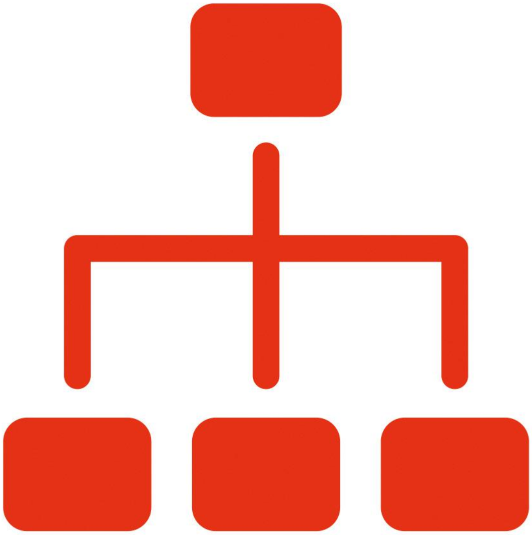

An Introduction to

MANAGEMENT CONSULTANCY

Marc G. Baaij

SECOND
EDITION

An Introduction to

MANAGEMENT CONSULTANCY

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Dedication

For Ellen and Sophie

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ABOUT THE AUTHOR

Marc Baaij is an Associate Professor of Strategic Management at the Rotterdam School of Management (RSM) at the Erasmus University Rotterdam in the Netherlands. Previously he worked for the Boston Consulting Group (BCG) as Manager of Research and Strategy Consultant. Marc specializes in methods and techniques for strategy development and implementation, with a focus on stakeholder management and strategic foresight development. He has written professional books and scientific articles on strategic management, management consultancy, and structured problem solving. Besides teaching bachelor, master, and MBA students, Marc also provides open and in-company training in Structured Problem-Solving and communication for managers, consultants, and other business professionals. He also serves as a soundboard for managers in cases of strategy development and implementation. Marc holds a Master's degree in economics and is a PhD in strategic management.

ONLINE RESOURCES

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An Introduction to Management Consultancy, *2nd edition* is accompanied by online resources for instructors to help support teaching. These resources are available at: **https://study.sagepub.com/baaij2e**

FOR INSTRUCTORS

- Easily **integrate the chapters** into your weekly chapters with the **PowerPoint slides** created by the author.
- Help support discussions and test understanding of the text with the help of the teaching notes, further reading and additional exercises and questions in the **teaching guide.**

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I would like to thank the many people without whom it would not have been possible to write this book. Like in the first edition, Nathan Simon, partner of Kennedy Research Reports, was willing to share his valuable insights and data on the consultancy industry. I am grateful to Nathan and his colleagues Tom Rodenhauser and Lasse Pitkaniemi for sharing their extensive industry knowledge. My conversations with Larry Zeenny, owner of Consultancy.org, were also valuable in charting the current developments in management consultancy. For the running case, I benefitted greatly from the feedback of consultancy and industry experts. Consultants Daniël Horn, Gillis Jonk, Dominik Möchel, and Erik-Jan Quik provided constructive comments on previous versions of this case. I would like to thank Professor and consultant Muel Kaptein for his thoughtful review of a previous version of the manuscript. The manuscript also benefitted from the valuable feedback from consultant and lecturer Austin Chia and entrepreneur in the field of automated consultancy Jan van de Poll. I would like to thank lecturer and speaker Thijs Boogert for sharing his relevant experience and insights about implementation of advice. In addition, I am grateful to the anonymous reviewers for their thoughtful comments. Teaching the consultancy methods to students and applying the methods in my own consultancy practice also helped me further sharpen the book's content. That is why I am also grateful to my students and clients for their contribution. Without the invitation of editor Matthew Waters, this new edition would not have happened. I am thankful to him and the team from SAGE for their professional support of the process. I would also like to thank my daughter Sophie for reading the manuscript critically and providing helpful feedback. Finally, I was happy with the patience and support of my wife Ellen because even if it is 'just' a new edition, the writing took more time than I thought.

PREFACE

People may be interested in management consultancy for various reasons. For example, they may work with consultants and want to better understand what consultancy is about. Others may aim to become a consultant themselves and want to prepare for a consultancy position. There may also be a third group of people who would like to learn the valuable problem-solving methods of the world's leading consultancy firms.

Finding such information about consultancy and their methods can be difficult for outsiders. If you key in 'management consultancy' on Google, you will get over 190 million results! But where do you start in this overwhelming supply of information? Many pieces only provide a small portion of the desired information. The offer is fragmented. In addition, a lot of information is very brief and lacks illustration. Wouldn't it be helpful if all the necessary knowledge about management consultancy was integrated and worked out to a sufficient level of detail and illustrated with concrete, practical examples?

This book aims to provide such an introduction to management consultancy. The first four chapters give a multi-level perspective on consultancy: the phenomenon, the industry, the firms, and the people. In the remaining eight chapters, we go through the entire consultancy process from acquiring a project, executing the assignment, up to and including evaluation and relationship management. Recognizing that there are different types of consultancy, we focus on consultancy as solving problems for clients. Within this, we focus on the proven successful methods of the world's leading consultancy firms. Since outsiders do not have access to the vast experience and knowledge these firms have, we slightly adjust these methods to be suitable for people without experience.

Each chapter begins with an introduction and an overview of the main learning objectives. At the end of each chapter, readers will find a conclusion, summary, reflection questions, and a running case. The book's companion website provides support materials, such as exercises, templates, and web links to relevant websites. Additionally, the site offers, on an exclusive basis, specific materials for lecturers.

ENDORSEMENTS

‘This book is essential for those who want to be a successful management consultant: it offers an accessible and state-of the-art treasure trove of concepts, methods and tips for becoming a successful management consultant.’

Muel Kaptein, Professor in Management, Rotterdam School of Management,
Erasmus University, and partner at KPMG

‘This book provides a thorough introduction to management consulting as a role, industry, workplace and practice. The detailed and insightful presentation of the management consultant’s tool-box and problem-solving methods – from how do define the problem to designing the slides to present the recommendations – will be an invaluable resource for every aspiring management consultant.’

Andreas Werr, Professor of Management,
Stockholm School of Economics

‘This book is an excellent introduction to management consulting for students at all levels as well as consultants and clients. It is highly accessible and comprehensive, covering the basics, but also advanced techniques and the latest developments. A real achievement.’

Andrew Sturdy, Professor of Management, School of Management,
University of Bristol

‘I thought the first edition was fabulously comprehensive and resourceful for my graduate level course on management consulting. This new edition is even better! It is leaner, flows better, simplifies the cases, improves the graphics, and offers suggestions to the consulting neophyte while going beyond the superficial. I can’t wait to use the new edition once made available!’

Paul Joyce, Executive Director, Executive Leadership Institute, McColl School of Business, Queens University of Charlotte

‘Excellent resource for the professional, academic or entrepreneur starting a consulting practice. A must have resource to guide you in successful consulting practices and processes! Baaij provides a clear blueprint to effective consulting.’

Jeffrey Moore, Professor of Management, College of Business, Anderson University

‘This book will teach you the basis of consulting. Its wide scope ensures learning about the content side – the importance of structured problem analysis – as well as learning about the process of consultancy, from selling projects to considering implementation. I will happily use this as a resource for my university students.’

Jacomijn Klitsie, Senior Lecturer, Rotterdam School of Management, Erasmus University

‘There are very few books specifically devoted to the field of Management Consulting that are able to capture the complexity of the industry in a way that learners can easily understand. Marc’s book achieves just that while addressing the major challenges the industry faces around ethics, professionalization and regulation. We are all on a lifetime learning journey, whether we are consultants or students and this book is an essential companion along the way.’

Alan Price, Management Consultant, Programme Director, Swansea University School of Management

‘This book is an excellent, complete and thoughtful overview of the ins and outs of Management Consultancy. Marc Baaij combined his practical experience and academic rigor to create a useful and engaging introduction to the consultancy business. A great guide that will help students navigate in the profession of giving advice.’

Ard-Pieter de Man, Professor of Consulting, Vrije Universiteit Amsterdam, and boardroom consultant

‘Marc Baaij’s book provides an excellent introduction to management consultancy, not only for those of you who would like to work as a consultant, but also if you are a client or if you want to learn valuable problem-solving skills. The first chapters give a comprehensive overview of the business of management consultancy. Most of the chapters however break up the entire cycle of management consultancy and discuss useful methods for each step.’

Aswin van Oijen, Associate Professor of Strategy and Organization, Tilburg School of Economics and Management, Tilburg University

‘An excellent text for any student studying consultancy for the first time. The text provides an industry perspective to the sector to give students a “real-world” understanding of the nature, breadth and depth of the industry. The case studies provide specific “real-world” examples for students to help them contextualise learning and position the knowledge. Building from an outside-in perspective, the text draws the reader into the sector and builds their knowledge and critical understanding of the industry, its value, purpose and issues, along the way. If you are looking for a great primer on the subject to help build knowledge and understanding of the wider concepts and provide industry knowledge and practical examples, then this is place to start.’

Paul Matthews, Senior Lecturer in Strategy, The Gloucestershire Business School, University of Gloucestershire

‘The book forms a fascinating reading for anyone who is looking to develop their ability to think and solve problems in a structured way. It is a must-read for a reader with a strong interest in the management consultancy industry as it does not only provide an overview of the industry, but also insights towards how someone can dive into the problems, break down key assumptions and prioritize issues.’

Dr Panagiotis Stamolampros, Assistant Professor in Business Analytics, Centre for Decision Research, Leeds University Business School, University of Leeds

‘I highly recommend Marc Baaij’s book to anyone who is keen to learn about the profession and practice of management consultant. The book has a contemporary focus and strikes a good balance between theory and practice. It is an invaluable reference for students, teachers, and practitioners.’

Dr. Austin Chia, Management Consultant, KPMG Australia, and Research Fellow at The University of Melbourne

‘A comprehensive treatment of management consultancy, this book addresses both what management consultancy is, what consultants do, and lifts the lid on the methods they use to achieve their results. It is an excellent resource for students interested in learning about the industry and pursuing a career as a management consultant. The use of cases at the end of each chapter is a very effective way for students to deepen their understanding and apply the concepts. For lecturers, this represents a go-to resource for all aspects of this topic area.’

Chris Owen, Senior Teaching Fellow, Aston Business School, Aston University

1

THE MANAGEMENT CONSULTANCY PHENOMENON

INTRODUCTION

You may find management consultancy interesting and consider becoming a consultant yourself. Perhaps you have family or friends in consultancy who have inspired you. Maybe you have seen stories in the media about successful consultants. You may also be attracted to consultancy because of the exciting work, the steep learning curve, the prestige of a top firm, or maybe you simply want to make a lot of money. After you graduate, you may think about applying for a job at a consultancy firm. You may prefer the largest firms such as the Big Four (Deloitte, PwC, EY, and KPMG), Accenture, or 'MBB' (McKinsey, BCG, and Bain). Still, you may also like to work at a small boutique firm specializing, for example, in digital transformation.

But before you make a move, you want to understand better *what* management consultancy is. Consultancy is a popular term, but different people have different definitions. This chapter aims to explain the management consultancy phenomenon. First, we outline the key characteristics of management consultancy and propose a definition. In the second section, we discuss the various reasons for hiring management consultants. Our third topic is the different roles of consultants. Fourth, we describe several forms of consultancy. After that, we reflect on the results of consultancy work. The chapter ends with a conclusion, a running case, a summary and questions.

MAIN LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Identify the distinctive characteristics of management consultancy
- Critically reflect upon the various reasons for hiring management consultants
- Distinguish the functionalist and the critical perspective on management consultancy
- Distinguish different forms of consultancy
- Identify and assess different roles of management consultancy.

DEFINING MANAGEMENT CONSULTANCY

Characteristics

You may ask: *What* is management consultancy? It may surprise you, but there is no commonly accepted definition. To understand management consultancy, let's take a closer look at its main characteristics.

CLIENT MANAGEMENT

As the name indicates, management consultancy is directed at managers. The clients of consultants are managers. These managers may range from the top management to the first-line management. Their organizations can be commercial businesses and 'non-profit,' such as governments, hospitals, or schools. The spectrum of organizations extends from small and local to large and global.

RECOMMENDATIONS

The managers who hire consultants have in common that they have the power to make decisions on behalf of their organizations. Management consultants provide recommendations, and clients make the decisions. Consultancy is *not* about making decisions on behalf of clients. Decision making remains the sole responsibility of the client. Management consultants aim to improve their clients' decisions.

Management consultancy is about the *business* decisions of managers. It is about solutions to the *business* problems and opportunities of the client organization. Managers may need advice not only for problem-solving but also for identifying and exploiting opportunities. The client's problems and opportunities can be limited to individual departments, such as human resource (HR) management, finance, information technology (IT), or operations. Such issues call for HR consultancy, financial advisory, IT consultancy, or operations consultancy. Still, they can also extend to the *entire* organization of the client. An example is a declining competitive advantage that calls for strategy consultancy. In general, consultancy is typically about the big problems and opportunities that keep the managers awake at night. Managers do not hire consultants for small issues.

NOT ABOUT PERSONAL PROBLEMS

Management consultancy is not about decisions on a client's *personal* problems but on *business* issues. We emphasize that management consultants only provide recommendations for business decisions. For example, to solve declining sales, consultants may advise the client to improve their account managers' training and give them better incentives. Figure 1.1 visualizes the relationship between consultant and client. A consultancy project is always a collaboration between the consultant and the client. Both parties have their input into the project.

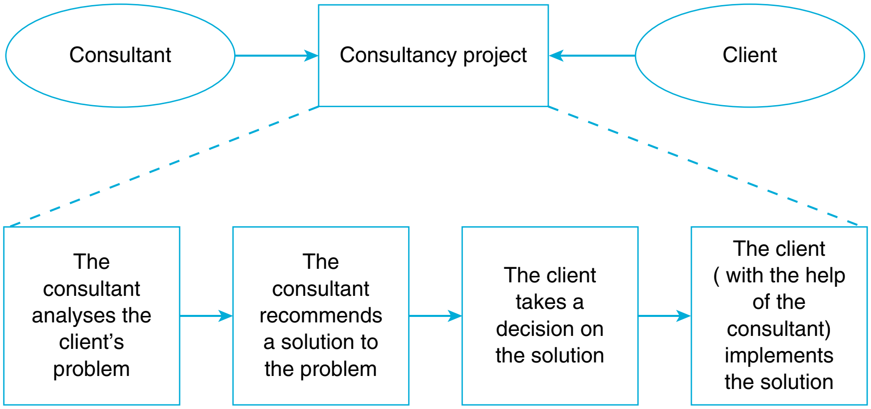

Consultant
Consultancy project
Client
The consultant analyses the client's problem
The consultant recommends a solution to the problem
The client takes a decision on the solution
The client (with the help of the consultant) implements the solution

FIGURE 1.1 *The relationship between consultant and client*

INDEPENDENCE

Management consultants must be *independent* of their clients. They should not have an equity stake in their clients, nor vice versa. Besides, consultants should not depend on one specific client. For example, if consultants get most of their revenue from one single client, the consultants cannot afford to lose the account, and the client gains power over the consultants.

The consultant's independence is necessary for objective and impartial advice. Independence allows the consultant to provide sound advice for the client's organization even if the client may not want to hear it. For example, to reduce an industrial client's production downtime, the consultant concludes that reorganizing the client's factory is necessary. At the same time, client management prefers to leave things as they are.

Independence also allows the consultant to resist any client's attempts at manipulation. For example, the client wants the consultant to recommend a mass layoff of office workers, even though it is not an effective solution to the client's problem. More seriously, the client wants to involve the consultant in *unethical* practices. In such cases, the consultant should be able to refuse to cooperate.

INTERNAL CONSULTANTS

Management consultancy is not only about *external* advisors, that is, people outside the client organization. Some (large) organizations have *internal* consultancy units that support the managers in that organization. But the top management must ensure that the internal consultants can provide independent advice to their internal clients. Ensuring independence is especially challenging when consultancy positions are temporary and the internal consultants, after some time, need to move to other (non-consultancy) positions in the organization. Then they become part of departments that used to hire them for advice.

PROJECTS

Both external and internal management consultancy takes place on a *project* basis. Clients hire consultants not for an indefinite period but for a limited, predefined period. The period generally varies from a couple of weeks to a couple of months. During that time, the consultants analyse the client's problem, develop solutions, advise, and, if requested, help implement the recommended solution. After providing these services, the consultancy project ends. However, the client may hire the consultants again for another project. The consultants may return to the same client from time to time for a new project. As a result, the consultants develop a (long-term) relationship with the client. Consultants strive to build such relationships because selling projects to existing clients is much more efficient than acquiring new clients.

BUSINESS

A consultancy project is a *business* transaction between the client and the consultant. The client *pays* for the consultant's services. But some consultants also do projects for charities for free as a form of doing something good for society. Today, many consultancies have a broader purpose beyond business success and creating value for clients. Their purpose includes making a positive contribution to society. The corporate social responsibility of these consultancies also contributes to their public image, which helps them to attract clients and consultancy talent.

But some consultants also do projects for charities for free as a form of doing something good for society

The large and global management consultancies are best known. Firms like the Big Four and Accenture employ hundreds of thousands of consultants worldwide. These organizations offer many different services to a broad range of client industries. But a management consultancy firm does not have to be enormous. Most management consultancy firms are small or medium-sized. Such consultancies typically focus on a narrower range of services and sectors.

Moreover, the overwhelming majority of consultants are solo practitioners. They are small entrepreneurs without employees. These individuals typically specialize in one

ACTION POINT

Join a consultancy club and gain practical experience during your studies.

specific service or industry, but there are also generalists. Consultancy does not have to be a full-time position. Many business schools have consultancy clubs for students. Students can then gain valuable experience with consultancy in addition to their studies. Some lecturers may consult as a side job.

A SERVICE

Historically, management consultancy is a service delivered by people, and therefore labour-intensive. Later we will discuss a new trend towards consultancy as a product. But the traditional consultancy service model means that projects require a lot of hours to provide advice. Consultants generally work long hours and should be able to function under time pressure. Consultancy as a service also means that consultancy is intangible or immaterial. Consultants have no physical product to show to their clients. Reports and PowerPoint presentations are the only physical outputs that consultants can offer.

THE ROLE OF THE CLIENT

In the case of physical products, we can clearly distinguish between a producer and a customer. For example, Apple produces smartphones, and its customers use these phones. In services, that distinction between producer and user may be hard to make. In management consultancy, clients play an essential role in solution development. Consultants typically cannot provide their advice without interaction and cooperation with their clients (see the arrows in Figure 1.1). Management consultants need their client's data and knowledge. Therefore, consultancy is a form of co-creation; clients and consultants together create the solution to the clients' issues.

Therefore, consultancy is a form of co-creation; clients and consultants together create the solution to the clients' issues

Defining consultancy as advice

As stated before, various definitions of management consultancy exist. We aim to develop a synthesis of the existing classifications. A common element in these definitions is helping managers. The question arises: *what specific type of assistance* may managers request from consultants? Managers turn to advisors for help with their organization's issues (business problems and/or opportunities). The consultants can identify and diagnose the client's issue. For example, a client has a factory with high production downtime. The consultants discovered that quality problems of raw materials cause the high downtime.

THE ADVICE

Based on their diagnosis, consultants develop a solution for the client's issue. In the example, the consultants recommend that the client works closely with the raw material supplier to ensure the materials' consistent high quality. As stated earlier, the client managers remain responsible for making the decision about the recommendation. The provision of advice is an essential service of consultants. Our definition of management consultancy, therefore, concentrates on advice-giving.

Management consultancy is a knowledge-intensive service that independent business professionals (consultants) provide to the managers of the client organizations. It consists of objective advice on management's decisions regarding the solutions to their organization's issues.

Including implementation assistance

If the client managers accept the advice, they decide to implement the consultants' recommended solution to their issues. Only action will enable clients to solve these issues. Therefore, implementation alone allows the client to achieve their desired results. The client *may* ask the consultants to help with executing the solution. Therefore, a broader definition of management consultancy may include both developing recommendations *and* assisting in implementing these solutions.

ASSISTANCE WITH THE MANAGERS' IMPLEMENTATION TASKS

Client managers may approach consultants for advice and assistance with the implementation of the recommendation. Just as the guidance refers to the client managers' decisions, the implementation assistance refers to the client management's role in carrying out the advice. Examples of consultants' implementation assistance are designing the implementation plan, providing the plan's communication, monitoring the implementation's progress, and advising client management on any necessary adjustments to the solution implementation. A broad definition of management consultancy may look like this:

> Management consultancy is a knowledge-intensive service that independent business professionals provide to the managers of the client organizations. It consists of:
>
> 1. Advice on the client management's decisions regarding the solutions to their organization's problems and opportunities
> 2. Assistance with the client managers' tasks regarding the implementation of these solutions.

It looks like it's time to call my consultant.
$
Marc

Business consultancy and business services

We distinguish between the tasks of the client's managers and those of the client's professionals in the implementation. The non-managerial functions of these professionals are essential to the implementation's success. Examples of such non-managerial tasks are the development of IT systems and the training of the system users. These non-managerial tasks do not belong to the domain of *management* consultancy. Management consultancy is advice and assistance regarding the *managerial* tasks regarding implementation. Providing advice and assistance for these non-managerial tasks is *business* consultancy.

Advice is a necessary part of consultancy. Some service providers offer assistance without advice. Assistance without advice is not a *consultancy* service, but a business service. Figure 1.2 compares the various types of services.

Assistance without advice is not a *consultancy* service, but a business service

	No assistance with implementation	**Assistance with managerial tasks regarding implementation**	**Assistance with non-managerial tasks regarding implementation**
Advice on management decision	Management consultancy (narrow definition)	Management consultancy (broad definition)	Business consultancy
No advice on management decision		Business services	Business services

FIGURE 1.2 *The comparison of management consultancy and other services*

Various types of consultancy firms

We have already stated that management consultancy is more than the gigantic management consultancy firms operating globally, employing hundreds of thousands of consultants. Most consultants have a solo practice or work for small and medium-sized consultancy firms.

There are '*pure*' management consultancy firms that only provide services that fall within our definition: advice and assistance with the managerial implementation tasks. Besides, various consultancy firms have expanded into business consultancy and business services. This extension of offerings was often done at the clients' request, who asked their consultants whether they could do more than advise and assist with the managerial implementation tasks. For example, some clients may request the consultants to carry out the implementation tasks themselves. Some very large consultancy firms combine management consultancy with business services. An example is Accenture which advises clients and develops and implements IT systems for their clients. Moreover, the clients can also outsource their business processes to that consultancy.

ACTION POINT

Before applying to a consultancy, check their website to determine what services they offer.

THE REASONS FOR HIRING MANAGEMENT CONSULTANTS

Hire a consultant or 'do-it-yourself'

You may ask yourself: *Why* do managers hire consultants? We focus on hiring consultants who are external to the client's organization. Let us first consider the so-called make-or-buy decision. We defined management consultancy as advice on the client organization's issues. 'Make' in this context means that clients solve their problems and seize their opportunities without the support of (external) consultants. 'Buy' means hiring a management consultant. Let us take a closer look at an important reason for the 'make' decision.

CLIENT MANAGERS WITH A BUSINESS EDUCATION

A substitute for (external) management consultancy is that clients solve their problems themselves and implement their solutions without external consultants' help. The client managers may do the work themselves because they have good business knowledge and skills. Business studies, such as the MBA, have resulted in well-trained managers who can solve complex business issues themselves. The client managers may also hire people in permanent positions to provide the consultancy services. We have already discussed the *internal* consultants. Former external consultants, the so-called '*alumni*', of the renowned consulting firms are often sought-after candidates for such positions.

Business studies, such as the MBA, have resulted in well-trained managers who can solve complex business issues themselves

Official reasons for hiring consultants

We distinguish between two types of reasons why clients hire consultants: the official reasons and the unofficial ones (see Figure 1.3). Whereas the clients are open about the former grounds (the white callout boxes in Figure 1.3), they are secretive about the latter (the grey callouts).

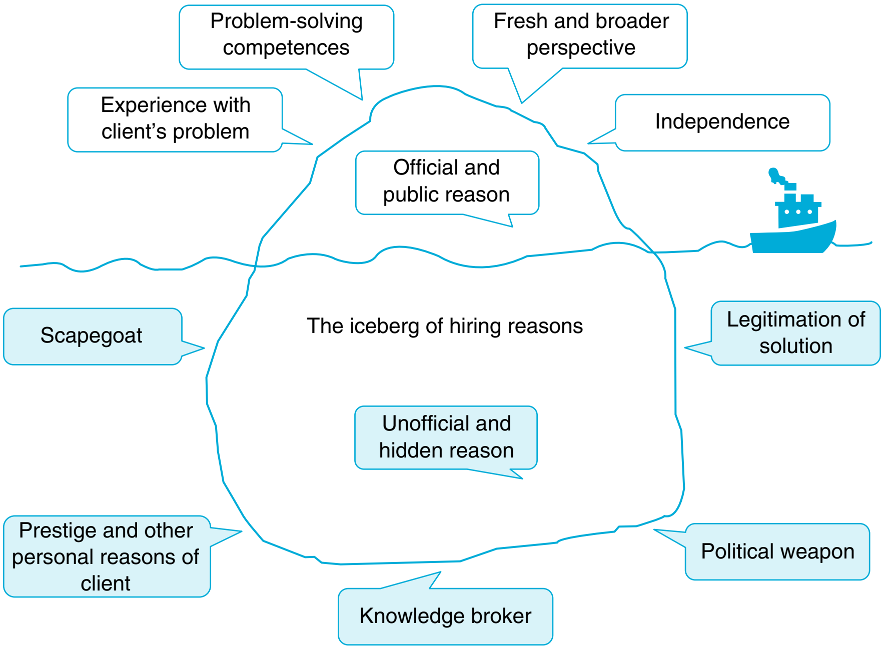

Problem-solving competences
Fresh and broader perspective
Experience with client's problem
Independence
Official and public reason
Scapegoat
The iceberg of hiring reasons
Legitimation of solution
Unofficial and hidden reason
Prestige and other personal reasons of client
Political weapon
Knowledge broker

FIGURE 1.3 *The official and unofficial reasons why clients may hire consultants*

Let us start with the official hiring reasons. They are about the client's need for advice and assistance with solving business problems or identifying and seizing business opportunities. By providing guidance and support in these areas, the consultants help to improve their client's organizational performance (profit and/or non-profit outcomes). The question arises: Why should client management hire external consultants instead of solving these problems themselves? We distinguish between several reasons.

- *First*, the issue may be too complex for the client. For example, the client wants to innovate their business model using digital technology. Management consultants are *professional* problem-solvers. They do problem-solving as a profession. Because it is their business, the consultants gain much more experience in problem-solving than clients. The consultants do nothing but solving problems. Moreover, the consultants have proven methods and tools for problem-solving (see Chapter 6).
- *Second*, the issues may be new to the client or even new to the client's industry. For example, it is the first time that a client will make a cross-border acquisition. Still, the consultants may have solved similar problems in other

Consultants may translate such solutions from other firms or industries to their client's situation

firms or industries. Consultants may translate such solutions from other firms or industries to their client's situation. Then the client can benefit from the consultants' *experience* with that type of issue. Because of their experience, consultants can develop solutions much faster and more efficiently than their clients.

- *Third*, clients may be interested in a *fresh and broader perspective* from 'the outside'. Especially if the client organization is inward-looking, an outside viewpoint is valuable. For example, the management team consists of people who have only worked within this organization. Management consultants can develop a more comprehensive view by working with a wide range of organizations and sectors.
- *Fourth*, clients may look for *independent* advice. The consultants are independent of the political factions within the client organization. If the client is internally divided, the consultants may add value by providing independent, objective advice acceptable to all political sections. For example, some members of the management team want to invest in digital technology, but others are against it.

ACTION POINT

Wonder what the client's real agenda is. Dare to ask critical questions about why the client wants to hire you.

Unofficial reasons for hiring consultants

The official hiring reasons reflect a *functional* perspective on consultancy. The functionalist perspective is how a consultancy should be. It corresponds with our definition: providing objective advice on solutions (and assistance with the managerial implementation tasks) for the client's business issues. But there is also a *critical* perspective on consultancy. This critical attitude is about how consultancy in the real world *can* be. In the real world, clients might use consultants for other reasons than the official ones. Let us look at some unofficial reasons.

- First, clients may look for the *legitimation* of their business solutions. For example, the top manager of a large car company wants to acquire a battery producer for its electric vehicles. But the company's shareholders oppose this acquisition. Then the top manager hires a prestigious management consultancy firm to develop a new strategy that prescribes the desired acquisition. Such a recommendation by a prestigious consultancy may provide a solid signal to the opposing stakeholders. The client may be able to develop that solution themselves. Still, the stakeholders' acceptance may be lower than when a prestigious consultancy recommends the same solution.

The client's management may need the approval or '*rubber stamp*' of a prestigious consultancy firm

  - The client may even have a solution to their problem. But the stakeholders inside the client's organization, such as the work council, or outside the client's organization, for example, investors, may not be convinced of that solution, or they may even resist that solution. In such a situation, the client's management may need the approval or '*rubber stamp*' of a prestigious consultancy firm. These consultants do not have to develop the solution as it already exists. They only must put their rubber stamp on the solution as a sign of approval. It goes without saying that the legitimator is an unofficial role for consultants. Neither the client nor the consultants will publicly admit this role.
  - To rubber stamp their clients' solutions, the consultants should have an excellent reputation. Such a reputation is necessary to convince the sceptical and opposing stakeholders. But if it becomes known that the consultants sell themselves as rubber stamps, then their reputation will deteriorate.
  - The top management of the client may also use the consultants' recommendation as insurance against any liability claims. The investors and/or other stakeholders can hold the top managers liable for decisions that have gone wrong. By having consultants investigate the critical choices, top managers can hedge against any liability claims. Suppose these decisions afterward turn out to be inaccurate, and the injured investors or other victims hold top management accountable. In that case, the managers can hide behind the consultancy report: 'Don't blame us. We even hired consultant X (a very prestigious consultancy firm, of course). What more could we have done?'.

The hiring managers use the consultants as a *political weapon* for internal political conflicts

- Second, the client's managers may hire consultants for *fighting political battles* with rivalling managers or other actors inside their organization. The hiring managers use the consultants as a *political weapon* for internal political conflicts. The consultants must provide the arguments that allow the client to get their way in these internal fights. Besides the inner political conflicts, the consultants may also be drawn into the client's external political disputes. The client may hire consultants for political battles with external stakeholders, such as regulators and civil society organizations.
- Third, the client may hire management consultants to function as their *scapegoat*. The client uses, or rather abuses, their consultants to shift the blame to the outsiders, the consultants. The scapegoat is useful when the client wants to take an unpopular decision which will cause resistance from stakeholders inside or outside the client's organization. For example, the client wants to lay off many employees to cut costs. The client hires a prestigious consultancy firm to write a report that these lay-offs are inevitable. In this case the client hides behind the consultants' back and lets them take the blame for this unpopular decision. 'Consultant X (a very prestigious firm, of course) concludes that lay-offs are inevitable. Don't blame us.'

The client lets the consultants do the dirty work, and so the client keeps their hands clean

The client lets the consultants do the dirty work, and so the client keeps their hands clean.

- Fourth, clients may attempt to hire management consultants as *knowledge brokers*. Clients may want to abuse consultants to obtain valuable information about competitors. For example, consultants who have previously conducted a competitor project will have gained precious knowledge about that organization. The new client may want to hire these consultants to access that valuable knowledge. Consultants should refuse such studies as it is illegal to 'leak' confidential client information to competitors. If consultancy firms work for competing clients, they should build so-called *'Chinese walls'* between the conflicting client projects to avoid any leakage of sensitive knowledge. Different consultancy teams work for the various competing clients, and these consultants should not exchange any confidential or sensitive information about their clients.

Unethical business practices

The client may also ask the consultants to advise on unethical business practices. The client's business operations are based, for example, on misleading consumers, exploiting workers, or polluting the environment. Should the consultants help strengthen and expand these types of practices? That is an ethical consideration that the consultants must make. The outcome depends on the values of the consultants.

It may also be the case that the best solution the consultants can find for a client's problem is unethical. For example, the consultants discovered that the client could grow its product sales by using inferior quality ingredients that are not recognizable to outsiders. The consultants know that the client is not so careful with values and therefore will embrace this unethical solution. Should the consultants recommend this immoral solution to their client, or should they recommend the second-best ethical solution? Again, the decision comes down to the values of the consultants.

Finally, should consultants want to work for all types of clients? This is another ethical dilemma. Consultancies that take their social responsibility seriously are unlikely to want to be active in sectors like weapons, tobacco, and gambling.

ACTION POINT

Determine your ethical boundary as a consultant before you do your intake interview with the client. When does the client's (implicit) question become unethical?

Personal reasons for hiring consultants

Finally, we distinguish the client manager's *business* reasons and *personal* reasons for hiring consultants. The managers of the client might employ consultants to serve their personal agenda. For example, working with a top consultancy gives these managers a sense of importance and increases their prestige. It may be the case that the client managers are looking for a better job at another organization. As consultants often work for many organizations in various industries, they have extensive networks. These contacts can be valuable for client managers seeking new positions. The consultants may offer to introduce these managers to other organizations in their network. For client managers looking for better jobs elsewhere, this can be an essential motive to award these consultants the project. It goes without saying that such practices are unethical. Moreover, the client managers can use the consultants for private purposes. For example, the consultants help with side activities of the client manager, such as the manager's side-position in the board of a charity. Help for private purposes can go very far. A case has become publicly known where a client had a prestigious consultancy firm write in secret the thesis for one of his children who was studying business administration at that time.

The managers of the client might employ consultants to serve their personal agenda

Multiple reasons for hiring consultants

The official and unofficial hiring reasons do not necessarily exclude each other. Clients may have both official and unofficial reasons for hiring consultants. For outsiders it is very difficult, or even impossible, to find out how often clients have unofficial reasons. Clients may be prepared to admit that they hire management consultants for official reasons. However, clients will not disclose unofficial reasons. They will hide them for obvious reasons.

THE ROLES OF MANAGEMENT CONSULTANTS

Edgar Schein distinguished between three *official* consultancy roles: the 'expert', the 'doctor', and the 'facilitator' (Schein, 1969). Each position is based on the knowledge that consultants can bring to a client project. Figure 1.4 provides an overview of these three roles and other roles that management consultants may fulfil.

The expert role

One of the management consultant's official roles is the 'expert'. Clients may want an expert to provide knowledge or expertise on their problem or opportunity at hand. These clients know, or they think they know, that their organization has an issue. Moreover, these clients are capable, or they believe they can define that problem or opportunity. These clients also know what specific expertise they need from what

Role	Description
Expert	Provide knowledge to solve a problem defined by the client
Doctor	Identify and solve a problem for the client
Facilitator	Provide a process which the client can use to identify and solve a problem
Hired hand	Provide temporary capacity for the client because the client has no or not enough people for the problem-solving
Legitimator	Provide legitimacy to a client's solution which other stakeholders oppose
Political weapon	Provide arguments for a client's position in a political fight
Scapegoat	Take the blame for a client's solution that is not in the interests of other stakeholders
Knowledge broker	Clients may use or rather abuse consultants to obtain information about competitors

FIGURE 1.4 *The potential roles of management consultants*

management consultant to solve their problems or seize their opportunities. They hire these consultants to purchase the required expertise of the consultants. Therefore, this type of consultation is called the '*purchase of expertise*'.

Clients may also hire expert management consultants if they have already found solutions for their problems

Clients may also hire expert management consultants if they have already found solutions for their problems. Suppose the stakeholders within or outside the client organization disagree about what is the best solution. In that case, the expert consultants may provide the required knowledge to evaluate the alternative solutions. Expert consultants may, for example, provide benchmark information. This may look like the legitimation role, but that is not true. The consultants have a real substantive role here.

Besides knowledge, they may also provide clients with contacts from their network. For example, consultants may introduce a client to other, non-competing relations of the consultants that represent best practices in different industries. This networking role may resemble client managers hiring consultants to exploit their network for getting a better position elsewhere. But in the expert role, the consultants serve the business interest of the client organization rather than the private interest of the client manager.

THE EXPERT AS A KNOWLEDGE BROKER

The consultants as knowledge brokers distribute non-confidential knowledge from one company to another company, in the same industry, or in another sector

The expert management consultants provide knowledge to solve the client's problem or seize an opportunity. The experts may develop or create this knowledge themselves, but the experts may also broker knowledge. Within the category of experts, we distinguish between the knowledge creators and the knowledge brokers. The consultants as knowledge brokers distribute non-confidential knowledge from one company to another company, in the same industry, or in another sector. For example, consultants transfer the non-proprietary, best practice manufacturing process from the most innovative companies to the trailing client. Besides, consultants may broker knowledge about a non-proprietary, best practice administrative function from, for example, the consumer electronics industry to their focal client in the car industry.

CHINESE WALLS

In the case of knowledge brokering, the knowledge may be new to the client, but it may not be new to the client's industry. The knowledge is certainly not new to the world because knowledge to be brokered must already exist somewhere. Knowledge brokering needs to respect clients' interests and intellectual property rights if it is not to become unethical or even downright illegal. For example, consultants cannot broker a competitive strategy from a direct competitor to their clients. For this reason, management consultancy firms that work for competing clients in the same industry must set up '*Chinese walls*' between the consultancy teams working for each client in that industry so they can prevent the leakage of secret and/or sensitive knowledge from one client to a competing client. Some consultancy firms may decide to work for only one client per industry to avoid any conflicts of interests between clients. But such a policy limits the growth of the consultancy's client base.

The doctor role

Another official consultancy role is the 'doctor'. In this analogy, the clients fulfil the role of the patient. Whereas the clients of *expert* consultants can define their problem or opportunity, the clients of the *doctor* consultants cannot identify their issues. In their role as patients, the clients may *think* they have a problem or opportunity. They may have vague ideas about this issue. For example, a company faces declining profitability but management has no idea about the cause of this decline. Therefore, this client hires a management consultant to diagnose, as a doctor, the client's situation to define and analyse the problem. Based on the diagnosis, the consultant recommends a solution for the client's problem just like a medical doctor prescribes treatment for a patient. The name of this consultancy model is '*doctor–patient consultation*'. The consultants as doctors may provide implementation plans for the solutions and assist client management in monitoring and controlling the solution's implementation. The expert role and the doctor role are about management consultants providing solutions, or content, to their clients. Therefore, these roles are named '*content consultation*'.

This client hires a management consultant to diagnose, as a doctor, the client's situation to define and analyse the problem

The facilitator role

A third official role of consultants is the 'facilitator'. The consultants in a facilitator role help their clients develop the solution themselves. Unlike 'content consultation', the facilitators do not provide solutions or content. It is the clients who create the solutions. The consultants offer a process by which clients may diagnose their problems and/or opportunities, and develop solutions themselves. This is called '*process consultation*' and might also be called the 'do-it-yourself' version of consultancy. In process consultation, the clients do the problem-solving work with the facilitators' process (methods and tools) and under the guidance of these facilitators. Process consultation helps to get the client managers and professionals to accept the solutions because they developed these solutions themselves. Process consultation also eases the implementation of these solutions because it is the client's own work. The client's

The consultants offer a process by which clients may diagnose their problems and/or opportunities, and develop solutions themselves employees may consider the consultants to be outsiders, 'not one of us'. Process consultation avoids the 'not-invented-here syndrome' of resistance by client employees against solutions created by outsiders.

The hired hand

A fourth official role of consultants is the 'hired hand'. Clients may hire consultants because they do not have enough 'hands' – people – to do the problem-solving themselves. The client's employees may be fully occupied with the company's day-to-day operations. Therefore, they lack the time for a problem-solving project on top of their already high workload. The 'hired hand consultants' are put to tasks that clients could have done themselves, but for which they have no time. This consultancy role resembles (expensive) body shopping.

The 'hired hand consultants' are put to tasks that clients could have done themselves, but for which they have no time

The unofficial roles

Besides the four *official* roles, we distinguish the unofficial roles. These unofficial roles correspond to the beforementioned unofficial hiring reasons. Management consultants may act as legitimators, scapegoats, political weapons, and knowledge brokers.

THE FORMS OF MANAGEMENT CONSULTANCY

Brain consultancy

The official role of management consultancy is recommending solutions to clients' problems or opportunities. You may ask: *How* do consultants create solutions? David Maister, a famous former Harvard Business School professor, distinguishes between three forms of consultancy: 'brain' consultancy, 'procedural' consultancy, and 'grey hair' consultancy (Maister, 1982). Figure 1.5 shows how these three forms compare.

For the earliest management consultants at the end of the nineteenth century (!) and in the early twentieth century, most clients' problems were *new*. Mostly client management hired the consultants to solve new problems which had not been solved before. Then there were no solutions from similar prior consultancy projects. Therefore, these consultants had to develop new knowledge to provide solutions to their client's problems. By conducting hundreds of thousands of projects over many decades, the large global consultancy firms have gained knowledge about an increasing range of issues. There are few issues about which the knowledge systems of these consultancies have no information. This knowledge has, to some extent, spread to other consultancies as well.

By conducting hundreds of thousands of projects over many decades, the large global consultancy firms have gained knowledge about an increasing range of issues

	Brain consultancy	**Procedural consultancy**	**Grey hair consultancy**
Clients problem	New to the consultancy firm	Familiar to the consultancy firm	Familiar to the consultancy firm
Required knowledge for solving the problem	Needs to be developed	Is codified in the consultancy's procedures	Is in the heads of the experienced consultants
Required qualifications of consultant	Large need for cognitive capacities	Less need for cognitive capacities and no need for experience	Large need for relevant experience (with the problem at hand)

FIGURE 1.5 *'Brain', 'procedural', and 'grey hair' consultancy*

But even today, a client's problem or opportunity can be new to even the largest consultancy firms. Examples are new technological developments such as artificial intelligence (AI).The consultancies may not have seen such a problem or opportunity before. Solving new issues requires a lot of effort from consultants because the advisors must invent the wheel. Consultants must be intelligent and creative to come up with these new solutions. Therefore, they need large brains, which brings us to the name of this form of consultancy: '*brain consultancy*'.

Procedural consultancy

When a *second* client approaches the management consultancy firm with a similar problem, the consultants can use their (non-confidential) knowledge from the first client's project. For example, a stock exchange hires a management consultancy for advice on how to deal with cryptocurrencies. Next, a bank approaches the same consultants with the same question. The consultants can borrow from the experience of the first crypto project. The more often management consultants face the same, or similar, client problems, the more they can rely on their accumulating knowledge about these problems. Disrespectfully, the consultants can at some point in time take the solutions off the shelf. These management consultants do not have to reinvent the wheel every time a new client approaches them with the same or similar problems. By exploiting their knowledge from prior projects, these management consultants become increasingly efficient.

These management consultants do not have to reinvent the wheel every time a new client approaches them with the same or similar problems

PROCEDURES

To increase their efficiency even further, management consultants can write down or *codify* their problem-solving experience into 'procedures'. Suppose the knowledge about how to solve a problem is *explicit*. In that case, it can be written down and structured in a consultancy procedure or a sequence of steps to conduct a task. An example of a procedure is a cooking recipe. Such a recipe prescribes how to cook a meal. The consultancy procedures can be put in paper documents or stored in electronic form in computer databases. It pays off for consultants to develop procedures for solving frequently occurring client issues. These procedures can vary from simple checklists to extensive processes or workflows. For example, consultants can develop procedures for the digital transformation of a client's business model. The guidelines prescribe how the consultants should address specific client issues. They state: 'This is how we do things at our firm'. Suppose consultancy firms can codify their knowledge about solving client problems in procedures. In that case, they no longer need brilliant (brainy) consultants for these issues. They also no longer need experienced but expensive senior consultants. After all, the consultancy experience is in the procedure. These consultancy firms may hire inexperienced or at least less experienced individuals for the role of consultant. Inexperienced consultants are cheaper, and they may be more easily moulded to the firm's requirements than experienced, senior consultants. Of course, the consultancy firm needs to train these inexperienced consultants in the firm's procedures. With the help of these procedures, even inexperienced consultants can solve the known problems of the clients.

Grey hair consultancy

But not all consultancy knowledge can be codified in procedures

But not all consultancy knowledge can be codified in procedures. We distinguish between explicit and *tacit* knowledge. Tacit or implicit knowledge is a type of knowledge that cannot be written down or structured as a procedure. It is even difficult to articulate and explain to another person. Therefore, sharing tacit knowledge with other persons is hard. An example of tacit knowledge is driving a car. The enormous efforts of tech companies and car manufacturers to develop autonomous vehicles show how hard it is to codify that knowledge. An example of tacit knowledge in consultancy is seeing whether the client is ready to make a big decision or whether the client's employees really want to implement a solution. The consultants' knowledge about how people interpret things, make decisions, and interact with each other, is typically tacit. Tacit knowledge cannot be learned in the classroom or from a textbook. People acquire this knowledge through years of experience. That is why it is also called 'grey hair' knowledge. Tacit knowledge in the consultants' heads is difficult, if not impossible, to translate into procedures. Maister calls consultancy based on tacit knowledge '*grey hair consultancy*'.

The emphasis in grey hair consultancy is on tacit experience rather than brainpower. The consultants should have that experience to solve a client's issue. Brainpower cannot substitute for that tacit knowledge. It goes without saying that grey hair consultancy only fits familiar tasks that the consultant has experience with. It is not suitable for challenges that are new to the consultants.

The productization of consultancy

Young consultants can deliver procedural consultancy. Although the procedural consultancies do not need brilliant or experienced people, they still need people to execute the procedures. Therefore, procedural consultancy is a labour-intensive activity. As even young consultants are not cheap labour, procedural consultancy is a costly business for the consultancy firm.

Moreover, the size of the consultancy staff determines the consultancy's capacity for projects. A consultancy cannot just accept more projects if it already uses its full staff capacity. It will have to expand its staff capacity proportionately. The hiring and training of young, inexperienced consultants can be challenging and time-consuming. To increase their growth potential and reduce their costs, management consultancy firms may attempt to codify their problem-solving knowledge into computer *algorithms*.

To increase their growth potential and reduce their costs, management consultancy firms may attempt to codify their problem-solving knowledge into computer *algorithms*

An algorithm in computer science is a finite sequence of well-defined, computer-implementable instructions to solve a well-defined problem. Algorithms allow computers to do jobs that used to be done by people. Automation based on algorithms started with routine and repetitive physical work and then routine knowledge work. But due to technological developments, such as increasing computer power and network connectivity, automation expands to non-routine work. An example is the automation of stock investing through artificial intelligence (AI).

ACTION POINT

Before applying for a consultancy position, see if software solutions already exist for the tasks of this position or estimate the likelihood that this job will be (partially) automated in the future.

Consultancy firms may translate consultancy procedures into computer algorithms. The procedural software can then do (some of) the work of consultants. This leads to the '*productization*' of management consultancy: products in the form of procedural software substitute for the procedural consultants' services. For example, algorithms identify patterns in big data to identify the differentiating characteristics of profitable customers and make predictions about the profitability of prospects. In the twentieth century, consultants conducted quantitative analyses primarily with a spreadsheet program's help on a personal computer. Nowadays, the consultants use advanced data-analytical software or, if the analyses are too complex, work with data analysts. Besides providing project-based services by consultants with digital enablers (software), (the large) consultancy firms increasingly offer subscriptions to the consultancy's proprietary data bases and software to clients. Such consultancy products allow clients to do the analyses and develop solutions themselves. Figure 1.6 compares 'consultancy-as-a-service' with 'consultancy-as-a-product'. The next chapter will elaborate on consultancy products.

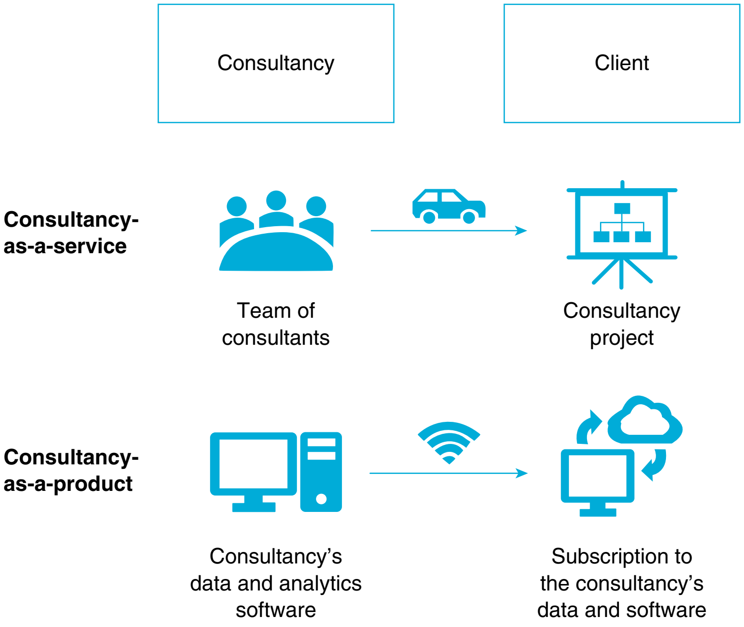

Consultancy
Client
Consultancy-as-a-service
Team of consultants
Consultancy project
Consultancy-as-a-product
Consultancy's data and analytics software
Subscription to the consultancy's data and software

FIGURE 1.6 *Consultancy-as-a-service and consultancy-as-a-product*

THE RESULTS OF MANAGEMENT CONSULTANCY

The functionalist perspective on consultancy

We have already distinguished between various hiring reasons of clients and corresponding roles of management consultants. Let's now discuss the results or outcomes of a consultancy project. You may ask: *How* do you define the results of a consultancy project? We begin with a functionalist perspective. According to the functionalist perspective, management consultants improve clients' performance by providing solutions for their clients' issues. Clients expect that the consultant's solution will enhance their organization's performance. The performance objective can be profit, but purposes related to people and the planet are becoming increasingly important for companies. For example, a client may want the consultant to develop solutions for revenue growth and a lower environmental footprint.

According to the functionalist perspective, management consultants improve clients' performance by providing solutions for their clients' issues

LEARNING FROM CONSULTANTS

There are other results from consultancy besides performance improvements. The client may *learn* from the consultants. Client managers and professionals participating in the consultancy project may acquire valuable skills by learning from the consultants. Some consultants may even train client staff to prepare for the consultancy project.

Besides the output of a consultancy project, we may also look at the inputs in terms of consultants' time. From the input side, a project is a success if the consultants complete it within time and budget.

THE PROBLEMS WITH MEASURING CONSULTANCY

Not-measurable results

We can measure the improvement of a client's financial results, such as revenue growth and cost reduction. But some effects of consultancy are non-monetary or even intangible. Examples are the increase of the agility of a client's production and the client employees learning from consultants. Intangible results are more challenging if not impossible to measure. At least we cannot *objectively* measure them.

Co-creation

As discussed before, consultancy is a co-creation form; clients and consultants together create the solution. The clients provide insider information about their company and the sector. The consultants offer their methods and tools and bring their own experience. This co-creation means that both the client and the consultants contribute to the project's outcome. Generally, it is hard to separate and isolate the consultants' and clients' individual contributions to that achievement.

Other factors

Consultants develop solutions to improve the results of their clients. But during the consultancy project, there may be other factors inside and outside the client's organization that also impact the client's outcome. An extreme example of an outside element is a pandemic, such as Covid-19. Examples of internal factors are the development of a better product by the client and the transfer of a group of talented client employees to a competitor. The occurrence of such factors makes it hard to isolate the contribution of the management consultants on the client's achievements. You may ask: *What* part of the result's improvement is due to the consultancy project, and what part is caused by other factors? It is impossible to design a laboratory experiment with a control group of similar organizations that did not use consultants. In the absence of a control group, it is hard, if not impossible, to objectively measure the consultants' contribution to their client's result.

Delays

Often, there is a delay between implementing the consultant's recommendation and the time for results to arise. Such a time lapse complicates the measurement further. This delay implies that we cannot measure the results immediately after the closure of the consultancy project. The longer the time lapse, the more other factors can affect the client's outcome and the more difficult it becomes to isolate the consultant's contribution. What further complicates the measurement is that each client issue and the related advice are different. There are no standard consultancy services over which we can collect data.

But there is no *objective* basis for measuring the results of consultancy

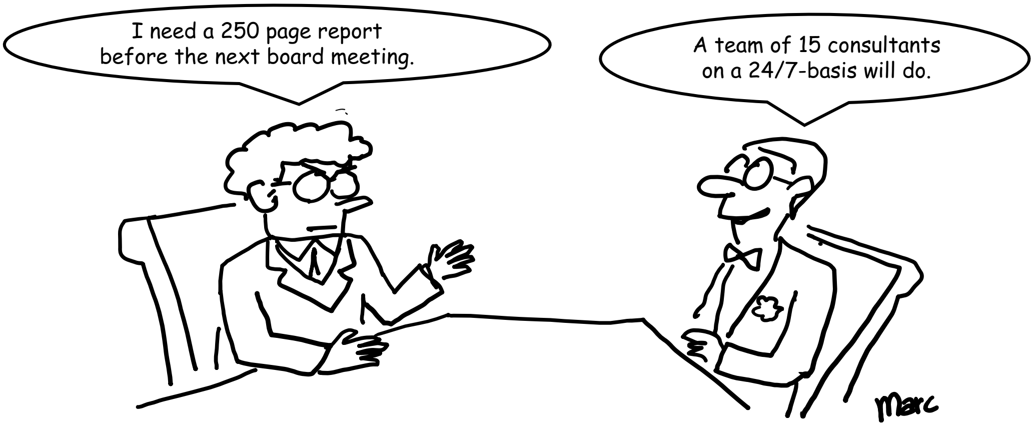
There have been various studies about the financial return on consultancy projects. But there is no *objective* basis for measuring the results of consultancy. Surveys may revert to the client's *perception* of consultancy outcomes. But this research relies on judgement and is therefore subjective.

Performance-based pay

Performance-based pay means that the payment to the consultants varies with the performance improvement of their clients. The more the performance improves, the higher the fees for the consultants becomes. We have concluded that the results of consultancy cannot be objectively measured. Therefore, performance-based pay lacks an objective basis. But client satisfaction may be used as an indicator of consultancy performance. Therefore, client satisfaction can be the basis for the payment to the consultancy. The consultants receive a bonus that varies with the level of satisfaction. But most consultants charge based on their input (number of hours spent by consultants on the project, and any other expenses incurred for the project) instead of their output (the results of the consultancy project).

A critical perspective on consultancy

The critical view stands in sharp contrast to the functionalist perspective on consultancy. The critical literature concentrates on the rhetoric or persuasive communication of management consultants. Consultants may use many buzz words (like digital disruption) and management fashion (such as business model innovation) to reassure


I need a 250 page report before the next board meeting.
A team of 15 consultants on a 24/7-basis will do.
Marc

client managers in a world full of uncertainties. Popular criticism by some journalists and former consultants questions the results of management consultancy. Their articles and books typically seek out disastrous consultancy projects' failures and scandals to characterize management consultants as 'witchdoctors' and 'con men'. We acknowledge that most – if not all – of these texts are anecdotal and subjective interpretations of the authors' personal experiences.

Popular criticism by some journalists and former consultants questions the results of management consultancy

A CRITICAL PERSPECTIVE ON CLIENTS

It goes without saying that *some* consultants will behave unethically in some cases. You can read about their big scandals in the media. But among all other people, not consultants, there will also be individuals who behave unethically in some cases. The section on the unofficial and hidden reasons for hiring consultants indicated that some clients may sometimes also act unethically. Clients may manipulate consultants and exploit them as scapegoats, rubber stamps, political weapons, and knowledge brokers.

ACTION POINT

Before applying for a consultancy position, try to have informal chats with (former) employees of that consultancy or with employees of clients.

CONCLUSION

Management consultancy is a popular concept. But it is difficult for outsiders to understand what consultancy actually is. Management consultancy is an ambiguous phenomenon. We define it in terms of advice on business issues and assistance with the implementation of that advice. Clients may have various reasons for hiring management consultants. Some reasons are official and easy to identify, but others are unofficial and more difficult, if not impossible to see. We distinguish between several roles for consultants. The official ones are clearly identifiable, but the unofficial parts are challenging to determine, if not impossible.

Moreover, consultancy can take different forms: brain, procedural, and grey hair consultancy. The difference between these forms is in the novelty of the suitable problems and the explication of the knowledge to solve these problems. Finally, the results of consultancy are hard to measure objectively. We might conclude that the versatility and breadth of the management consultancy concept may contribute to its popularity.

RUNNING CASE

Disclaimer: This case is inspired by real-world situations, and it is based on the author's interpretation of these situations. Situations have been stylized and simplified for quick comprehension. The case's sole purpose is to show how problem-solving methods and tools of consultants may work in practice. It is not the case's intent to illustrate any real-world companies or individuals' good or bad management practice. Any resemblance to real-world companies and individuals is coincidental.

Introduction to the Consultancy Firm

'NoSlideshow' is a medium-sized management consultancy firm (a fictitious company). Its consultancy staff and support organization together account for around 2,000 people. Last year, the revenue amounted to about 800 million euro. The clients are a mix of large and medium-sized businesses. Some clients are national firms, whereas others are multinationals. NoSlideshow became international by following its multinational clients abroad, setting up offices in ten countries worldwide.

The Founders

NoSlideshow was founded in 1986 by two consultants who worked for a blue-chip consultancy that focused on advice but did not offer implementation assistance at that time. NoSlideshow's founders wanted to set their clients' organizations in motion to implement their advice. They wanted to do a lot more for the client than give, what they called, a slide show. But their then employer did not give them the space to do so. Therefore, the two consultants founded their own consultancy and formulated the mission to advise *and* activate clients.

The Focal Partner of the Case

Kate is one of NoSlideshow's female partners. Women are still a minority at the top of this consultancy. Still, the firm is doing its best to increase the diversity of the partner group. Straight out of business school, Kate joined NoSlideshow. She soon became interested in e-commerce projects and made it her specialty. As a consultant, Kate already stood out for her analytical and social skills. Therefore, she became in record time a project manager. Kate not only proved to be successful in managing projects, but she also demonstrated talent for selling projects. Therefore, she was, again in record time, made partner.

The Initial Client–Consultant Contact

Kate had always wanted to do a project for the e-commerce company named 'Keyboard' (also a fictitious company), but that company had never hired consultants since its foundation. But Keyboard seemed to move away from that position. Kate has been in contact with Keyboard's chief executive officer (CEO), Josh, as they are both on the advisory board of the country's leading business school.

During an unofficial drink after a board meeting, Josh confidently shared with Kate that he and his management team were struggling with significant challenges that had not yet been resolved. Kate had shown understanding for the difficult situation that Josh was in and offered to continue the conversation with him, of course, without any obligation for Josh. Josh replied that he would consider the offer. The next day, Kate's assistant received a call from Josh's assistant for an appointment.

SUMMARY

To understand management consultancy, we looked at its characteristics. Management consultancy is a project-based business directed at managers and focuses on independent advice for decisions about solving business issues. The traditional delivery model of consultancy is a service by people, but recently we see the 'productization' of consultancy.

NARROW AND BROAD DEFINITIONS

Narrowly defined, management consulting is advice about solutions to a client's problems and opportunities. A broader definition includes assistance with the managerial tasks regarding the implementation of these solutions.

HIRING REASONS

We distinguish between official and unofficial reasons why clients hire consultants. Official motivations refer to consultants' superior solutions because of their professionalism, experience, independence, and fresh perspective. Unofficial reasons are abusing consultants as legitimators, political weapons, scapegoats, and knowledge brokers.

CONSULTANCY ROLES

The consultant's official roles are expert (provide knowledge), doctor (identify and diagnose problems), facilitator (provide a process), and hired hand (provide temporary capacity). But consultants may also fulfil unofficial roles corresponding to the off-the-record hiring reasons.

CONSULTANCY FORMS

Maister distinguishes between three forms of consultancy: brain consultancy, procedural consultancy, and grey hair consultancy. Brain consultancy is solving new problems with brainpower. Addressing familiar issues with codified knowledge is the domain of procedural consulting. Grey hair is about tacit know-how for solving recognizable problems. The next step in codification is a software program: consultancy as a product.

RESULTS AND PERSPECTIVES

The results of a consultancy project cannot be objectively measured for various reasons, such as co-creation and the interplay of consultancy and other factors inside and outside the client organization affecting the client's performance. Finally, we may distinguish between functional and critical perspectives on consultancy. The former is about how a consultancy should be, while the latter focuses on the unethical behaviour of some consultants.

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QUESTIONS

1. What appeals to you more, and what appeals to you less in management consultancy?
2. Would you like to work for a *procedural* consultancy firm?
3. As a consultant, would you be willing to work for a client who hired you for one of the *unofficial* reasons?

2

THE MANAGEMENT CONSULTANCY INDUSTRY

INTRODUCTION

You may wonder: How far does management consulting go back, and where does it come from? This chapter goes back to the roots of management consultancy. It traces the consultancy industry's developments over time from the beginning up to and including the first two decades of the twenty-first century. The chapter is structured as follows. First, we investigate the birth of management consultancy as a result of the Second Industrial Revolution. In the second part, we describe how the Third Industrial Revolution led to a significant expansion of consultancy. Our third section is about how the Fourth Industrial Revolution is changing the nature of management consultancy. Fourth, we discuss five decades of growth in the management consultancy industry. The chapter ends with a conclusion, a running case, a summary, and questions.

MAIN LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Put the management consultancy industry in a historical perspective
- Explain the emergence of the management consultancy industry during the Second Industrial Revolution

- Understand the influence of technological and institutional changes on the development of management consultancy
- Understand the difficulties of measuring the size of the management consultancy industry
- Understand the three critical dimensions of the management consultancy industry.

THE SECOND INDUSTRIAL REVOLUTION AND THE BIRTH OF MANAGEMENT CONSULTANCY

You may ask: *Where* does management consultancy come from? The profession of management consultancy cannot be older than the profession of the client: the business manager. The origin of this concept goes back to the Second Industrial Revolution (1870). But consultancy as providing professional advice is much older than that. However, before that revolution, the clients of consultants were not business managers. Then only the wealthy and the powerful used consultants. Emperors, kings, large landowners, merchants, and factory owners are examples of these early clients of consultants who bought advice for complex decisions with high stakes.

The introduction of the business manager

The discovery of the steam engine around 1769 caused the First Industrial Revolution as it enabled the mechanization of production. Around 1870 the Second Industrial Revolution started because of the discovery of oil and electricity. These new energy sources led to the combustion engine and the electrical engine. The use of these engines for production machines and the assembly line's invention enabled *mass production*. With production companies becoming more extensive, the need for capital also grew. The demand for money began to exceed the means of the owner–director of the traditionally small companies. The issue of shares to obtain the needed capital caused a separation of management and ownership, or shareholding, of companies. The traditional owner–director gave way to a professional manager who ran the business on behalf of the shareholders.

The rise of 'operations consultancy'

The oldest management consultancy firm provided engineering consultancy to factory managers

The revolutionary mass production technologies presented significant challenges to the production companies' professional managers. Therefore, these managers turned to outside actors for advice about the factory operations. Engineers were among the first consultants for these factory managers. The oldest management consultancy firm provided engineering consultancy to factory managers. In 1886 this firm, named Arthur D. Little, was founded. The early management consultants were called ‘*industrial engineers*’ or ‘*efficiency experts*’ as they provided engineering advice for improving the efficiency of industrial, factory, operations.

SCIENTIFIC MANAGEMENT

A breakthrough in operations consultancy was the invention of ‘scientific management’ in the 1880s by an engineer named Frederick Taylor. His method’s principles of decomposition of work in increasingly small parts and measuring and benchmarking productivity per part to optimize production are still used. Because of the enormous impact of his ideas on consultancy, Taylor was named the grandfather of management consultancy. With its focus on industrial factories, the consultancy industry in the early day was limited to industrializing countries, predominantly the United States, the United Kingdom, and some continental European countries.

The rise of ‘organization consultancy’

The Second Industrial Revolution led to the rise of ‘big business’. Whereas factory managers faced problems with the industrial operations, the top managers of these companies had to solve the organizational challenges of these large companies. In the early days these senior managers turned to bankers and accountants for advice on the organization and accounting systems. But in the Depression Era of the 1930s, the United States forbade bankers and accountants to combine management consultancy and their traditional banking and accountancy services. Bankers withdrew from consultancy, and so did the big accountancy firms, such as Arthur Andersen.[1] But various small accountancy firms, like McKinsey & Company, exclusively focused on consultancy.

Management engineering

These small accountancies became known as ‘management engineering’ firms. While the industrial engineers worked for factory management, the management engineers worked for top management. The management engineers’ primary tool was the ‘general survey’, an integrated assessment of a company’s organization. The number of management engineering firms in the United States grew from 100 in 1930 to 400 by 1940 and 1,000 in 1950 (ACME, 1964).

M-FORM REORGANIZATION

In the 1920s, large multi-divisional US corporations, such as General Motors and Standard Oil (now Exxon), replaced their centralized organization with the multi-divisional, M-form organization. Managers of many other large US companies also wanted the M-form but needed help with a reorganization. The management engineers recognized the demand and began to advise on the organization. This led to 'organization consultancy'. During the 1940s and 1950s, the consultancies implemented the M-form in many large US companies.

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[1] Arthur Andersen was one of the big accountancy firms until 2002. After being found guilty of criminal charges related to Enron’s auditing, the firm voluntarily gave up its accountancy licences.

EUROPE

In the late 1950s, the US demand for these (M-form) organization studies was satisfied. Then the US management consultancies shifted their focus to the untapped European market for the M-form. In the late 1950s and the 1960s, US management consultancies, such as Arthur D. Little, Booz Allen & Hamilton, and McKinsey & Company, opened offices in Europe.

The rise of 'strategy consultancy'

The same big, multi-divisional corporations that had improved their organization by implementing the M-form struggled with their corporate strategy. The top management needed advice on their so-called 'corporate portfolios' of divisions. In the 1960s in the United States, a new management consultancy firm, The Boston Consulting Group (BCG), developed services to advise top management on corporate strategy.

BCG started in 1963 as the Boston Safe Deposit and Trust Company's consultancy division, which advised the bank's clients. In 1968 the consultancy introduced its breakthrough growth/share matrix, or 'BCG matrix'. After the M-form organization as consultancy's growth engine started to sputter, the consultancy industry received a new growth impulse with the arrival of strategy advice.

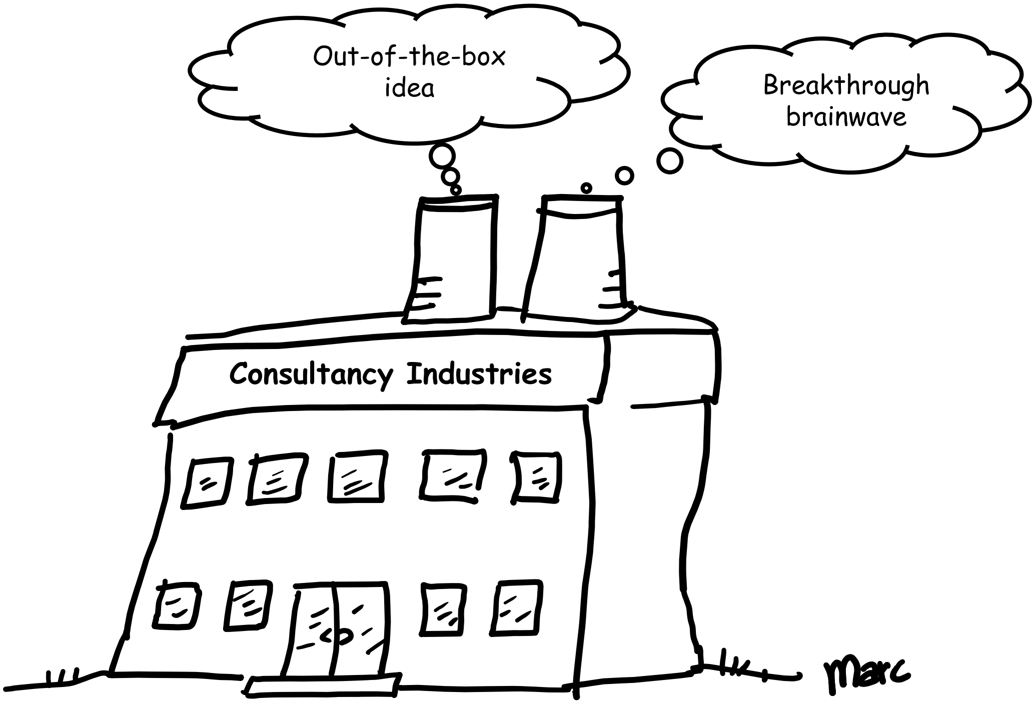
THE THIRD INDUSTRIAL REVOLUTION AND IT MANAGEMENT CONSULTANCY

The Third Industrial Revolution began in the 1950s. The invention of the integrated circuit or 'chip' sparked the 'electronics revolution'. The first computers, the so-called 'mainframes', were developed during the Second World War. Their usage was mostly limited to the military and governments. But the electronics revolution made the mainframe computers feasible for more widespread use in the private sector. As computers were new and complex, companies needed advice and assistance on various topics, such as installing and using computer hardware, and developing and maintaining computer software. Computer manufacturers, such as IBM, were the natural candidates for this new information technology (IT) consultancy.

The new entrants of IT consultancy

In the 1950s, the US Department of Justice prohibited IBM and other computer manufacturers from entering IT consultancy. Like the regulation in the 1930s that cleared management consultancy for the new management engineering firms, this 1950s' regulation created room for new firms to enter the IT consultancy market. Neither the industrial engineers nor the management engineers or the strategy consultants seized the opportunity of IT consultancy. Instead new IT services firms, such as Electronic Data Systems (EDS) (founded by a former IBM salesman Ross Perot), entered the IT consultancy industry.

Neither the industrial engineers nor the management engineers or the strategy consultants seized the opportunity of IT consultancy



The 'Big Eight' accountancies

Moreover, in the 1950s and 60s, the eighth largest accountancy firms globally at that time, the 'Big Eight', all entered IT consultancy. Big accountancy firms that had left management consultancy in the 1930s seized the opportunity to re-enter consultancy, although in a different field – IT consultancy. In 1989 Arthur Andersen separated its accounting and consultancy practices. The latter was named Andersen Consulting and in 2001 it changed its name to Accenture.

In the 1990s, the US Securities and Exchange Commission (SEC) concluded that the large accountancies were no longer truly independent because of their heavy dependence on consultancy. The 'Big Four' accountancies (Deloitte, PwC, EY, and KPMG) divested their consultancy practices. But in the 2000s, the accountancies could return to consultancy.

European and Indian IT consultancies

The field was not limited to US firms. In the 1960s, firms on other continents also entered IT consultancy. For instance, in 1967, in France, the precursor of the IT consultancy Capgemini was founded. A year later, in India, Tata Consultancy was established. Another big Indian IT consultancy, Infosys, was founded in 1981. In 1982, the US Department of Justice dropped its antitrust suit against IBM, and in 1991 the firm could enter IT consultancy.

Technology and business process outsourcing

The IT consultancy firms provided advice on their clients' IT issues and also developed IT systems for their clients (a service named 'Technology'). In the (late) 1980s, they also became contractors for their clients' business processes by offering 'business process outsourcing' (BPO) or 'managed services'. Whereas advice is a project-based service, managed services are *continuous* services with a subscription model. Under this subscription model, the client owns or controls the (computer) system, processes, or functions being managed by the managed services provider (MSP). By branching out into other business services, the scope of management consultancy firms increased.

THE FOURTH INDUSTRIAL REVOLUTION AND PRODUCTIZED CONSULTANCY

The impact of digitization on clients: The need for digital transformation

In 2015, Klaus Schwab, the founder and executive chairman of the World Economic Forum, introduced the term 'Fourth Industrial Revolution'

In 2015, Klaus Schwab, the founder and executive chairman of the World Economic Forum, introduced the term 'Fourth Industrial Revolution' (Schwab, 2017). Schwab defined this revolution as technologies that combine hardware, software, and biology (so-called 'cyber-physical' systems). This revolution is driven by breakthroughs in emerging technologies in fields such as robotics, machine learning, artificial intelligence (AI), nanotechnology, quantum computing, biotechnology, the (Industrial) Internet of Things (IoT), fifth-generation (5G) wireless technologies, 3D printing, augmented reality (AR), virtual reality (VR), and fully autonomous cars. As you can see around you, some of these developments have already started.

The Internet

The Internet is one of the breakthrough technologies. In the 1990s, the Internet has caused revolutions in almost any industry or (public) sector of society. Some early examples of disrupted industries are newspapers, retail, and (recorded) music.

Digital disruption of incumbent ‘brick-and-mortar’ organizations by digital new entrants has become very common. Innovative digital technologies replace traditional technologies and related businesses.

- *The on-demand economy*. The Internet has given rise to the so-called ‘on-demand economy’. This is an economy where technology companies fulfil customer demand by providing products and services via digital marketplaces or digital platforms on the Internet. A prominent example of such a company is Amazon, which started with books but branched out into various products, including groceries and pharmaceutical products. The on-demand economy is not limited to physical products but also includes services, such as meal delivery.
- *The gig economy*. The related concept of the ‘gig economy’ refers to fulfilling labour positions via digital marketplaces, such as Upwork. Employers provide via these platforms short-term, temporary contracts to freelancers and other independent contractors. There are also digital staffing agencies that offer temporary labour via the Internet to employers.
- *The sharing economy*. The Internet has also stimulated the ‘sharing economy’. Digital marketplaces facilitate the sharing of assets and services between customers. There are peer-to-peer sharing platforms for the consumer but also for businesses. Physical assets, such as houses and cars, can be shared via digital platforms as services. Well-known examples of companies offering sharing platforms are Airbnb and Uber.
- *Social media*. The Internet has allowed for virtual communities or networks of individuals sharing and exchanging information or content that is generated by its users. Facebook and WhatsApp are examples of popular websites and web-based apps.

Digital disruption

As a result of the Internet, companies and non-profit organizations established before the Internet face formidable challenges. Digital disruption by new entrants presents an apparent problem for these incumbents. But the Internet can also be an opportunity for incumbents to innovate their processes and their products and services. In both cases (problem and opportunity), managers must transform their businesses for the digital economy. Like the Second Industrial Revolution of 1870 and the computer revolution of the 1950s, the Internet revolution of the 1990s caused managers (of incumbent organizations) to seek help. Again, it was the management consultants who fulfilled that demand. In the 1990s the Internet became a new engine of growth for management consultancy.

Client demand for implementation

In the twentieth century, most management consultants would give advice and then move on to the next client. They left the implementation of their recommendation to their clients. But in the 2000s, clients were no longer satisfied with a consultancy report or a PowerPoint presentation. Instead they wanted the consultants to implement their advice as well. You may ask: *Why* did clients do that? We discuss three main reasons.

- *Increasing client focus on financial results*. In the 1980s, clients became more focused on financial performance due to the 'financialization' of the economy: the development of financial capitalism. The financial markets and shareholders have become increasingly influential since the 1980s. Through their influence on the company's board, shareholders determine the financial objectives and incentives for the (top) management. Management's focus on financial results has increased accordingly. That is why clients are no longer satisfied with reports but demand improved financial results from their consultants.
- *The increasing difficulty of implementation*. The implementation of advice is complex because implementation means change, which is difficult. The Internet has contributed to the implementation challenges. Adapting the company to the Internet means digitizing the company's primary and support processes, implying a holistic transformation of the company's business model. Management needs help for such a complex transformation. They look for outside help if they do not have the capacity internally. Previous efficiency-improvement processes (often with consultants' support) have made many clients 'lean organizations'. Lean means that no employees are left to perform tasks other than running the day-to-day operations. Moreover, transformations are typically political. As outsiders, consultants are in a better position to facilitate a political process.
- *Increasing volatility and uncertainty*. The Internet has increased the volatility and uncertainty of sectors. Increasing volatility and uncertainty changes the way a company can work. In stable and specific circumstances, planning can work. Managers can analyse the problem, develop a solution, and then implement the solution. But under volatile and uncertain conditions, every solution is no more than an experiment. The experiment may fail. Then clients must learn from their failure and adapt the experiment until they have a workable solution. In this learning or *agile* approach, solution development (advice) and implementation become intertwined. Consultants cannot leave after presenting their advice. Still, they must be involved in the implementation of their recommendation and the (inevitable) adaptation of the solution.

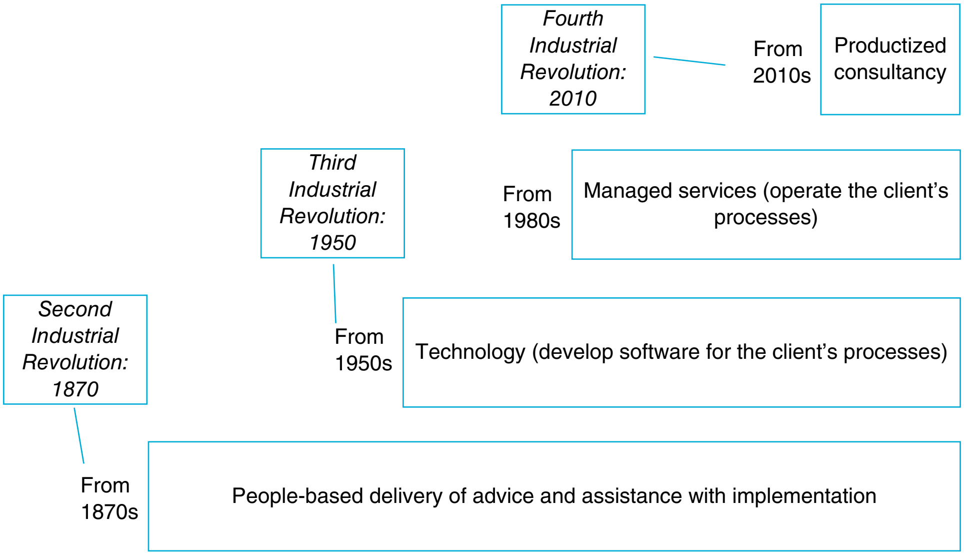
The impact of digitization on management consultancy: Productization

How knowledge changed management consultancy

The first chapter distinguished between brain, procedural, and grey hair consultancy. New problems and opportunities require brain-type consultancy. When consultants accumulate experience with specific client issues, they can write down their experience. Then it is a procedure that inexperienced consultants can carry out. However, if the understanding of the client's issue is *tacit*, then you depend on grey hair consultants. New developments, such as the Fourth Industrial Revolution, lead to new issues for clients that revive brain consultancy. But these issues will also become familiar over time, and then brain consultancy will give way to procedural and grey hair consultancy.

Digitization of knowledge

After writing down procedures (procedural consultancy), digitizing is the next step in codifying consultancy knowledge. Consultancy firms may codify parts of their know-how into computer algorithms. These algorithms allow computers to do some of the work that consultants used to do. Thus, the procedural software replaces parts of the work of the consultants and management consultancy becomes partly a software product. In good English, consultancy becomes productized, as it were. Figure 2.1 visualizes the broadening of management consultancy over time because of the industrial revolutions.



Fourth Industrial Revolution: 2010
From 2010s
Productized consultancy
Third Industrial Revolution: 1950
From 1980s
Managed services (operate the client's processes)
Second Industrial Revolution: 1870
From 1950s
Technology (develop software for the client's processes)
From 1870s
People-based delivery of advice and assistance with implementation

FIGURE 2.1 *The broadening of management consultancy over time*

Productization

Three developments drive the productization.

- First, the Internet (including the Internet of Things) leads to the accumulation of so-called '*big data*'

- Second, *computers* become increasingly powerful, and data storage capacity increases while data processing and storage costs decrease
- Third, advances in *data science* lead to increasingly powerful algorithms and software for data analytics.

Consultancy firms may provide subscriptions to clients for the use of their software and databases.

Proprietary software and databases with benchmarks of companies and industries become the new management consultancy assets in the twenty-first century. Productized consultancy is also named '*asset-based consultancy*'. Consultants may use the software and databases themselves as digital enablers to increase their productivity. Consultancy firms may also provide subscriptions to clients for the use of their software and databases as a substitute for parts of the traditional people-based consultancy services. Productized or asset-based consultancy also offers an opportunity for software companies like Salesforce.com and Motista. Figure 2.2 compares people-based and asset-based management consultancy. But consultancy firms may offer both projects (people-based consultancy) and products (asset-based consultancy). Subscriptions to software may create client interest in people-based consultancy services as software cannot substitute for all roles that consultants may fulfil. An example of a productized consultancy is the offerings of 'McKinsey Solutions', a subsidiary of McKinsey & Company. This consultancy has added the web-based services of its Solutions subsidiary to its portfolio of people-based client services.

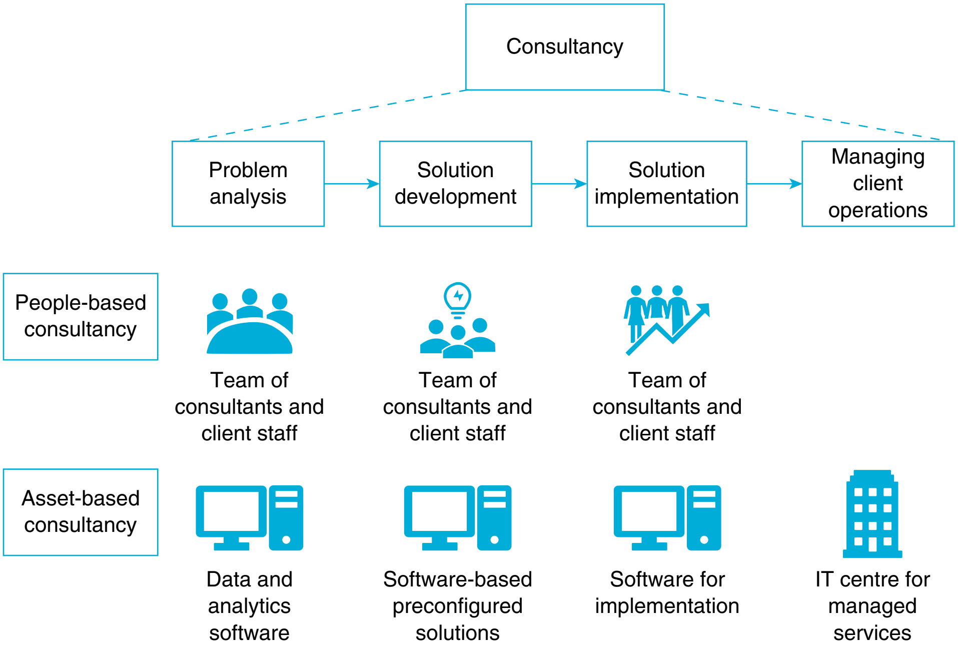

Consultancy
Problem analysis
Solution development
Solution implementation
Managing client operations
People-based consultancy
Team of consultants and client staff
Team of consultants and client staff
Team of consultants and client staff
Asset-based consultancy
Data and analytics software
Software-based preconfigured solutions
Software for implementation
IT centre for managed services

FIGURE 2.2 *The comparison of people-based and asset-based management consultancy*