of management consultancy**

In 2000, at the request of the Ministry of Economy, Trade and Industry, Zen-Noh-Ren conducted a research survey that would contribute to formulating a 21st century vision of management consultancy. One of the research studies considered how to create the base of Japanese industries’ international competitiveness while coping with a changing internal and external economic environment.

Three points were identified as a result of surveying industries, well-informed people and consulting firms, and seeking their opinions on extensive themes:

- Japanese industries’ need for management consulting services is increasing as they are losing their competitive advantages over other countries in a growing globalizing market.
- Management consultancies are becoming so markedly diversified now that it is difficult for client companies to grasp a clear picture of their status.
- It is highly desirable to exchange students/consultants among enterprises/universities etc, in order to help develop their consulting capabilities and to recruit well-trained capable consultants. Social recognition of management consultancies is not necessarily enough to ensure the clients’ reliance on them.

**Management issues of customer companies**

- Globalization of management activities is creating various influences in many aspects of businesses:
  - borderless market competition
  - global standardization of business rules and technology
  - deregulation, exchange risk.
In order to tackle squarely management challenges posed by growing globalization, businesses have been focusing their energies on the following issues:

- reform of the management system
- modification of accounting standards
- avoidance of exchange risk.

Measures necessary in the future will include:

- recruitment and education/training of capable/qualified staff
- strengthening of corporate governance
- reform of the management system.

The key factor that influences industries most in the context of globalization is borderless market competition, which is urging them to establish new business rules.

**Utilization by companies of management consulting firms**

Companies have a strong desire to take advantage of management consulting services in future for the following purposes:

- management strategy/planning of business strategy
- personnel system restructuring
- ISO relations
- establishment of management system
- building management information system.

The result of the survey is that under the strong influence of the changing business management environment, the clients' greatest needs for management consultants are concentrated on 'planning of management strategy and business strategy'. Amid the changing competition rules and the weakening superiority of Japan in product and cost competition globally, Japanese industries are now urged to establish new strategies to cope rapidly with the changing economic and industrial environment. We believe, however, that some Japanese businesses lack the planning capability needed to create effective strategy.

This reflects the recognition described above that recruitment and education/training of capable/qualified professional consultants is the first priority.
Hopes for the consulting industry

All industries and well-informed people hope that management consultants will play a key role in providing information. All clients also hope that they can rely fully on management consulting businesses for management consulting services; and well-informed people want them to upgrade their consulting competencies and to establish an integrated MC certification system. Professional management consultants want to maintain free competition and to establish institutions that can train and develop capable professional consultants.

Issues in IT activities

Both client companies and MC practitioners emphasized the following three points as challenges to be solved:

- insufficiency of IT utilization planning
- lack of basic understanding about IT
- insufficient leadership in taking advantage of IT.

In addition, the proposal of a new strategy successfully to meet IT change and the achievement of such a plan are widely regarded as the main challenges confronting the management consulting industry.

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Zen-Noh-Ren was founded in 1949. Like FEACO in Europe and AMCF in the United States of America (previously known as ACME), Zen-Noh-Ren is playing a key role as the only federation of management consultancy organizations in Japan.

Our main objective is to disseminate management efficiency for the improvement of Japanese industry as a whole. Specifically, Zen-Noh-Ren’s goal is to contribute to the development of Japan’s industry and economy, not only through the enhancement of communication and the exchange of information among its members, but also by the provision of helpful and substantial management consulting services.

A few of our past activities include hosting Parts I and II of the National Efficiency Conference, dispatching a Japanese delegation to the FEACO Conference and creating a registration system for certified management consultants (CMC). For this last, we dissolved the previous system – which had dealt exclusively with consultants belonging to a member organization – in 1999, and worked to set up a new system so that non-member consultants could also be certified. As of 1 April 2001, 780 management consultants have been certified and received international management consulting licenses at the same time.

Now, the world pays close attention to Japanese management (which has successfully overcome innumerable difficulties since the end of the Second World War) to see how it will change in the future. Corporations in Japan can no longer survive world competition without making efforts to revamp their corporate management style.
Thus, in this time of economic hardship, not only the industrial sector but other sectors of the economy as well are looking to management consulting organizations with great expectation of economic solutions. As Zen-Noh-Ren entered the new century, we planned to chart our course to broaden and improve our activities with the underlying goal of promoting ‘cutting-edge management style’.

We would appreciate continued support from all related organizations, the industry as a whole and the population in general.

**Major tasks of Zen-Noh-Ren**

**National Efficiency Conference**

**Part I: main conference**

The National Efficiency Conference has been held every year since 1949. Business owners, managers, management consultants and many others who are interested in business management get together from all over the country and attend lectures by top-notch speakers who suggest solutions to the important problems facing business. The conference also serves as a place where corporations present their cases. At the 52nd National Efficiency Conference in 2000, we made a new start with the theme of ‘Pursuit of state-of-the art management’ with the aim of contributing to the enhancement of Japanese industrial competitive power.

**Part II: thesis presentation session**

This session is for presentation and discussion of the research theses submitted from all over Japan for the purpose of exchange and study of management techniques and theories. The session is divided into five subdivisions: management strategy, research development/manufacturing, distribution/marketing, personnel/organization and IT.

Opportunities are given not only to management consultants but also to those who aspire to be management consultants and those people who are in charge of practice, guidance and management improvement in the area of business management.

‘The Economy, Trade & Industry Minister Award’, the only award of its kind in the area of management, is given to the best thesis. The ‘Director-General Award of Economic & Industrial Policy Bureau, the Ministry of Economy, Trade & Industry’ awards are given to the rest of the selected theses. Furthermore, all the selected theses receive cash
awards/prizes from the Ueno/Godoh/Yamashita Foundation. These three names are great pioneers in the area of productivity improvement in Japan.

Management consultant certification programme

The Management Consultant Registration System has been in effect since 1986. It registers management consultants who belong to member organizations – in accordance with given criteria – with Zen-Noh-Ren. Initially this programme was limited to members, but this was recently changed and since 1 April 1999, the Management Consultant Certification System has been the only system in Japan to evaluate and certify active management consultants regardless of nationality.

Since Zen-Noh-Ren joined the ICMCI in 1998, those management consultants certified by Zen-Noh-Ren have been automatically qualified for the CMC certified by ICMCI.

There are approximately 780 management consultants certified by Zen-Noh-Ren as of 1 April 2001.

Registration/publication of professional qualifications by voluntary regulation of management consultant qualifications

In order to differentiate management consultant qualifications given out by Zen-Noh-Ren member bodies from unqualified low-grade certifications, and at the same time enhance the quality of the Zen-Noh-Ren certifications, Zen-Noh-Ren established Voluntary Regulations Concerning Management Consultant Certifications in 1977 under the guidance of the Ministry of Economy, Trade and Industry and has been registering approved qualifications after rigorous evaluation. At the end of 1999, the above rules were changed in such a way that those certifications created by Zen-Noh-Ren members can play more important social roles in line with changing times.

As of January 2001, a total of 51 certifications and 23 certifying bodies were registered with the Federation.

A group of Japanese representatives sent to the World Convention

FEACO is the ruling body of management consultancies in Europe. In 1984, Zen-Noh-Ren sent the Japanese inspection group, as a non-regular FEACO member, to the FEACO Convention – the world convention of
management consultants held every year in Europe. Since then, the Japanese delegation has attended the Convention every year.

Management consultants in America, Europe and other parts of the world are keenly interested in Japanese management, and significant discussions and exchange of opinions on the subject are ongoing.

The first World Management Consultants Convention was held in France in May 1987, the second convention in the US in 1990, the third in Italy in 1993 and the fourth took place in Yokohama, Japan, when Zen-Noh-Ren acted as host under the co-sponsorship of FEACO and ACME. In October 2000, the sixth world convention was held in Berlin and Zen-Noh-Ren sent a group of 20-plus members to exchange ideas with management consultants from various countries.

**Foundation of Zen-Noh-Ren Research Institute**

In 2000, the Zen-Noh-Ren Research Institute was newly founded to undertake research into ‘cutting-edge management’. The research work of the first year was focused on a business model, and the research results were compiled into a report entitled ‘Pioneering 21st century – creating values in anticipation of future change’.

**Management consulting survey and other research work**

In 2000 Zen-Noh-Ren conducted research into Japanese/foreign consulting bodies, management consultants, intellectuals and client companies. The surveys were themed ‘Setting the Management Consulting Vision for the 21st Century’, and aimed at developing international competitive power to cope with change in the business environment in Japan as well as overseas. The survey work was assigned by the Ministry of Economy, Trade and Industry (METI).

**Code of Professional Conduct**

**Code of Professional Conduct (Excerpts)**

Zen-Noh-Ren is a combined body of professional institutes aimed at the dissemination and enhancement of management concepts and practices. As the only industrial body of its kind, Zen-Noh-Ren has contributed to the development of industry.

We recognize that the activities of our member organizations should be carried out in accordance with high-level ethical standards, and so
established these guidelines for the purpose of gaining the trust of industrial society as a whole through social responsibility.

**Basic platform**

- **Be trustworthy** – observe the high-level code of conduct and work for the benefit of the public.
- **Enhance the reliability process** – develop higher and more effective technology/processes and enhance efficiency to ensure that good results are obtained.

**History of Zen-Noh-Ren**

**Purpose of the Federation**

The primary purpose of Zen-Noh-Ren is to make a major contribution to the sound development of the Japanese economy through giving maximum support to management consultancy. It is engaged in study, dissemination, guidance and practice of ‘the most advanced concept, technologies and methods concerning management to the Japanese industries facing accelerating economic globalization’.

**Establishment**

Zen-Noh-Ren was established in 1949, succeeding the former All-Japan Management. The inaugural meeting and the First All-Japan Management Annual Conference were held in Tokyo in November 1949. Historical sketches are shown in the following table.

**Table III.1 Chronological record of major events**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923–</td>
<td>The Japanese Management Research Association was established to develop and disseminate scientific management methods in Japan. Subsequently, management research groups with the same purpose were organized in several Japanese cities, including Tokyo, Osaka and Aichi, and also in Manchuria.</td>
</tr>
<tr>
<td>1927–28</td>
<td>The Japanese Federation of Management was created by consolidating management research groups in various locations. The First All-Japan Management Conference was held in October 1928.</td>
</tr>
<tr>
<td>1931</td>
<td>The Japanese Industries Association – a combination of the Factory Association and the Factory Councils – was established.</td>
</tr>
<tr>
<td>1942–43</td>
<td>The Japanese Federation of Management and the Japanese Institute Association merged into the Japanese Management Association. In 1943 the First All-Japan Management Conference was held in Osaka.</td>
</tr>
</tbody>
</table>
1949  Zen-Noh-Ren (All-Japan Federation of Management Organizations) was established after the end of the Second World War on 16 May 1949 by consolidating all management organizations across the country.

1950  The establishment of the Japanese Management Association (Zen-Noh-Ren, an abbreviation of the Japanese name) was officially approved by the Minister of the former MITI, presently METI.

1977  Voluntary regulation on management-related qualifications and designations was formulated, and a registration service of qualifications and designations began.

1984  The Federation sent the first Japanese delegation to the FEACO Conference.

1986  A voluntary registration system for management consultants was created and the first round of registration carried out.

1987  First Management Consultant World Conference held in Paris under the co-sponsorship of FEACO, ACME and Zen-Noh-Ren.

1990  Second Management Consultant World Conference held in New York.

1993  Third Management Consultant World Conference held in Rome.

1996  Fourth Management Consultant World Conference held in Yokohama, Japan.

1998  The Management Consultant Registration System was dissolved, and the Management Consultant Certification System set up.

1999  50th anniversary of Zen-Noh-Ren. The first round of certification under the Management Consultant Certification System was carried out. Zen-Noh-Ren revised the voluntary regulation of management consultant qualifications and designations to give more authority to this regulation and also to make it more widely used.

2000  The middle range project plan started. The delegation was sent to the Sixth Management Consultant World Conference. The Zen-Noh-Ren Research Institute was founded.
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