ESRC Business Engagement Project:

A Scoping Study of Contemporary and Future Challenges in the UK Management Consulting Industry

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1   INTRODUCTION

1.1   SUMMARY

The UK consulting industry is one of the great success stories of the post-war economy. In 1956, the UK consulting industry comprised around 800 consultants generating an income of £4 million (Tisdal 1982). By 2006, this market was worth around £7.7bn (MCA 2007). The income of the sector is, however, only one part of the success story. The industry has had a major, but yet unmeasured, impact upon the rest of the economy: diffusing new ideas, implementing efficiency savings and improving competitiveness of businesses around the world. As one of the most knowledge-intensive industries, the remarkable impact of management consultancies on the corporate landscape of Britain has made it a source of fascination for academics and researchers interested in understanding and explaining current economic change.

As the UK's largest funder of business research, the ESRC is committed to developing its engagement with the business community. One of the activities being undertaken to achieve this aim is to establish the extent to which current research activity meets the challenges which different industry sectors face. The objective of this report is, therefore, to identify current and future priorities of the consulting industry and establish the extent to which academic research has addressed these themes. The report is written with a view to identifying appropriate models of future engagement between academia and consultancy that will enable the identification and investigation of industry challenges.

Based upon two stakeholder workshops (Antonacopoulou et al. 2007a; 2007b) and sixteen interviews with senior consultants, this report identifies six main themes which offer challenges and opportunities for management consultancies in the UK:

- Strategic Change
- Operations Management
- Procurement
- Innovation Management
- People Management
- Professionalisation

The report argues that academic output provides explanatory value to the challenges that are evident in the consulting market. This value is based on both a deep-seated understanding of the historical, social and economic forces that have formed the industry and a wider appreciation of the theories which underpin change in the industry. The report draws on publications from a variety of academic disciplines to shed light on the challenges of management consulting and argues that whilst current research addresses many of these sector priorities both management consultancies and the research community would benefit from a more detailed exploration of some of these themes. After reviewing the associated literature on each theme, a number of research questions are listed that might guide future research investment in the consulting industry.

1.2 THE UK CONTEXT: 2000 - 2008

Recent changes in the Management Consultancy industry[1] are related to a number of economic, social, political and technological developments that have occurred since 2000. Three key forces that have recently affected the industry are the dotcom crash, the maturity of the IT market and changes to the public sector.

The Dotcom Crash and Enron

In 2000 - 2001 the hype of the dotcom bubble finally burst. After years of betting venture capital on the promise of the internet, investors finally realised what many entrepreneurs had already grasped - that there was little reality behind the rhetoric. In 2002, the global consulting industry experienced its first year of revenue reduction after a decade of double-digit growth. To decrease margins and mirror declining demand, consultancies all over the world sacked large numbers of their consultants (in addition to those who had left to run start-ups). Many of these consultants went on to found their own niche consultancies when the economy picked up in 2002[2]. Others jumped ship to join clients, either to set up internal consultancies or to help these companies batter down their consultancy costs.

To make the situation more complex, the collapse in share prices in this period exposed a number of financial scandals where banks, auditors and consultancies had failed to report, and sometimes encouraged, corrupt financial systems. The fallout forced many auditors (who had not already done so) to divest their consulting arms, led to the Sarbannes-Oxley legislation and did considerable damage to the reputation of auditing and consultancy as an industry (MORI, 2002).

The IT Market and Outsourcing[3]

Whilst 'dotcom' fell temporarily out of favour in 2000-2001, the general trend of using developments in IT to cut costs and improve efficiency has continued its growth from the late nineties to the present day. The early trend for business process re-engineering (BPR) to replace manpower through delayering gave way to increasingly sophisticated ERP systems which linked together payroll, HR, purchasing and inventory data. Although pure-IT start-up consultancies such as Sapient, Razorfish, Scient and Viant were first in on the act in the late 1990s, the Big Four soon realised that they needed to move into this area. When the dotcom crash decimated the start-up market, bigger players encroached into their space buying up much of what remained.

Systems such as ERP are now relatively standardised products and, combined with educated overseas labour, have encouraged many companies to outsource their non-core services to BRIC countries (Brazil, Russia, India, China). Indeed, as the joint highest revenue earner (with IT) for companies such as Accenture and IBM, recent years would

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[1] Stakeholders that argue for the professionalisation of the industry prefer the term 'consulting profession' to consulting industry.

[2] Some of which were eventually bought by the firms which had sacked the founders in the first place.

[3] It should be noted that the MCA, for the first time in 2006, excluded outsourcing, managed services and IT systems development from their definition of Management Consulting.

have proved disastrous for consultancies without large outsourcing projects to maintain their margins.

From its heyday in the late 1990s, the IT market now drives much lower margins than it once did, as most systems design, coding and hosting can be done in BRIC countries. However, to balance this, improvements in infrastructure and ICT have meant that, for the first time, multi-national companies can attempt global integration of their systems, creating massive projects for IT consultants. Projects such as Nestlé's $280m SAP roll-out have made the low-margin but high-volume SI and outsourcing markets lucrative segments to serve (providing one has the capital reserves to finance entry into this market).

The Public Sector

In the UK, the public sector market grew in double digits each year from 2002-5, increasing revenue from £600m in 2001[4] to £1.58bn in 2005 (MCA, 2006). There are several reasons for this increase. First, the UK government spending reviews (HMT 1997; 1999), noting the savings that the private sector had made through e-commerce and BPR, pushed its own departments for similar savings through e-government. A number of large projects aimed at automating, outsourcing and stream-lining were initiated in the early 2000s which used consultancy expertise to design, implement and often run these systems. This trend was exacerbated by the Gershon Review (2004) which set the target of £6.45bn in efficiency savings though the introduction of e-business, devolution of decision making, the use of best practice processes and a reduction in bureaucratic headcount. Much of this work has involved the use of consultants, bought in to implement IT systems and re-engineer government departments.

More recently, however, following criticisms from the National Audit Office (NAO 2001; 2006) and the Public Accounts Committee (PAC 2002; 2007) and well as high profile project over-runs[5], the public sector has lead an effort to regulate and control expenditure on consultants through the use of several mechanisms including greater rigour in procurement. The double digit percentage increases in income from this sector finally fell away in 2005-6 (to £1.66bn) and this trend looks likely to continue for the foreseeable future[6].
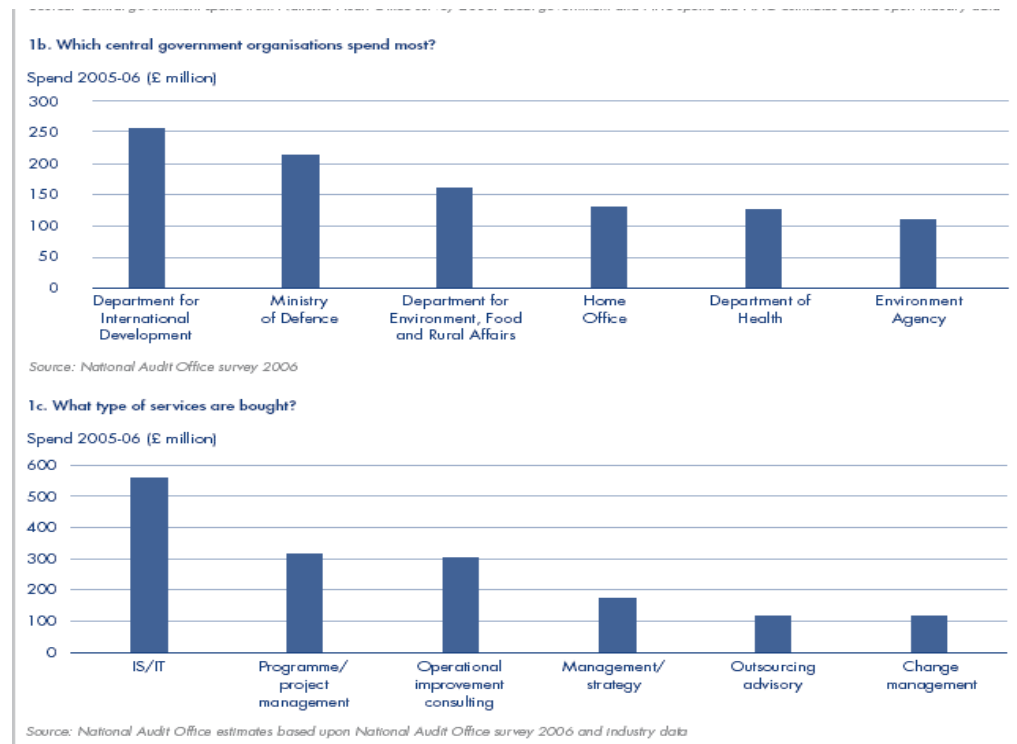
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[4] http://www.nao.org.uk/pn/00-01/0001400.htm

[5] (e-VAT, Swanwick Air Traffic Control, DEFRA computing system, Child Support Agency, Connecting For Health)

[6] One exception to this is the London Olympic Games in 2012.

Figure 1   Government Use of Consultants

1b. Which central government organisations spend most?

Spend 2005-06 (£ million)

Source: National Audit Office survey 2006

1c. What type of services are bought?

Spend 2005-06 (£ million)

Source: National Audit Office estimates based upon National Audit Office survey 2006 and Industry data

1.3   THE CONSULTING INDUSTRY TODAY

A. Definition

Management Consultancy is defined by the Management Consultancy Association (MCA) as: 'The creation of value for organisations, through the application of knowledge, techniques and assets, to improve business performance. This is achieved though the rendering of objective advice and/or the implementation of business solutions'. This generally involves one of three stages: identifying a problem, recommending a solution, and helping implement that solution. The MCA has recently removed work on ongoing outsourcing projects and IT development from their definition of consultancy.

B. Headline Figures

The worldwide market for management consultancy is over £70bn of which the UK contributes around 10%. In 2006, MCA member firms earned £5.4bn from management consulting, an increase of 16% on 2005 (down from 27% from 2004-5). As the MCA represents around 70% of the industry[7], this gives a total UK market figure of £7.7bn. If non-advisory revenue streams like outsourcing, implementation, computer hardware and software are included, the total fee income rises to an estimated £10bn. The industry is estimated to employ almost 290,000 people in the UK (ONS 2004), an increase of

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[7] MCA (2007)

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around 26% on 2005, and was estimated to have contributed 1.15% to the GDP of the UK in 2003 (ONS, 2004).

Table 1   *Top Consulting Firms Total Fee Income in 2006*

Firm	Fee income £m	Fee income % change
Accenture	851.8	**16.8**
IBM BCS	649.0	**39.0**
Deloitte	403.0	**42.0**
Xansa plc	379.7	**27.9**
Cap Gemini	319.0	**28.0**
PWC	289.0	**73.0**
LogicaCMG	263.0	**27.0**
KPMG LLP	242.6	**27.5**
PA Consulting	230.5	**27.9**
Ernst & Young LLP	197.9	**27.3**
McKinsey & Co	**185.0**	**13.0**

C. Industry Structure

The UK has one of the most vibrant and flexible consultancy industries for several reasons. First, the UK's position as a global finance centre has not only provided the consulting industry with a massive market but also, in the form of the audit firms, developed consultancies with substantial financial backing and reputation[8]. In the words of Keith Burgess, chairman of Bearing Point Europe, "The UK market place is probably the most dynamic in the world. It is the most competitive in the sense that every organisation is here. Everyone plays in the UK market place". Due to the complexity of the consulting industry, it can be broken down by segment, by the sectors it serves and by the type of service it provides.

By Segment

These days consultancies vary from small, one-person advisors to the large, multi-national companies such as McKinseys. To make matters more complicated many consulting practices are incorporated into companies that do other things – primarily accounting, outsourced services, IT implementation and engineering. The diagram below illustrates the different types of consulting and where the boundaries are drawn by the Management Consultancy Association (MCA).

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[8] KPMG started as a London based firm in 1870 as William Barclay Peat. The earliest originating partnership of Ernst & Young was in London in 1849 as Harding & Pullein. William Welch Deloitte opened as the first independent auditor in London in 1845, and Samuel Price, of PWC, started his practice in the same city in 1849.

Figure Two   Boundaries of Management Consulting (Czarniawaska 2007)
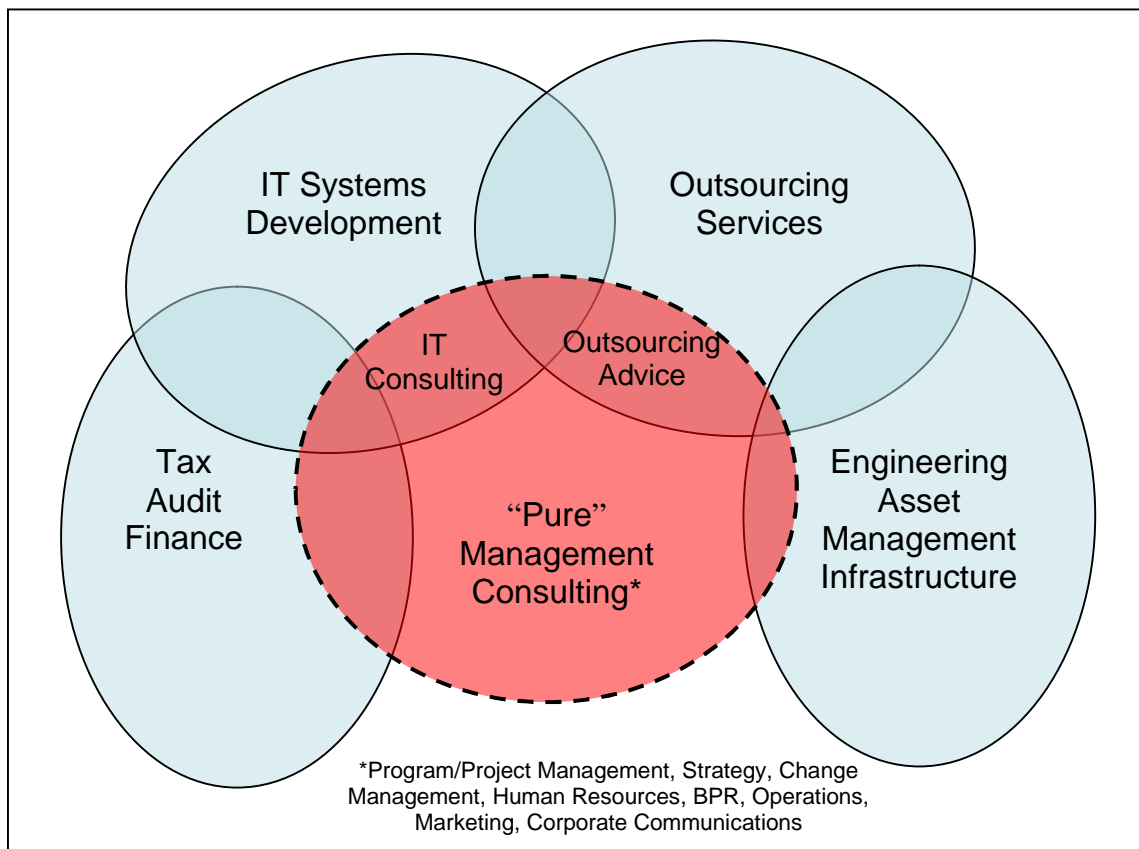
It should be pointed out that many of the firms (such as Accenture and IBM) that offer IT consulting (and IT systems development) are the same as those that offer outsourcing advice (and outsourcing services). Due to the high volume of these services, these companies dominate the industry, bringing in 61% of management consulting fee income (MCA 2007). In second and third place are the audit firms, whose consultancy arms bring them in 21% and 20% of all consulting income respectively.

The differing types of firms face different types of challenges:

- Pure consulting firms are finding their space encroached upon by audit firms that can offer value-add services to corporate clients. The temptation for these companies is to increase revenues by moving down the value-chain to focus on implementation.

- IT and outsourcing firms, whilst picking up large projects, are increasingly finding their margins squeezed by savvy clients and competition from India and China. Moreover, clients are increasingly averse to taking advice from companies which may also try to sell them proprietary solutions.

- Audit firms have already begun (re)building their consultancy services and are also faced with the temptation to move into the implementation projects that are

proving so successful for IBM and Accenture. However, given regulators' fears regarding potential conflicts of interest, this may not be wise.

Before moving on, it is worth noting the small consultancy segment, which is often overlooked in analyses. SME consultancies make up around 99% of all consulting firms, employ around 78% of all consultants[9], yet bring in less than 50% of the industry's revenue. Smaller consultancies generally deliver more income per consultant but have witnessed lower growth rates over the last decade (Brett Howell 2007).

Table 2   Size and number of VAT Registered Consulting Firms (2000 – 2004)

Turnover	No. Firms (2000)	No. Firms (2004)	% Increase
>£5m	360	485	35%
£0.25 - £5m	6100	8955	47%
<£0.25m	43,945	59,805	36%
All Firms	50,405	69,245	37%

Source: Office for National Statistics

The challenges small consultancies face are very different to those of large companies. They have difficulty establishing credibility and building contacts (which is why many of them are interested in achieving professional status) and are heavily dependent on their founding members. The golden goose for a small consultancy is to be taken over by a large firm, resulting in large pay-outs for the company directors. However, whilst take-overs are at an all time high in this sector, they are still relatively rare.

By Service Line

The various services that consultancies offer their clients together with the respective income in 2006 are outlined below in Table 3[10]:

Table 3   Consultancy Services and Income (2006)

Service	Income £m
IT Consulting	1,406
Program / Project Management	1,060
Operations	613
Outsourcing advice	489
Financial	415
Strategy	411
Business Process Re-engineering	359
Human Resources	358
Change Management	167

Source: MCA 2007

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[9] This is the number of people who register themselves as management consultants for VAT purposes who have less than ten full-time consultants in their company (ie. cannot join the MCA).

[10] It should be noted that this table only includes IT and Outsourcing *consulting* and not IT development or outsourced services, which the MCA no longer class as consulting work.

The two biggest services, IT and outsourcing advice, account for more than all the other types put together. These have been driven primarily by large government IT projects and global outsourcing deals and there is some suggestion that the market may be getting saturated. However, strategy consulting, traditionally the darling of the consulting world, has shrunk in recent years, from £606m in 2000 to £411m in 2006.

By Sector

The consulting income derived from different client industries is highly dependent on the legal and political environments of each sector. Whilst the dotcom boom, for example, lead to a huge investment in retail business, the fall out of the Sarbannes-Oxley Act resulted in an explosion in consulting in the Finance Sector. Following the sale of 3G licences in 2000, telecoms consulting grew exponentially, whilst the 2004 Gershon Review sent public sector spending through the roof.

In terms of trends, the massive growth in public sector spending from 2002 – 2005 looks to have dropped off in the last year as government departments get more sophisticated with their procurement processes. Outside the public sector, financial services account for almost 20% of the £3bn the private sector generates for the consulting industry. However, it is manufacturing and construction which are currently growing fastest, at a rate of almost 50% in the period 2005-6 (MCA 2007).

1.4   REPORT AIMS

Funding councils are concerned with eliciting feedback on current and future management priorities across sectors of economic activity in the UK and linking these with future research agendas. The Economic and Social Research Council (ESRC) has commissioned this report on contemporary and future challenges in UK management consulting as a scoping study of management challenges in the industry onto which recent research output is mapped. Specifically, the report aims to:

- Identify a set of contemporary and future management challenges in the UK management consulting sector;
- Identify priority areas for increased collaboration between management consulting practitioners and the Higher Education sector;
- Identify the extent to which agendas in the research community overlap with and address management consulting practitioners' priorities in the UK in order to contribute to the specification of a future research agenda, and;
- Begin to define the territory where the results of relevant previous research can be identified, synthesised, and be made more readily available and digestible to the community of management consulting practice.

The report provides background on a set of management challenges and a brief review of selected previous research addressing the identified challenges. It is intended for use by policy makers and those who fund academic research who are working with practitioners and academics to deliver more relevant, targeted, grounded research addressing practitioner problems. It also takes the form of a discussion document and it is hoped will stimulate discussion to validate the challenges, give them flesh or identify new ones in order to further contribute to the four objectives of the exercise.

2   METHOD

2.1   SOURCES OF INFORMATION

The management priorities detailed below are drawn from three sources. First, two workshops supported by AIM were run in 2006 aimed at exploring current themes in the consulting industry (Antonacopoulou 2006a, 2006b). The first, attended by 26 participants focused on opportunities and challenges in management consultancy. The second, with 21 attendees, honed in on the issues of professionalism, regulation and procurement. These workshops were mostly attended by academics, professional body representatives and small consultancies.

The second source is a set of interviews with sixteen stakeholders in the consulting industry including partners and directors at IBM, Accenture, KPMG, PA Consulting and PWC. The sample also included buyers of consultancy services in client organisations, the leaders of the two industry representative bodies and the Head of Professional Services at the Office of Government Commerce (OGC). These interviews were undertaken for this report and aimed at eliciting a more detailed understanding of the challenges the industry faces. Finally, these sources were combined with recent analyses undertaken by media sources (such as the FT, Accountancy Age and The Economist) to support and develop the themes identified in earlier research. From these workshops and interviews the following six challenges were identified as important to the Management Consulting industry:

- Strategic Change
- Operations Management
- Procurement

- Innovation Management
- People Management
- Professionalisation

2.2   LITERATURE REVIEW

A literature review was undertaken into each of the themes to assess the extent to which published research met the needs of each theme and to understand the existence and size of any gaps in the literature. The literature review is not exhaustive but covers most of the major journals, government reports and industry association publications since 2000. As many search terms had high levels of ambiguity (for example 'operations' can mean different things in the management, military and medical spheres) searches were only performed in 'Business', 'Management', 'Economics' and 'Operations Management & Management Science' subject categories. This decision produced a high level of concurrence regarding the meaning of search terms[11].

Table 4, **overleaf,** presents a summary of a keyword search of research from the social Sciences Citation Index (in January 2008) for publications for the period 2000-2008. It is noteworthy that whilst these key phrases return over 9,711 articles in business / management journals, only 27 of these are also concerned with management consultancy.

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[11] By 'concurrence', we mean the extent to which writers understood each term to mean the same thing. For example, most analyses mean the same thing when they use the term 'professionalisation'.

Theme	Theme Alone	Management: Search term 'manag*'	Consulting: Search term: 'consult*'	Management Consulting: Search: 'management consult*'
Strategic Change: Search term 'Strateg*'	4,590	570	8	**2**
Operations Management: Search term: 'Operational" OR 'Operations'	641	165	11	**0**
Procurement: Search term: 'Procur*'	158	8	1	**0**
Innovation: search term: 'Innovat*'	2,778	393	8	**2 (+9)***
People Management Search Term: 'Recruit*' 'Talent'	206	12	1	**0 (+3)***
Professionalisation: Search Term: 'Professional*'	541	67	3	**1**
Total	**9,711**	**116**	**23**	**4 (+12)**

Notes

1. Search terms as per column and row heads. * denotes a truncation to permit search for singular, plural or other variants of a word
2. Searches only performed in 'Business', 'Management', 'Economics', 'sociology' and 'Operations Management & Management Science' subject categories
3. * denotes articles which were similar to the relevant theme but were not returned by a keyword search. In the case of 'Innovation' the additional nine articles were concerned with Knowledge Management. In the case of 'People Management', the additional three articles were concerned with Skill development.

It is interesting to note, however, that when entered as a 'stand-alone' search term 'management consultancy' (excluding the themes: strategy, procurement, innovation et cetera) returns 100 journal articles. The question which then poses itself is, if these articles are not focused on the priorities which consultants themselves are interested in, what then are they concerned with? An overview follows in Table 5:

Table 5   Analysis of remaining consultancy articles

Theme	Details	No. of articles
Sector Analyses	Overview or history of sector	15
Practitioner Guidance	'How to' guides for consultants	11
Knowledge Management	Consultancy as knowledge diffusion	9
Rhetoric and Control	Ideological forms of control	8
Identity	Identity regulation of consultants	5
Case-studies	Descriptive overviews of consulting	4
Skills	Skill development for consultants	3
(Irrelevant Articles)	**(Concerned with medical consultation)**	**(40)**

Following a qualitative examination of these 'left-over' articles, it is arguable that papers regarding consultancy skills could have a place alongside People Management, and that Knowledge Management could be aligned neatly with work on innovation. For this reason, we have added (+9) and (+3) to the respective 'Innovation' and 'People Management' totals in Table 4. The remaining themes (sector analyses, practitioner guidance, rhetoric, control, identity and case-studies) are not necessarily of no interest (or use) to the consulting community but perhaps represent wider historical and social analyses which do not feature as top priorities for a highly competitive industry sector.

The literature review incorporates the articles identified in the final column of Table 4 and a number of book chapters, reports and additional articles identified through the authors' knowledge of the area. This gives a total of 122 sources of information for this report. As the management consulting literature abounds with blogs, arm-chair articles and opinion, the literature review has purposefully avoided publications which lack evidence or peer-review.

It is important at this stage to define the scope of the report. The management consultancy industry in the UK is a top heavy industry. For example, the largest ten firms registered with the Management Consultancies Association (MCA) bring in almost 80% of the membership's income and employ over half the management consultants in the country. The 'long tail' of the consulting industry comprises almost 70,000 companies that are registered (for VAT) as 'management consultancies', although the vast majority of these are small and sole-trader organisations. As these practices often work on a one-to-one basis (for example, in executive coaching) they have very different priorities and needs from the larger companies. Whilst this report provides comment on the needs of the smaller practices, it focuses on the medium and large companies which dominate the industry.

2.3   LIMITATIONS

There are three main limitations to the methodology that should be considered. First, regarding the interviews with stakeholders, a total of fifty-five[12] senior consultants, academics and industry association representatives were involved in identifying the priorities outlined in this report. The voices of less senior representatives of the industry (consultants rather than partners, managers rather than directors) may have elicited a different perspective on the industry – perhaps focused more on operational rather than strategic issues.

Second, with reference to the literature review, a simple key word search is likely to leave out some strong contributions that are not appropriately referenced. Whilst an attempt to rectify this was made by looking at the 'left-over' articles, it should not prove surprising if some were missed. Additionally, whilst the identified themes were examined with reference to the consulting industry, analyses concerning the themes in alternative industries was not prioritised. It is likely that there are some generalisable lessons that could cross into the consulting sector, but the report limitations of time and space prevented such investigation. A possible recommendation for the future would be to examine which of these themes have not yet been studied adequately in a cross-industry context.

Finally, in identifying important themes in the consulting industry it is important to understand the impact of rhetoric on the stakeholders in the industry. Management Consultancy is rarely a neutral term and the media, the government, clients and consultancies themselves often fall prey to hyperbole and rhetoric. It is for this reason that some potential themes have not been explored in this report. For example, since the collapse of Enron and Anderson Consulting, there has been considerable air time given to the importance of trust in publicity material around the consulting industry. However, few, if any, consultants that we spoke to confidentially, believed that the industry had become more (or less) trustworthy, which itself raises questions about the differences between perceptions inside and outside the industry.

The next section takes each of the six themes and provides a little background on what is meant by the interviewees when they refer to each term. Subsequently, key academic research findings with regard to that term are summarised and any gaps between the industry requirements and the reviewed literature are identified in a set of research questions which could form the basis of future investigations.

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[12] There was some overlap between the attendance at the two workshops and the interviews. This fifty-five figure represents the number of distinct individual contributors rather than the aggregate total.

3   EMERGENT THEMES

The themes analysed below are listed in order of their reported importance to the industry[13]. The analysis first introduces what the interviewees and stakeholders thought about the topic. It then reviews the associated literature and finally outlines any gaps that may have been identified. The themes are: Strategic Change, Operations Management, Procurement, Innovation Management, People Management and Professionalisation.

3.1   STRATEGIC CHANGE

3.1.1   Stakeholder Concerns

The environment in which the consultancy sector operates has changed significantly in recent years and this has created a number of challenges for the strategic thinking of consultancies. Interviewees identified the following issues which have affected their strategic thinking in 2008:

Competition: Three of the Big Four[14] accounting firms have (re)built their consulting[15] practices which has increased the competition for the advisory market and placed pressure on other consultancies. Concurrently, the big system integrators, such as IBM and EDS as well as a number of niche consultancies are moving aggressively into the advisory space.

Consolidation: Large consultancies are looking to mergers and acquisitions to boost their talent in the advisory sector. Since 2003, the volume of M&A activity in the sector has tripled (Equiteq 2007) and last year saw more M&A activity than ever before four firms a week being bought and merged with[16]. For smaller firms, being acquired by a larger organisation offers lucrative rewards for partners and share-holders. Interestingly, last year was the first time that Private Equity firms outstripped other consultancies as the biggest buyer of small firms.

Globalisation: Whilst emerging economies have long been used for outsourcing and IT development by consultancies, they are increasingly providing a threat for upstream advisory services. IBM, for example, now has 25% of its workforce based in India, whilst Accenture has over 50% of its workforce in Asia. Whilst lacking the intellectual longevity demonstrated by UK and US consultancies, BRIC countries are increasingly developing low-cost centres of excellence in advisory services. Increasingly, BRIC consulting companies, especially in India, are offering competitive alternatives to Western companies.

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[13] For an alternative interpretation on the challenges facing the consulting industry, it is worth looking at Section E of the MCA's report on the Consulting Industry (MCA 2007).

[14] Deloitte did not divest its consultancy practice.

[15] Some consultancies have termed this 'business advisory services' but they appear indistinguishable from 'management consulting'.

[16] Including Impact Plus, ItemPlus, Hornagold & Hills, Advantage Business Group, Mantix, Orbys Consulting and The Rossmore Group.

Recession: Forecasts are looking tight for consultancy in 2008. The economic downturn may mean lower fees as consultancy services are one of the optional extras firms cut down on in a recession. As the lacklustre growth in public sector spending indicated in 2006-7, the boom times appear to be over as far as government is concerned. With margins, and income per consultant, already heading downwards, the industry seems in for a tougher ride in the next 12 months.

3.1.2   Literature Review

A good place to start an examination of the current strategic themes of the consulting industry is to look backwards. The various histories of the development of management consulting (McKenna 2006; Wright 2000; Kipping 2002; Henry 2002; Kipping and Engwall 2002; Armbrüster 2006) all trace the way the industry has changed over the last fifty years. Whilst there is insufficient space to delve deeply into each analysis, it will suffice to say that whilst accounts agree that consultancies have reacted to economic and social changes in the clients they serve and the economy more generally, they emphasise different themes. Two accounts especially stand out. First, Kipping (2002) makes a strong argument in favour of three overlapping waves (scientific management, strategy and ICT) in consulting that reflect the changing business of the clients they serve. He uses this to argue that leading consultancies in one wave often have trouble adapting to subsequent waves.

Alternatively, Armbrüster (2006) highlights the economic decisions that can persuade consulting companies to make strategic decisions. For example, he uses Benko et al's book *The Economics of Strategy* (2000) to illuminate why accounting firms (rather than strategy firms) decided to move into the IT consulting space. He then goes on to offer alternative explanations for this strategic move based upon institutional theory, embeddedness research, game theory and market segmentation. He suggests that these approaches are not incompatible and together can help illuminate recent strategic shifts in the sector. Indeed, in a joint paper with Kipping entitled *Strategy Consulting at the Crossroads,* Armbrüster outlines the various strategies available to strategic consultancies and argues that issues such as reputation can warp what traditional economic thinking might expect to find (Armbrüster and Kipping 2003).

Looking at the wider picture, academics have discerned wider trends that affect the strategies of consultancies (and businesses) over many decades. Back in 1992 Barley and Kunda argued that many of the innovations that are promoted by consultancies follow a pattern where rhetorics of control and rationality are promoted in times of economic downturn and discourses of culture and ideology are stressed when the economy is booming. Following a similar train, Grint and Case (1998) locate Business Process Re-engineering in an aggressive cultural and rhetorical wave that reacted against softer Japanese approaches in the 1990s. It would be unsurprising, therefore, if the current economic downturn did not have some effect, both on consultancy strategy and on the innovations which are created and sold.

Moving away from the 'structural' side of strategy, Fincham argues that the flexibility of the consulting industry means "that the consultancy process contains no 'necessary' structures" (1999: 335) in terms of the power relationship between client and consultant. By this, Fincham means that the freedom for consultancies to act is highly context-dependent on the clients with which they engage. Such a proposition mirrors McKenna (2006) who emphasises the traditional

opportunism involved in consulting strategies and the dangers of seeking to look too far into what is often an uncertain and unpredictable future. The fate of Enron and Anderson, both darlings of the 1990s, should warn against excessive strategic soothsaying.

The processes of globalisation in the consulting industry, which were noted by several interviewees, are illuminated by the work of Gluckler (2005; 2006) who shows that consultancies, should not simply globalise in response to cheap overseas prices but, more strategically, if they are to win business abroad, need to develop regional relationships through local contacts. The booming Indian and Chinese economies would, therefore, be too difficult to tap without local talent.

There are obvious difficulties in these strategies. Svensson (2000) outlines the practical difficulties of co-operation and knowledge transfer between parent/child international relationships and suggests that different market opportunities require different mixes of local versus exported talent: "The empirical analysis seems to support the view that signals in the form of general experiences of the whole firm seem to determine which firms are invited to tender. The analysis strongly supports the view that developed markets are entered by acquiring local consulting firms whereas emerging markets are supplied through exports" (2000: 147).

Several analysts have noted the turbulent activity of consulting organisation. For example, several industry publications (MCA 2007; Woodhurst 2007) have noticed that several consultancies have begun to move more of their staff to a periphery workforce. This has meant an increase in the number of associates who are more flexible in their labour than permanent members of staff. Others have commented on the incredibly high birth rate of British consultancies (118%) compared to the industry average (14%). Nearly 98% of this is accounted for by SME consultancies. There is also a correspondingly high mortality rate with 33% of firms that were in existence in 1985 having closed by 1990 (Keeble and Schwalbach 1995).

The impact of economic and social policies on the macro-economic strategies of firms has a long tradition in British academia. There are several, for example, have examined the impact of volatile markets on the creation of flexible or core / periphery models of employment in the service sector (Mallon and Duberley 2000; Purcell 2000; Poynter 2000).

Of especial importance to the consulting industry are the number of commentators who have argued that the next few years will be characterised by more co-operation and collaboration between firms. Whilst many of the interviewees were sceptical of this view, it does seem to have some resonance with academia. Huxham and Beech (2003) explore collaborative working as a business model arguing that working collaboratively across organisations is now a common feature of organizational life. Other writers examine the benefits of the collaborative business model (Vangen and Huxham 2005), investigate networks and alliance management (Andal-Ancion and Yip 2005) or question whether co-operation, rather than competition, will characterise capitalism in the coming decades (Nahapiet et al 2005).

3.1.3 Outstanding Research Questions

- What strategic models will help consultancies make sense of current and future challenges?

- How should different sectors of the consulting market position themselves to gain maximum strategic advantage?

- What strategies can be adopted by start-up / spin-off consultancies to maximise their value?

- How can partnerships and alliances enhance strategic advantage?

- What strategic challenges are created by the globalization of the consulting industry?

- What impact does the high birth / death rate of consultancies have on the competitive landscape?

- How can the value of strategic decisions (e.g. potential mergers, acquisitions, entry to new markets) be captured in an uncertain economic environment?

- To what extent do economic and social forces determine consulting strategies? To what extent is there room for creative and innovative strategies?

3.2 OPERATIONS MANAGEMENT

3.2.1 <u>Stakeholder Concerns</u>

External pressures from clients have also changed the style and character of consulting operations. Interviewees articulated several concerns which were creating change in the industry:

Client Sophistication: Globalisation has made many projects larger, more complex and much more expensive. With more at stake, clients have become more sophisticated in their dealing with consultants, often employing ex-consultants to run internal consulting teams or manage the procurement of consultancy services. One effect of this has been a reduction in operating margins (e.g. income per consultant).

Value: For a similar reason, consultancies are also under pressure to demonstrate and quantify the value that they add to an organisation. However, given the complexity of some projects, many consultants that were interviewed found this a challenge, less so in the IT and Finance areas but especially so in 'people' change projects.

Implementation: As projects have become bigger, clients have become more risk-averse, favouring incremental to radical change. Since 2000, this trend has 'all but eliminated' the market for blue-sky 'visionary' consulting traditionally undertaken by high-end practices such as McKinsey or Booze Allen Hamilton. Where strategic work is undertaken, clients are insisting that it is closely linked to frameworks for implementation, thus inclining projects towards practical incremental change rather than radical visionary ideas.

Payment Models: In seeking to shift the responsibility for risk from themselves onto consultants, many clients, especially in the private sector, are seeking to utilise incentivised payment systems where the consultancy is rewarded for good and punished for bad performance. Whilst many consultancies welcome the chance to link performance and reward, there is concern that, in some circumstances, this can result in clients downplaying the achievements of the consultancies they work with in this way.

3.2.2 <u>Literature Review</u>

There has been a long-standing assumption in much of the consulting literature that consultants, by definition, possess skills and techniques that their clients do not (Werr 2002; Armbrüster and Kipping 2002; Faust 2002; Suddaby and Greenwood 2001). However, the recent trend for clients to develop their own in-house consulting teams would not surprise Armbrüster (2006) who applies economic and sociological theories to help demonstrate that, amongst other things, changes in risk, cost and markets, impact on the structural relationship between consultancies and clients , especially on the decision whether to do work in-house or not. Indeed, the processes of institutionalisation, which are central to the increasing standardisation of consulting interventions such as ERP and outsourcing, are central to the work of Armbrüster which he links to the 'existence of social institutions, especially reputation' (2006: 83).

In seeking to understand which strategies clients deploy when engaging consultancies, recent analyses have pointed to the invisible hand of the economy in encouraging clients to cut back on consultancy spending in times of recession (Kennedy Information 2002). However, economic growth (or decline) is not the only parameter which needs to be considered. As Armstrong (2006: 103-4) points out, it makes more economic sense for clients to engage consultancies for infrequent one-off projects rather than frequent or common engagement. If it is true that client change programs, life-cycles and projects are getting both more frequent and more risky, it helps explain why clients are increasingly developing in-house expertise to help maintain knowledge and save costs.

Much of the critical academic (and not so academic) literature in the late 90s depicted consultants quite pejoratively as magicians or witch-doctors (Rassam and Oates 1992; O'Shea and Madigan 1997; Argyris 2000) – the implication being that clients were naïve and simply believed everything they were told. In recent years, more realistic and sophisticated analyses have emphasised the proactivity of clients in negotiating and influencing the consulting relationship and the importance of mutual trust in creating successful outcomes (Hislop 2002; Fincham 1999; Martin et al. 2001). The proactivity of the client is not only something that consultancies need to respond to but also a process that shapes and changes the projects that are implemented (Clark 1998; Williams 2003).

However, much of the academic literature focuses on the social and political processes which provide the client with some form of certainty and security at times when their company may be in trouble. Alvesson (2006) for example emphasises the importance of creating identities and images that clients feel comfortable with and that generate security in uncertain times. Other writers note the importance of management fashions (such as BPR and TQM) in generating a similar form of certainty for the client (Collins 2004; Grint and Case 2000; Newell et al., 2001; Jones and Thwaites, 2000). Werr (2002) takes issue with this simplistic presentation of consulting and argues that consultants do actually provide value for clients and are not as concerned with rhetoric and impression management as many believe them to be.

The client relationship is, however, central to the consulting task, and several academics have turned their minds to clarifying how this process works (Werr and Styhre 2002). In an interesting statistical analysis of consulting sales teams, Haass and Hansen (2006) show that too much knowledge management can prove a bad thing for sales and contracting in consultancies. Implying that some consultants suffer from knowledge over-load in their sales activities they argue that "obtaining and using electronic documents was more likely to hurt a team's chances of winning a competitive bid….obtaining and using personal knowledge in the form of advice from colleagues also increased the chances of losing the bid" (2006: 18).

Another manifestation of the increased frequency and risk of large projects has been the focus on proving value for money in consulting engagements. As the UK government implemented a massive investment in IT and change management projects in the early part of this decade, it was not surprising that a backlash formed concerning the spend on management consultants. The subsequent National Audit Office (2006) report into government spending on consultants emphasised the importance of gaining value for money from consultants. They especially identified:

o Where possible, using internal resources instead of consultants
o Ensuring that consulting skills and knowledge were transferred to internal staff
o Implementing performance reviews on consultancy firms
o Earlier engagement with the consulting industry to improve project understanding
o Arranging incentivised or fixed-price payment schemes

Whilst some academics and writers seized on these comments to support their view that consultancies were an extravagant waste of tax-payers' money, the report stressed that it could not comment on the quality of the advice that consultants had provided, simply emphasising that this needed better management from the client.

The difficulties of measuring value in business have always been a difficult area to achieve certainty, especially in consulting. McKenna (2006) for example, notes that the work of the first consultancies was facilitated by the ease with which they could demonstrate their impact. Much of their work was on statistical, scientific changes and many of the consultants were engineers and mathematicians. Work now, of course, is much more qualitative in nature and other than rare strategy work or IT implementations, demonstrating value for money has become much more difficult.

Academics have had a long engagement with grappling with the ontological and epistemological problems of measuring and demonstrating performance (Fleetwood, 2005; Smith and Boyns 2005) but have increasingly turned their attentions towards the practicalities of designing performance measurement systems (Neely et al 2005), especially those which consultants implement (Froud et al. 2000).However, some academics have worked on building models that help demonstrate value when it has been delivered. Don-Gi et al (2005) develop on such system for using consultants for ERP implementations, Bevan (2000) provides a qualitative accounts of successful projects for public sector reform.

Gable (1996) develops a measurement model for gauging client success when engaging consultancies based upon the consultant's recommendations, client learning and consultant performance. The validation of the model suggests six key contributory factors to successful engagements. Similarly, Deakins and Dillon (2006) develop a standard for measuring the process (as oppose to the outcomes) of the consulting engagement with a public sector client. The tool, they argue, allows public sector companies to benchmark the engagement and contracting processes of the professional service firms they use.

3.2.3   Outstanding Research Questions

- How can value for money be demonstrated without jeopardising quality?

- How are consulting payment modes related to social and economic forces?

- How can public sector payment models be developed to enhance the performance of both client and consultant?

- How can consultancies ensure operational efficiency in times of uncertainty?

- How can strategic thinking be better linked to implementation methodologies?

- How has client sophistication changed the practices of consultancies?

- How should consultants respond to greater client sophistication?

- If clients are getting more sophisticated how do they manage their own insecurities / concerns?

- What challenges do small consultancies share with large ones? Is it better to treat them as two distinct industries?

3.3 PROCUREMENT

3.3.1 <u>Stakeholder Concerns</u>

Another way in which clients have sought to minimise expenditure on consultancies is to develop their own procurement services. Prompted by pressure from the National Audit Office (NAO) and the Public Accounts Committee (PAC) to maximise value for money when contracting consultants, the public sector and the Office of Government Commerce (OGC) have taken a lead in establishing procurement controls for advisory services – it is a lead that has been followed in the private sector. All interviewees agreed that these developments had had a significant impact on their work, though it is thought to impact large projects more than niche advisory companies[17]:

Communication: Many believed that the development of procurement functions has placed an intermediary between themselves and the end business user. This raises the question of how the relationship between the consultant and the business user has changed in terms of project needs being successfully communicated to all parties.

Politics: This also means that many of the personal relationships between consultancies and business users that characterised earlier deals are not as useful as they once were. Some consultancies are, therefore, looking for ways of 'staying in' the client (i.e. avoiding going through procurement for repeat business). This raises a challenge for the consultancy in ensuring they keep within procurement rules and the client in ensuring they get the best people for the job.

Education: Some consultants suggested that the emphasis on cost leads some procurers to opt for cheaper options (e.g. contractors) without realising the 'added-value' that they were missing out on by not using consultancies. There was, some felt, a need to educate procurers about the different forms of consultancy relationship and what each could offer.

Standards: Consultancies, procurers and clients emphasised the need for clear and open communication between stakeholders at an institutional level to ensure that best practice is maintained and understood by all individuals involved. There are a number of mechanisms in place to ensure this happens but the process of disseminating knowledge is complex and uneven.

Size: The procurement process was identified as negatively impacting smaller providers, excluding their participation in some areas of the market, particularly the public sector and areas where preferred supplier status guided the hand of procurers. Some smaller consultancies felt that they were being 'squeezed out' by larger practices with full-time business development professionals. Despite the Office of Government Commerce (OGC) encouraging the use of smaller consultancies in the public sector, many firms still complain that they don't have the sales contacts and leverage of the larger firms. They also find it harder to risk their time on lengthy and bureaucratic selection procedures that many clients have begun implementing.

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[17] Note that these points are raised by consultancies. There would be a number of different interpretations from procurers, clients and government institutions which are outside the scope of this report. Many consultants are inclined to hold negative views on procurement processes because *inter alia* procurers are adept at negotiating discounts.

3.3.2 <u>Literature Review</u>

Procurement of consultants, especially in the public sector, has received much negative press from the media, journalists and (to a lesser extent) academics. A typical example is *Plundering the Public Sector – How Labour are Letting Consultants Run Off with £70 Billion of Our Money* (Craig and Brooks 2007), which criticises government spending on consultancy work to modernise the delivery of public services. The government, it seems, does not disagree. Prompted by the 33% growth in government spending on consultants between 2003-6 the NAO (2006) and the PAC (2007) complained about the "sheer profligacy" of government departments and urged a tightening of spending on professional services. One tool in this strategy is the tightening of procurement policies via the Office of Government Commerce. The OGC in turn, not only manages the procurement for many contracts but also produces a number of 'best practice' reports, runs a professional group of procurers and operates a number of special interest groups on the topic[18].

An interesting paper by Roger Svensson (2003) examines a database of tendering proposals to examine whether consultant access to the client serves primarily to influence the client decision or to elicit better information regarding the project. Through a statistical analysis, he argues convincingly that the former of these concerns outweighs the latter, although he draws back from specifying bribery as the key mechanism. However, a paper by Iyer et al. (2006) argues that clients rarely procure consultants when they do not need too. Based upon data disclosed by clients regarding procuring consultancy services from their auditors, the authors suggest that complicity with auditing firms is less important than adding strategic capability for firms.

The shift in the role of procurement departments has meant a shift in the relationships that are developed by consultancies. Lian and Laing (2007) argue that procurers do not just offer a technical role of procurement but also play an important part in shaping long term relationships with consultancies. They argue that these relationships can be levered on both sides of the contract to improve project performance and manage expectations. They also suggest, however, that if these relationships are unclear and not transparent, both opportunism and inertia can develop.

These personal relationships which have shifted so much during the transformation of the procurement function are central to the way consultants do business. In their paper on 'liminality', Sturdy et al. (2006) stress the importance of informal situations such as socialising and dining in making consultant / client relationships work. They link these 'half-way' / 'in-between' places as part of a wider trend in which boundaries are increasingly blurred between work and home, full-time and temporary roles, and work and play. However, the role of relationships are more than simple free lunches – relationship management plays a strategic and complicated role in maximising value and investment. This point is reiterated by a study by Adamson (2000) that uses qualitative data to show how personal agendas and politics often

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[18] Anyone interested in the complex relationship between the PAC, the OGC and consultancies could do worse than read the Oral Evidence (p.20) on the PAC (2007) report:
 http://www.publications.parliament.uk/pa/cm200607/cmselect/cmpubacc/309/309.pdf

prevent clients from dealing with procurement in a rational manner. Adamson proposes a model for pre-entry to help promote more rational approaches to procurement in SMEs.

As Karantinoui and Hogg (2001) show, there are both costs and benefits to the long term relationship management of clients and demonstrate that there are number of mechanisms and policies which govern the choices that consultants make when managing these commodities. Further, Kieser (2002) outlines a theorisation of why consultants and clients talk past each-other, suggesting that the ideals of the systems they inhabit contain several incommensurables. Fortunately, he also outlines what consultants and clients can do overcome these communication barriers by focusing on empathy, developing a common discourse and sharing a learning experience.

3.3.3   Outstanding Research Questions

- Do tighter procurement rules affect innovation? Are clients less likely to propose new ideas to clients if the idea will be sent out to tender?

- How can clients ensure that they purchase the right skills sets, negotiate appropriate contractual terms and manage consultancy projects effectively?

- What opportunities and barriers does electronic tendering present in the procurement process?

- How do business end-users and consultants feel the procurement rules have affected their projects?

- How is it possible to strike a balance between deep forms of engagement between consultant and client with the processes of accreditation, standardization and formalization without devaluing the consultancy experience?

- Do professional standards and industry-wide best-practices (training, quality control and accreditation) help ameliorate risk?

- What are the client-side risks in a consultancy project and how can clients be better equipped to manage them?

- Does consultancy size play a part in their ability to adapt to changes in client procurement?

3.4   PEOPLE MANAGEMENT

3.4.1   Stakeholder Concerns

Due to the recent boom in the consulting industry and changes in the employment market, recruitment and retention often come top in surveys where industry leaders are asked to outline their concerns about the consulting market. However, concerns raised by stakeholders went beyond simple supply and demand:

Work / life balance: As the industry has become more competitive, hours have got longer and consultants are under more pressure. Many of them, seeking better job / life balance leave the industry: some to set up their own consultancies, some to work for clients and some simply to work in less stressful jobs. New recruits were reported as being less likely to put up with unpleasant placements and were more likely to leave if they did not feel at home in a consultancy.

Pay: As margins have reduced in the consulting industry, companies have found that pay in other sectors is much more attractive to talent than it was ten years ago. The finance sector is capable of paying around 20% more for talented individuals and some clients are now happy to pay a premium to recruit ex-consultants if it will reducing their procurement costs.

Engaging Educators: Some stakeholders bemoaned the fact that the lack of maths and engineering graduates in the UK meant that they were increasingly having to look overseas for suitable recruits. Some wondered if different ways of engaging with current students might develop realistic expectations and suitable competences amongst potential recruits.

Culture: There are also some internal issues regarding people management in consultancies. These include: fostering co-operation, rather than competition, among ambitious employees; balancing the lag between industry boom and recruitment (which can result in capacity issues); and, managing the culture change for employees who transfer to consulting from other industries. Others were concerned that trans-national consultants might have difficulty crossing cultural barriers.

Reputation: The media has always been keen to publicise reported 'failures' of consultancy projects, especially in the public sector. Recent books titles have exploited this hype presenting consultants as unethical, profligate and expensive. Some stakeholders feared that this type of coverage not only impacted clients but also diminished the number of potential recruits for the industry.

3.4.2   Literature Review

The importance of recruiting good people for the consultancy industry has been stressed by both academics and the industry. On the industry side, the earliest significant study this decade was *The War for Talent* (Michaels et al 2001). The authors, who worked for McKinsey & Co, studied 13,000 executives in 27 companies and found that the recruitment and development of talent was fundamental in creating organisational success. The book has been criticised for focusing on talent at the expense of systems,

technology and strategy but contains a useful structure for knowledge intensive firms faced with increasing competition for their people.

According to two industry surveys, the recruitment and development of talent is more important than it has ever has been. A report prepared by Boston Consulting Group (BCG 2007) for the European Association of Personnel Management surveyed more than 1,350 executives from 27 countries. Concerns regarding talent were put at the top of the priority list for most managers. BCG put this down to the expansion of the knowledge economy, fewer graduates taking science subjects and an aging workforce. To make this skills shortage more specific to the consulting sector, Top-Consultant.com[19] produced a report (Top-Consultant, 2007) on staffing demands by the big consultancies (see Table 6) and found that firms would need to hire the equivalent of 24% of their existing headcount over the coming 12 months to make up for the growth in demand and the current rates of attrition.

Table 6:   Attrition rates at UK consultancies (Topconsultant.com)

Area	2007 Forecast	Notes
Market Growth (Fees)	18%	Repeat of 2006
Fee Rate Increases	(7%)	Current inflation
Volume Growth (Billable Days)	11%	
Spare Capacity	(0%)	Little to zero spare capacity
Attrition	13%	Increase on 2006
Target Rate	24%	

The importance of recruiting top talent for consulting has long been recognised by academia (McKenna 2006) and several analyses on the challenges associated with HRM in consulting have been published both from within universities and from industry associations. One of the key texts to come out of academia is the book *Human Resource Management in Consulting Firms* (Domsch and Hristozova 2006) outlines first the importance recruiting and managing consultants well and then outlines different cases and approaches in British and German companies. Similar to many industries, the authors found that people issues were rarely considered at the strategic level in consultancies, leaving the HRM departments a poor cousin in board-level discussions.

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[19] It should be noted that Top-Consultant.com is, amongst other things, a consultancy recruitment website and therefore has a vested interest in talking up the recruitment game. Because of the time delay in producing research for heavyweight articles, the impending recession and the impact on the labour market has not yet been assessed outside the industry magazines.

Figure 3   Consultancy Recruitment Targets: 2006 – 7 (Top-Consultant.com)
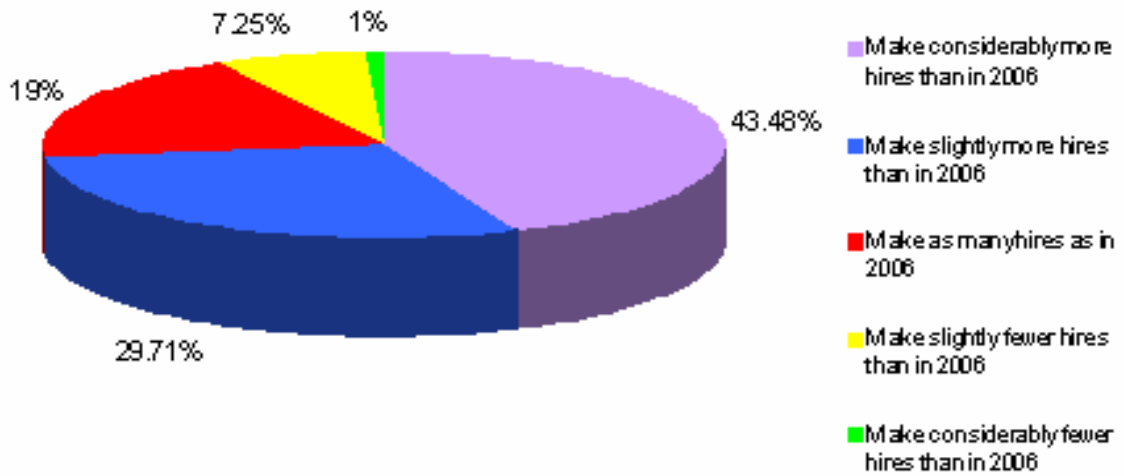
An interesting take on recruitment issues is inferred from Armbrüster (2006:11) who outlines the importance of recruiting talent as a key signal to the market of the recruiters' quality. The consequence being that if talent continues to chose banking and finance over management consultancy, there will be a decline in the perceived value of consulting firms in the market regardless of their actual performance. This theme is paralleled by McKenna (2006) who, in his history of consulting shows how McKinsey's actively pursued the top graduates from Harvard to make themselves distinctive in what was (and still is) a market with weak boundaries.

In terms of what consultancies should do about the squeeze on available talent. Pfeffer and Sutton, in their book *Hard Facts, Dangerous Half-Truths, and Total Nonsense* (2006) argue that it is equally if not more important for high-skill firms to focus on their systems as much as their people. Pointing to excellent companies such as Toyota, they illustrate how quality systems can help improve the talent a company has available. Furthermore, Groysberg et al. (2006) argue that many consultancies and banks place too much emphasis on their 'stars' who command high salaries compared to the rest of the company. The paper argues that, when superstars leave, there is little evidence that they do much damage to their firms. There is, however, evidence that stars are not very portable: that unless you can hire the star and their team, it could be a waste of money.

Furthermore, in Alvesson's working paper (2002), which compared the technocratic "up or out" culture of one consulting firm with a human relations "fun and profit" approach of another, found that the latter had a higher retention rates and happier employees, despite the fact that the company paid less. The specialisation and standardisation of the former 'up or out' company developed individuals that prized instrumental reward over social ties. Such as finding is not surprising and mirrors that found in the Top-Consultant Survey (2007) that "individuals enduring unhappy experiences in the workplace have a tendency to leave in less than 18 months. In contrast, those consultants who claimed to have enjoyed an excellent relationship with their employees tended to remain loyal for three and half years or more". The 'up or out' policy held in many consultancies is argued by Armbrüster (2006, Chapter Nine) to not simply foster

competitive identities but also to signal to the market that they consistently possess high performing individuals.

Another reason for recruitment pressures on consultancies is that, despite average pay rises of 9%, it appears that consultants are increasingly turning their back on work which overly impacts their personal lives and aspirations. The Woodhurst Survey (2007) suggested that "work-life balance, seems also to be spreading from the married thirty-somethings to their younger colleagues. Many young people may be eschewing a career in management consultancy due to their desire to remain close to their social network in the bigger cities, rather than spending weeks and months in the UK regions working at clients' sites". A number of academics have looked at the personal and emotional conflicts that the consultancy world brings.

Andrea Whittle's work on consulting (2005; 2006; 2008) highlights some of the tensions that consultants encounter when performing their roles. Drawing on some of these conflicts, O'Mahoney (2007b) provides a personal insight into the anxieties and insecurities consultants face in their relationships with clients, their peers and their own employers. In addition, several authors have focused on the tensions inherent in consultant's identity formation at work (Alvesson and Karreman 2007; Handley et al 2007).

3.4.3   Further Research Questions

- How can consultancies add value to recruits' experiences without adding extra pay?

- What problems does globalisation pose for consultants? How can they be overcome?

- Which career paths will help the industry attract and retain young/new talent?

- Why is turnover so high in consultancies? How can stress and overwork be better managed?

- How are new consultants socialised into their roles?

- Is the case-based method the best way to identify potential consulting talent?

- How can consultancies better engage students and universities to improve their skills?

3.5   INNOVATION MANAGEMENT

3.5.1   Stakeholder Concerns

Innovation plays a central part in the value that consultancies add to clients and the economy generally. Many of the major business concepts, methods and theories have been developed by leading management consultancies and passed, through their consultants, into the wider economy. However, several challenges were posed by stakeholders regarding innovation in the current climate:

The Next Big Thing: Several senior consultants have noted that lack of a new Big Idea in consulting. Concepts such as TQM, BPR, eBusiness and outsourcing were large, global ideas that made the industry billions and resulted in improved performance of the economy. However, since 2000, some feel the industry has been scratching around for the next big thing with little success.

Client Satisfaction: In their survey of the industry, the MCA recently noted that clients were unimpressed with their consultant's ability to think creatively with only 59% satisfied or very satisfied. More than one partner agreed, pointing out that clients often felt they were not getting much in terms of new ideas from the consultants they brought on-board.

Risk: However, some interviewees felt that this lack of innovation was a result of client attitude towards risk. They believed that in risk-averse times, clients were less likely to undertake big adventurous projects or try overly creative (and untested) methods.

Fostering Innovation: Many of the consultants we interviewed found it hard to articulate a consistent source for their own creativity. Whilst several cited large 'knowledge databases' in their organisations, they felt that these were rarely the source for the creativity that was needed when dealing with clients. One partner suggested that joint research between consultancies and academia might look at new big ideas that were on the horizon.

3.5.2   Literature Review

The key asset of a consultancy is the knowledge that it can bring to a client in the form of methods, tools and innovation (Werr 1999; 2002; Anand et al. 2007). Indeed, the centrality of new ideas to the consulting industry has caused Hargadon and Sutton to call consultancies 'innovation factories' (2000). In seeking to explain how innovations such as BPR, TQM and ERP have diffused in firms so successfully, several authors have pointed to the ease with which new ideas can be re-interpreted. In their respective studies, Benders and Van Veen (2001) term this phenomenon 'interpretative viability', Giroux (2006) calls it 'pragmatic ambiguity' and Czarniawska-Joerges and Sevon (1996) focus on how consultants and clients 'translate' labels or concepts with each implementation. O'Mahoney (2007a) takes this one stage further, arguing that the processes of variation, replication and selection which characterise consultant / client relationships, can lead to the 'evolution' of innovations as they pass from idea to implementation. A consequence of this argument is that innovations need not be

intentional but simply a result of the variation in ideas which occurs from the processes by which management concepts evolve.

The key text in the field is Peter Wood's edited collection, *Consultancy and Innovation* (2002), which provides an international comparison of the relationships between the growth in technological innovation and management consultancy over the last two decades. Chapter 3 of Wood's book outlines the key methods by which consultancies foster innovative practices (2002:77). These include:

o   Accumulated learning by consultants in different environments
o   The adaptation of standard solutions to client specifics
o   The accumulation of knowledge into methods and tools
o   The application of knowledge from one industry sector to another

One of the key points reiterated by the contributors to the book (e.g. Stramback 2002) is that the responsibility for innovation cannot be laid completely at the door of consultants but is the result of a complex interaction between institutions, clients, consultancies and the prevailing economic climate. As Kipping and Engwall (2002: 8) argue: 'adaptations in the interaction between buyers and sellers [of consulting services] constitute a significant force in the innovation and diffusion process'.

This theme is picked up by Hislop (2002) who provides a case-study overview of how client-consultant interaction translates innovations (in his case, ERP) into practical solutions. However, more recently, in an ESRC funded thirty month study into consulting practices, Andrew Sturdy (2007) has argued that consultancy work is rarely as innovative as many would like to believe, finding that "prospective clients were unlikely to welcome consultants if their knowledge was 'too new'." This finding follows both the earlier suggestions that consultants were not innovators *per se* and also that clients often have joint responsibility for this. Furthermore, the importance of both networks and institutions to the development of innovative practice is emphasised by an AIM publication, *Networking and Innovation in the UK* (Pittaway et al. 2004) which details the encouragement of innovation by professional and trade associations especially in encouraging creativity and networking in smaller companies.

Moving to the more critical forms of academic research, several writers have suggested that innovation simply for the sake of innovation is not necessarily a good thing for business. Pointing to the insecurities inherent in client businesses, Ernst and Kieser (2002) and Kieser (2002) point to the role of consulting innovations in providing succour and certainty to managers in an uncertain world. Such approaches, which emphasise the 'faddishness' of management innovations, inherently question their value to the client. The inference one might take is that if clients are, as reported, getting increasingly sophisticated, the rejection of fashionable ideas for their own sake may not be a surprising consequence.

Another reason suggested by interviewees for the lack of innovation in the current climate is the client's inclination to avoid risk when it comes to larger projects. Trust is essential for the consulting industry in diffusing innovative ideas, partially because projects offer so many opportunities for opportunism (Gluckler and Armbrüster 2003). The risk for clients, therefore, is that they are used as a test-bed for undeveloped or untested tools and methods. The academic literature proposes that a key way of

developing a consultancy's capability for innovation is to develop trusting relationships with the consultancies involved. Demonstrating the negative case, Lohmer (2005), in his analysis of an organisational consultant in a German hospital, demonstrates the damage to innovation and relationships that distrust of consultants can bring. However, some writers have suggested that, in a more trusting relationship, the client / consultant relationship is an ideal environment in which to foster innovation: "innovation through the implementation of a new management concept under the guidance of consultants is the ideal strategy for risk-averse managers. They innovate… however, the kind of innovation they aim at is one that has already found broad approval within the actual management discourse" (Armbrüster and Matthias 2002: 175).

Nooteboom (2000) notes the importance of institutions in creating trust between organisations that do not have long-term relationships. Nooteboom specifies management consultancies as organisations which are more stand-alone (p.20) and therefore more adept at exploring new ways of doing things. However, he points to problems of having too much innovation in consultancies where consultants might expend energy on re-inventing the wheel or fail to exploit (or get returns) on their efforts to innovate. (p.55-7).

Werr (2002) shows how innovation is created in consultancies through the translation of individual experience into organisational methods and tools. Methods, he suggests, act as an organisational memory for the day-to-day experiences and lessons of consultants. A second form of innovation was noticed when "experienced consultants continuously managed the translation of the method to the specific case" (2202: 107). Developing this theme, Suddaby and Greenwood (2001) show how consultancies are key in innovating and creating 'commercial' knowledge through the processes of codification, abstraction and translation. They also show how the commoditization of new ideas has been accelerated in recent year by the Big Four accountancy firms through their movement into the consulting space. In their examination of different forms of innovation in the consulting industry Heusinkveld and Benders (2002) emphasise the ongoing difficulty of translating ideas into proven success stories and also how different organisational governance can produce different systems of innovation.

Clegg et al. (2004) suggest that innovation is difficult to plan and control in new systems and what consultancies actually achieve is closer to 'disruption'. This, in turn, opens both the client and the consultancy up to some form of chaos, making the end-result difficult to predict. Contrary, to the usual presentation of consulting as imposing a planned rational order on a client that has lost its way, Clegg et al. suggest that the consultancy brings noise to the system, akin to a virus or a parasite (though not in a pejorative way), to disrupt and disturb existing client patterns. Clegg et al.'s proposition has some similarities with Czarniawska and Mazza (2003) who depict consulting as occupying a 'liminal' (i.e. in-between) space in relation to their clients. However, in their response to Clegg et al's article, Sturdy et al. (2004) suggest that the client actually has a vast amount of influence on the disruption that it receives from the consultancy – the noise is not as unfamiliar or alien as Clegg et al suggest.

Finally, in a report generated under the Creation of European Management Practice (CEMP) funded by the EU, Kipping and Armbrüster (2000) undertake a pan-European study of knowledge creation and diffusion. Although the UK is excluded from the study (in favour of Germany, Italy, Sweden and Austria) the findings can, to some extent be

generalised to the UK. They found that large constancies (unsurprisingly) are fairly heterogeneous in their methods and styles of creating and managing knowledge. They tend to use knowledge databases, publications (e.g. white papers), centres of excellent (specialising in different fields) and document management systems. Their production of knowledge is well systematised. However, in smaller consultancies the production of knowledge is more specialised, less systematised and very much focused around the senior consultants. Additionally, it was found that smaller companies' tools, methods and approaches are much more idiosyncratic and differentiated at a national level – completely contrary to the large firms.

3.5.3   Outstanding Research Questions

- Are 'big ideas' on the decline in the consulting industry? If so, why?

- What factors generate innovation in consulting / client relationships?

- What is the cost / benefit for consultants and clients in developing and implementing innovative ideas?

- Can in-house consultancies be as innovative as external firms?

- What is clients' "capacity to absorb" novelty/innovation? How can this be assessed and developed?

- Are there differences in innovation processes between small and large consultancies?

3.6 PROFESSIONALISATION

3.6.1 Stakeholder Concerns

The question of whether or not consultants want a professional body was met with an (almost) unanimous 'no' by interviewees from the large consultancies. Two interviewees used slightly stronger language. The reasons behind this negative response were as follows:

- Consultancy work is "too varied to have a single professional body specifying standards or accrediting membership". A 'good' consultant is expected to be able to quickly turn their hand to anything from writing business cases and communication strategies to running a team of process engineers or assessing the suitability of a potential vendor. Unlike medicine, law or accounting, the actual 'knowledge' of the industry is not difficult to pick up and, therefore, secondary to the learning, communication and presentation skills that enable any one consultant to become 'expert' in a short amount of time.

- Where necessary knowledge or skills are important (or difficult) for a project most consultants are already professionalised according to each specialisms. For example:

Specialism	Typical Accreditation Bodies
IT	ITIL
Finance	ACA, ACCA, ACAEW, CIMA, BBA,
HRM	CIPD
Coaching	APECS, AC
Project Management	PRINCE, APM, PMI
Business Processes	SIX SIGMA

- The top consultancies use their reputation as their guarantee of quality and already have assurance levels that are way above any minimum standard that could be set. Large consultancies typically recruit top tier graduates and put them through a 1-2 year training programme before allowing them to call themselves consultants.

- It would be impractical to restrict organisations from selecting whoever they wish to provide them with advisory services. It was this that persuaded the German government to reject the accreditation of the term 'management consultant' in 1997 (Gluckler and Armbrüster 2003).

- Consultancy 'knowledge' is different from that in medicine, law and accounting. It is often 'created' at the point of sale, terminology and methods vary from practice to practice and clients often demand individualised rather than standardised treatment. Standardisation of this knowledge would damage consulting interventions.

- Whilst clients looked for experience in the consultants they used and new recruits hoped for progression, many senior interviewees felt that neither group was demanding accreditation from a professionalised body.

This said, as the GNOSIS (2006) project reported, some smaller practices suggested that some form of accreditation may help them demonstrate their quality to their clients when they lack the brand-power of the major consultancies. Additionally, one partner from one of the large firms suggested that a profession may help distinguish between 'proper' consultancy (i.e. advisory work) and the body-shopping / IT work that some people term consultancy.

3.6.2 Literature Review

Much of the academic literature on professionalisation of the consulting industry starts from the assumption that simply because large consultancies do not take to the idea of professionalisation does not necessarily mean the idea would not be good for the industry in the long term. Academics studying the sociology of the professions have noted the historical economic and social forces that have led consultants to resist professionalisation. McKenna (2006; 2007), who has produced the most comprehensive histories of the consulting industry, has pointed to the fear some consultancies have that professionalisation would involve standardisation of their offerings which would, in turn, lead to both a more open market for standardized goods and an increase in consultants moving between employers.

In line with this report's findings, McKenna (2007) argues that smaller consultancies are more interested in professionalisation because they, unlike the large consultancies, cannot always rely upon the reputation of their brand to assure clients of the quality of their work. Moreover, McKenna argues that consultants *should* have a professional association to ensure they take responsibility for the advice they give. The point he and Fox (2003) make is that consultants (and bankers) are difficult to prosecute for bad advice because there are no universal standards that they can be judged against. Both suggest that the introduction of professional standards for consultants would do the industry itself and the economy in general a great service.

Other academics have gone further, arguing that professionalisation is "central for [the] status, recognition, and legitimacy and, to some extent, the market value of consultants" (Alvesson and Johansson, 2002: 233). However, these authors go on to argue that professionalisation would only suit certain types of consultancy engaging with clients in very specific ways but also that *de facto* professionalism is already in existence at the level of the organisation in many consulting firms. Taking this theme, some academics have assumed that, providing best practice is shared and developed, there would be no need for an external accreditation body as is common in legal and medical practice.

On an alternative track, some academics have pointed to the development of informal institutions which have evolved to make up for the absence of a consulting profession. Gluckler and Armbrüster (2003) argue that this lack has led to clients relying on informal processes and mechanisms such as experience-based trust and the networked reputation of the consultancy, in order to overcome this deficiency. In their presentation of secondary data in the German market, they show that clients go through a sequence of

decisions which influence their tendering of a professional services firm: the public reputation of the firm, previous experiences of working with that consultancy, the reputation of the consultancy amongst trusted partners and, finally, the price the consultancy charges.

In the GNOSIS workshops (Antonacopoulou et al 2007a, b) run by AIM last year, a number of academics, industry associations and small consultancies came together to discuss the key challenges of the consulting industry. Professionalisation was a key focus point, especially for the Institute of Business Consulting (IBC) which is the sole accrediting body in the UK for management consultants. Here, several points were raised in favour of developing professionalism in the industry. This includes suggestions that professionalisation would:

- Guarantee a minimum standard of quality and competence
- Improve the status of individual consultants
- Commit consultants to an ethical standard of practice
- Develop 'best practice' tools and methods for different engagements
- Improve the brand equity of small consulting firms
- Prevent 'bad' consultants from practicing
- Define the boundaries of the consulting profession
- Improve the reputation of the industry

The outputs of the workshop suggesting developing a code of practice for consultants, networking with other professional associations, align the training of different consulting practices and develop a body of knowledge to standardise certain consulting practices. However, the question of how this was to be achieved, especially without co-operation from large practices was not tackled.

In support of these workshops, some academics have argued that the professionalisation and standardisation of the industry would minimise the amount of risk that a client encounters when engaging a consulting firm. A standard set of tools, along with a defined code of ethics and accredited consultants would, some believe (McKenna, 2007), enable clients to know what they were getting and, if they do not get it, find it easier to seek redress.

Amongst academics studying the sociology of professions it is commonplace to argue that there is nothing inherent in consulting that means that it cannot or should not professionalise, resulting in an argument that "the failure of management to professionalise should not be seen as an outcome of it being 'the wrong kind of knowledge'…accounting is no more a technical practice than management, but it has been much more persuasive in its claims to be so" (Jeffcutt, 2004: 51)[20]. However, several authors, including McKenna (2006) and Armbrüster (2006) take the opposite view arguing that the consulting profession is quite unique in its form of knowledge and client relationships. Whether consulting could or should professionalise seems worthy of further discussion, especially in the light of recent financial scandals and the number of populist books which complain about the lack of ethics in the industry (Craig, 2005).

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[20] It should be noted that this view, commonly held by academics writing in the sociology of professions, is in direct contrast to the views of most senior consultants that were interviewed.

The cynic might suggest that there was more to the large consultancies' dismissal of the professionalisation issue and might argue that what was best for clients (and consultancies in the long term) is a professional standard which would prevent them from repeating the mistakes made in the Enron debacle. Simply put, some interviewees felt that a professional body might help prevent a potential slide to the lowest common denominator by which some consultancies felt compelled to get too close to their clients in order to prevent their competitors landing lucrative contracts.

3.6.3   Outstanding Research Questions

- What would professionalisation mean for consultants and other stakeholders?
- Do consultants want to be professionalised?
- Would professionalisation improve the quality or independence of advice that consultants offer?
- Is there a relationship between professionalisation and standardisation of consulting products and knowledge? What would the implications be if there were?
- What are the implications of increased professionalism, for example for quality control, customer assurance, brand identity?
- Is there a role for external accreditation in management consultancy?
- Where is professionalism best situated, at the occupational level (regulated and managed through professional associations) or at an organisational level (firm-level accreditation)?
- What are the different pros and cons of consulting for small and large firms? Does this also vary by type of consultancy?

4 MOVING FORWARD

4.1 KEY CHALLENGES

This brief review has sought to elucidate a set of management priorities as reported by practitioners in the UK management consultancy industry and to map recent academic research against these themes. It is clear that whilst some priorities have been addressed in some detail, others require further research. To this end, a number of research questions have been identified to help guide future research to match the needs of the consulting industry. Of these, a few key issues stand out:

1. The industry landscape is shifting. The coming US and UK recession, the (re)development of Big Four consulting practices, the narrowing of profit margins and the challenges of internationalisation have presented opportunities but also threats to the industry. Strategic decisions regarding mergers, acquisitions, partnerships and entry into new markets must be taken against a back-drop of economic uncertainty.

2. Client relationships have become more demanding. Client expectations, procurement procedures and stakeholder demands mean that there is unprecedented emphasis on demonstrating value, linking strategy and implementation and managing the procurer/end-user tight-rope. This may require different ways of thinking about and working with customer requirements.

3. Whilst the 'war for talent' may be solved by the current credit squeeze, this would be a cease-fire rather than a termination of hostilities. With a long-term decline in the buying power of consultancies relative to banks and investment houses, the industry needs to look at innovative ways to recruit, retain and develop talent.

4. Consultancies have always been central to the creation and dissemination of innovation and knowledge to the wider economy. In recent years, however, both clients and consultancies themselves have complained about the lack of innovation in their work. However, innovative work is risky, both in terms of the effort in generating and managing new ideas and trying them out with clients.

4.2 THE BENEFITS OF ENGAGEMENT

Why should consultancies partner with academia to help analyse their challenges when their core competence is the successful analysis of business problems? Aping the observation that cobbler's children are usually unshod, there is a remarkable lack of analysis of the consulting industry from within its own ranks. The obvious reason for this is that such research is unlikely to generate many sales. This said, there are many companies that consultancies can commission research from, so why bother with academia?

Academic engagement offers the consulting industry several opportunities to understand and alleviate the challenges outlined in this document. Academic teams are adept at analysing the deeper structures and trends underpinning the turmoil of everyday business. Academics have developed and can draw upon dozens of frameworks and

models for explaining industrial change. Due to their deep immersion in subjects, academics can draw parallels with other industries or periods to illuminate complexities which more 'surface level' analyses might miss.

Secondly, academic study is by nature a source of innovation, acting as a relatively cost effective 'sand-pit' for new ideas as well as providing a supportive incubator for collaborative research. Many of the great management ideas of the later twentieth century were developed by academics (including Edgar Schein, Michael Hammer, Michael Porter, Charles Handy, Andrew Pettigrew, Peter Drucker) through constructive collaboration with businesses. Furthermore, in developing these ideas through lectures, conferences and publications, academia is well placed as an independent and critical voice to promote good ideas to the business community.

Finally, the independence of academics makes them ideally positioned to build trusted relationships with multiple stakeholders. As most research projects do not act as a financial incentive to the researchers that are involved, academia can claim a neutral independence that few private organisations enjoy. This means that research projects can work as independent brokers between client, consultant and industry representative.

4.3 RESEARCH LIMITATIONS SO FAR

Academic research has tackled some of the challenges posed by industry changes but has generally done so in a piecemeal fashion. This is primarily because academics have taken their cue from sociological and economic frameworks rather than the business community. The topics academics have addressed, therefore, deal with issues which answer the question 'how does the world work?' rather than 'what should the world (or in this case, the consulting industry) do?'. Typically, research questions consider:

- How are consulting identities formed?
- How do structures such as the law, the economy and culture affect the actions of consultants?
- How might institutions (such as the professions) affect industries?
- How can rational choice economics explain consulting strategies?
- How do management ideas spread through the consulting industry?

In many cases, we believe that academics could go one step further, making their research more relevant to industry by translating the 'How' to a 'What' (what works, for whom, in what circumstances?): the former reflecting traditional academic explanations of how the world works, and the latter specifying what consultancies could take or apply from the research.

Generally, though with some exceptions, academic research is organised along the interests of the academic involved rather than the priorities of the relevant industry or even the business school involved. Unless directly commissioned by the CIPD, the ESRC or other funding bodies it is rare for individual departments, schools or universities to apply strategic planning to their research topics. The references cited in this report illustrate the consequences of this, where an academic *may* have written a

paper on a pertinent topic, but it is often a solitary case-study where a series of surveys might better be suited to address industry's needs.

More often than not, the academic / practitioner relationship is initiated by the academic on a topic of their choosing who then proceeds to pester consultancies until they gain access of some description and subsequently writes a paper or two around these limitations. A more profitable form of engagement for both parties would be for the consultancies to engage more at the *creative stage* of the research to ensure that the time and effort spent is of more use to the industry.

There are, of course, a number of examples of Universities and consultancies working together on thought leadership projects[21] which involve sector studies or surveys on economic and social trends. Often these types of project are created between high-end business schools (e.g. Stanford, Harvard, LSE, INSEAD) and niche strategy consultancies (such as McKinsey, BCG and Bain). Occasionally, these arrangements become lose ongoing relationships that spill over into prizes, funding or chairs. Of course, there may be issues in the development and ownership of Intellectual Property but these are not significantly more complicated than any other joint venture.

4.4 OPPORTUNITIES FOR FURTHER COLLABORATION

Academic collaboration with the consulting sector could be enhanced by a proactive and managed research agenda developed jointly with the industry. This need not involve academics 'giving up' their sociological focus, as this can generate a depth which may be absent from many private sector research initiatives. However, it might involve research agendas being set jointly, implications for industry being spelt out and dissemination of results being orientated for industry consumption.

There are several opportunities for how this might happen:

- A standing joint research body (or at least regular meetings) involving the MCA, the IBC, industry (research) and academic representatives to discuss research directions and disseminate relevant research. It seems that there is a lot of potential to take research which has been done in industry and extend / enhance it through engagement with academia, or vice versa.

- Creation of joint-funded or joint-managed research projects (see below for topics) involving industry institutions, consultants, academics and other researchers. This could involve the extension of existing research (such as the annual MCA report) or the commissioning of new projects by consultancies.

- Engagement with consulting websites (listed in Appendix 2) or the creation of a consulting-research' website to provide links to relevant research. This would enable stakeholders to be pointed to relevant material and also enable academics and other groups to disseminate their work. A mailing list could alert users to new material

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[21] For example: http://cep.lse.ac.uk/management/default.asp

- Encourage suitable academics to spend time working with or in consultancies (or industry bodies) to get an idea of the realities which research projects might address. Similarly, it would be useful to have consultants working on academic projects to understand and translate findings into meaningful material for the industry.

- Encourage the cross-fertilisation of ideas to and from consulting research. Whilst there are (relatively) few academic studies on the consulting industry. There are a number on topics pertinent to the industry (e.g. innovation, knowledge management and procurement) which could be usefully applied in this setting.

- Whilst not an academic theme, there would also be potential in getting more consultants involved in university teaching, especially at a postgraduate level. This need not be coming in and giving lectures but might also involve disseminating cases, giving advice on skill development and communicating their preferences for useful teaching topics.

4.5   RESEARCH GUIDANCE

Some research topics are more suited to academic study than others. From the lists of questions provided earlier in the document, the top three questions in each section which are of best mutual benefit to academics and consultants are outlined below:

4.5.1   Strategic Questions

- What strategic models will help consultancies make sense of current and future challenges?
- How can partnerships and alliances will enhance strategic advantage?
- What strategic challenges are created by the globalization of the consulting industry?

4.5.2   Operations

- How can value for money be demonstrated without jeopardising quality?
- How can public sector payment models be developed to enhance the performance of both client and consultant?
- How can strategic thinking be better linked to implementation methodologies?

4.5.3   Procurement

- Do tighter procurement rules affect innovation? Are clients less likely to propose new ideas to clients if the idea will be sent out to tender?
- How do business end-users and consultants feel the procurement rules have affected their projects?
- What are the client-side risks in a consultancy project and how can clients be better equipped to manage them?

4.5.4   People Management

- How can consultancies add value to recruits' experiences without adding extra pay?
- What problems does globalisation pose for consultants? How can they be overcome?
- How can consultancies better engage students and universities to improve their skills?

4.5.5   Innovation

- Are 'big ideas' on the decline in the consulting industry? If so, why?
- What factors generate innovation in consulting / client relationships?
- What is clients' "capacity to absorb" novelty/innovation? How can this be assessed and developed?

4.5.6   Professionalisation

- What are the pros and cons of professionalisation for consultancies, their clients and the wider economy?
- Would professionalisation improve the quality or independence of advice that consultants offer?
- Is there a relationship between professionalisation and standardisation of consulting products and knowledge? What would the implications be if there were?

There are also a few issues that academics and their funding bodies should consider when planning research for the consulting industry:

1. Incentives – academics are incentivised publishing in top academic journals. Due to their theoretical nature and stylised writing these are often ones which are most inaccessible. It may be worth considering incentivising publications in practitioner magazines and journals.
2. Size - Current research does not make a major distinction between small and large consulting practices. However, this report suggests that they have very different needs and requirements. To take one example, professionalisation is desired by some smaller practices but few larger ones. It may be worth considering exploring this distinction.
3. Perceptions - There is clearly a difference in perception of consulting practice between the general public, practitioners, the government and industry bodies. It may be worth considering why this occurs and whether it is a beneficial or accurate phenomenon.

4.6   SUMMARY

This report has outlined the priorities and challenges of the consulting industry and compared them to current research findings. It has outlined a number of research questions which consultancies and research bodies would mutually benefit from exploring. It argues that academia offers a number of advantages when exploring deeper and multi-stakeholder issues in consulting, especially when independence, trust and rigour are required.

5   ADDENDUM

5.1   INTRODUCTION

Over breakfast on 21st July 2008, the ESRC Business Engagement Forum for Management Consulting was held at the Royal Society of Arts in London, hosted by Lynda Purser, Director Institute of Business Consulting and chaired by Professor Dame Sandra Dawson, Master Sidney Sussex College Cambridge. Twenty-eight representatives from industry, policy, trade associations and academia came together to reflect upon the findings presented in ESRC's Scoping Study of Contemporary and Future Challenges in the UK Management Consulting Industry and how the worlds of business and Higher Education might better collaborate in order to address these challenges.

Over the course of the meeting the challenges identified in the scoping study were discussed and developed. New challenges and perspectives were also introduced for consideration. Overall, the six challenges presented in the scoping study:

- Strategic change
- Operations management
- Procurement
- People management
- Innovation management
- Professionalisation

were generally acknowledged to reflect current concerns in the industry. The themes, however, are broadly stated and it was acknowledged that finer-grained analysis would be necessary. Over breakfast delegates were able to elaborate and develop several of the themes, emphasising the diversity of the sector and highlighting how the sector differs from other areas of economic activity.

In the sections that follow, we try to reflect and represent the conversations of the morning. In doing so, and with the exception of professionalisation which was not a topic of discussion at the breakfast meeting, we largely follow the categorisation of challenges as presented in the main body of the scoping study. Additionally, we report on the challenge of defining the consulting industries and also on relations with the academic community. Each sub-section consists of a brief discussion of the theme and is followed by a set of questions and issues for ESRC and the Higher education community to consider.

Importantly, a set of fundamental questions relating to the nature and role of consulting, its market and the value it delivers as well as the impacts of and responses to globalisation. Beginning with the challenge of defining management consulting, we develop these themes below.

5.2   INDUSTRY IDENTITY

It was noted that the consulting industries have received relatively little attention from academic research. As such, several fundamental issues require addressing, particularly in respect of a satisfactory definition of the profession in the context of the dynamics of the sector, its complexity and size and also its links with and contributions to the UK economy in general and client organisations in particular. Definitional issues are important because currently the industry identity is rather ill-formed, comprising of a diverse range of service providers (from 'Big 4' to 'anyone who isn't employed can be a consultant'), in a wide range of industries providing a variety of client services.

There was strong support for research that was able to identify and specify the particular value that different types of consulting bring to clients. Although Management Consulting was argued to be a broad church, there remains a lack of clarity as to how to regard practices such as *Internal Consultancy, Interim Management and Outsourcing.* In addition to addressing such introspective questions, there was a clear call from delegates for market-focused work that enabled a better understanding of clients and how their needs and behaviours help to shape the industry.

- What is the UK consulting industry?
- What is Management Consulting and who are the Management Consultants?
- To what extent are *Internal Consultancy, Interim Management and Outsourcing* branches of the consulting industry?
- What are the drivers that shape the consulting industry?
- Who are the consumers of consulting services and what are they buying?
- What is the value-added of consulting services?
- What are economies of scale in the consulting industry?
- What are the models of consulting interventions, and how and when they are best applied?

5.3   STRATEGIC CHALLENGES

Three particular strategic challenges emerged over the course of the debate, each, to some extent, linked with the others: industry structure, globalisation and practice in a downturn/recession.

5.3.1   <u>Industry structure and business models</u>

Several powerful factors influencing the industry were identified and, in light of these, an important concern is how the industry will develop into the future. Of particular interest are the BRIC countries (Brazil, Russia, India and China), but also others that offer a lower cost base than the traditional western economies as well as an emergent, well-educated, ambitious young generation of potential consultants. Already, there is some history of back-office tasks relocating, with various degrees of success, to these countries, but what are the implications for the 'knowledge product' industry?

- What key drivers influence the shape of the consulting industry?
- Does the relocation model work for knowledge services in the same way as it has done for call-centres?

- In advice-based industries, what are appropriate models of outsourcing and off-shoring?
- How will the challenge of the BRIC countries impact the UK Consulting Industry?

Given the dynamics of the UK consulting industry its complexity and size and the changing nature of the sector, it would be desirable to have research into different models of consulting. The research could assess whether different models (for example models of small, niche firms and large partnerships) offer different types of value and impact.

Conversely, and anecdotally, the consulting industry appears to have become less attractive to home-grown talent. At least, those factors that attracted graduates to the industry 20-30 years ago (foreign travel and experience of a diversity of industry, organisational and management challenges) seem to have lost their sheen in the eyes of some contemporary graduates.

- What work/life model will be attractive to next generation of consultants?
- If future generations of domestic graduates are less interested in a consulting career/lifestyle as it is currently configured, how ought the industry to respond?

Finally, client companies are increasingly recognising distributed expertise within the industry and are pressing for innovative networked project teams to address complex organisational challenges. The larger consulting companies are unaccustomed to working collaboratively with their traditional competitors in the execution of client projects.

- What is the impact of different models of consulting (e.g. small niche firms vs large partnerships) and how do they vary in terms of outcomes and value they deliver?
- What can the consultancy sector learn from other sectors in terms of collaborative/networked working?

5.3.2 <u>Globalisation</u>

Although the industry has become increasingly globalised, this does not necessarily mean it has become commoditised. But, to continue to foster the export of professional services products from the UK a better understanding is required of the different sorts of value delivery in overseas markets. As 'me-too' research products have become less attractive, new knowledge is needed about the development and explication of the value-added proposition for countries and clients that can be differentiated on the basis of level of maturity of knowledge about how to work with the consulting industries. Clear propositions about the nature of the value would be an important contribution to the industry. The value proposition phenomenon links also to notions of defending domestic markets against international competitors. In an increasingly globalised market, what differentiates the UK consulting industries?

- What are the ramifications of globalisation and the BRIC countries (and other developing economies) for the UK consulting industries?
- What barriers to entry exist in the UK consulting industries?

- What are the country-specific comparative advantages of UK Consultancies?
- What defensive strategies can be developed to protect against international competition?
- What differentiates UK management consultancies? Is this differentiation an appropriate basis for competing and surviving in a globalised market?
- What economies of scope and scale does globalisation offer the UK consulting industries?
- What opportunities does globalisation offer for consolidation, collaboration, recruitment and innovative growth?
- What are the unique skills and competences that the sector can export?

5.3.3 Economic slow down

Industry structure is also being impacted by economic forces in the wake of the credit-crunch. Organisations looking to cut costs increasingly are considering opportunities available in a globalised market: off-shoring and relocation of centres of expertise in particular. The pursuit of economies may also lead to some consolidation within the industry. However, at the same time niche consultancies may spin out of existing practices.

- In recessionary periods or periods of economic downturn, where does industry innovation come from?
- What are the forces that drive consolidation in the industry and also the birth of innovative, niche or boutique consultancies.

5.4 OPERATIONS MANAGEMENT

Demonstrating value is the key challenge for everyone delivering to a client, and was the principal operational challenge to be voiced at the Business Engagement Forum.

Management Consulting makes important economic contributions and, linked to the notion of the sector's distinctiveness, is the idea that a bespoke set of metrics is appropriate so that its contribution can be better understood. But, the impacts of interventions and the length of time over which they can be felt are difficult precisely to discern. Ultimately, for the delegates, the question is how the value of the consulting industries can be measured (and measured in ways additional to economic value). If the consulting industries are to be better understood and their contribution appropriately valued, studies are necessary that map the industries' impact on important UK economic and social indicators. However, there is little solid evidence that quantifies these impacts and new work is necessary to develop the metrics and apply them to the sector.

- A comparative analysis of the development of value propositions in professional services relationships.
- What are the short and long term legacies of consultancy interventions?
- How do clients of professional services conceptualise and measure value and how can these be translated into project KPIs?
- What is the contribution of the consulting industries to GDP?

The definition and measurement of value emerged as an important consideration, particularly in terms of building understanding of what clients perceive value to mean. Several illustrations were given of instances where client/consultant relations were strained as the different parties operated according to different conceptions of value. Although value in consulting interventions is frequently a subjective phenomenon, and so difficult to measure, it was noted that once a common understanding of value was established, projects tended to be more successful.

- What is the metric for measuring the value of a strategy intervention?
- How can clients/users become more involved in the value definition process?
- How can research assist the industry in helping clients measure the value of professional services interventions?
- Do clients have different payback (ROI) expectations of different types of consultancy?
- Are businesses that engage with the UK's Consulting Industries more successful?

As well as defining value at the commencement of a project, some delegates felt that the industry did not do enough, in general, to demonstrate value at the conclusion of a project – possibly by means of some form of impact statement. This raised concerns over how to measure impact, the difficulty of measuring interventions, the impact of differing practice structures, the length of time before impact and what impact meant as a measurable – Increase in profit? Expansion into new markets? Increase in share of the market? A call was also made for increased client involvement to assist in breaking down projects to identify and define small specific and measurable targets that could be more easily measured.

- How ought success, value and contribution of the UK's Consulting Industries be assessed?
- What is the distinctive value of the UK's Consulting Industries, how can it be measured and where, how and to whom should it be communicated?
- What is the impact of the UK's Consulting Industries on important economic and social indicators?
- What indicators adequately capture the wider contribution of consultancy to the wider community? In addition to economic ones, are there also social, and cultural impacts?

5.5 COMMERCIAL RELATIONSHIPS

5.5.1 Procurement

As was recognised in the scoping study, the public sector accounted for a high proportion of the growth in industry turnover between 2001 and 2005. However, it was argued that in public services particularly (but also to some extent in the private sector) clients are not good at buying consultancy services. It was argued that the professionalisation of procurement has created a tick-box culture giving rise to a danger of institutionalised goal displacement, that is process efficiencies in the procurement process obscuring the goal of improving the organisation.

To illustrate this, the example was given of some clients engaging consultants to write Request For Quotation documentation as many firms do not have the in-house expertise necessary to buy professional services. Repeatedly, the differences between writing procurement specifications for commoditised products ('widgets') and professional services were expounded. Some delegates felt that clarification relating to the conceptualisation and measurement of value in consulting relations would help address procurement issues. Perhaps without irony, it was suggested that innovation in the industry is now focused on how to circumvent the formal procurement processes.

Nevertheless, some form of educative process was felt to be necessary, one that was able to bring together the consulting industries and professional procurers to develop better processes for buying professional services.

- As the procurement process currently builds distance between the consultant and potential client, how can the industry work with procurers to help develop more effective processes for buying professional services?
- What are the appropriate procurement processes for getting an innovative solution to a fuzzy problem?
- Case studies of different approaches to procurement (cross sectoral learning) and different value outcomes associated with them.
- How do procurement processes work for other professional services and what have they to teach the consulting industries?

5.5.2 Innovative pricing models

Contractual relations are also a challenge for the industry in terms of specifying a basis for compensation. Historically, negotiation of contracts has been on the basis of 'time and materials' assessments, but, increasingly, there are pressures to move toward 'risk and reward-' or incentive-based contracts (c.f. National Audit Office, 2006). However, in some circumstances these, and fixed-price contracting, have proved difficult to implement: negotiating transfer of risk from client to consultant and evaluating performance to assess reward are difficult challenges.

- How is 'transferable risk' defined?
- With regard to contracting and commercial relationships, which models work and which don't, in which circumstances and with what outcomes?

5.6 TALENT MANAGEMENT

In terms of talent management, the key issue was not so much the identification of potential recruits, nor their cost but the length of time individuals remain within consultancy before moving out of the industry: that is, industry retention rates. In spite of policies designed to retain mid-career and senior consults, the attrition rate from the industry is generally considered to be too high. There appears to be little evidence to support this 'gut-feel', though the experience of consultants leaving (even taking pay cuts) to move into industry seems not uncommon, and comparative research across a variety of sectors would be constructive. So, although leavers are making valid career

decisions, is the industry doing enough to try and retain people? Furthermore, how can the industry attract people with five or more years of experience?

At the level of graduate recruitment, a reduction in graduates' basic core knowledge over the last 10 years was noted: described by one delegate as "a massive skills gap", especially in terms of STEM skills (Science, Technology, Engineering, Mathematics). Firms find themselves having to deliver training in literacy, numeracy and problem-solving skills. The problem was likened to military recruitment, where a basic lack of physical fitness has been observed necessitating the introduction of remedial fitness classes.

- How do retention rates compare across the professional services industries?
- What incentives have been successfully used to retain mid- and senior-level employees in professional services industries?
- What drives mid- and senior-level employees to move from large firms to industry, or to start up their own consulting practice? How does this compare to other professional services industries?
- What do contemporary graduates want out of their management consulting careers?

A final issue relating to the turnover of talent within the industry, whilst healthy for cross-fertilisation, is the challenge of managing the inflow and outflow of knowledge.

- How can the knowledge assets of senior recruits be integrated into the organisation
- How can the knowledge assets of senior leavers be retained within the organisation?

5.7   INNOVATION AND KNOWLEDGE MANAGEMENT

The meeting gave a sense that innovation is problematic for the consulting industries: there are multiple understandings of what it means (sometimes these are in conflict with each other), management innovations have an insufficiently robust provenance (i.e. they are difficult to 'sell-in' in the absence of some track record of implementation success in other similar firms/industries) and, reportedly, there is reluctance amongst clients to adopt innovative solutions. The latter is particularly notable in the public sector where the procurement process (see above) has arguably constrained the delivery of innovative solutions.

Yet, there are drivers for innovation that the industry recognises - particularly the need to avoid 'template solutions' - and recognition that most projects will require some form of adaptation of existing knowledge, if not the search for new knowledge. It was not, though, clear how these processes worked. Indeed, knowledge ownership can be a sensitive issue, and some debate emerged about possibly uneasy relations between academics and the consulting industries in the knowledge development process, particularly in respect of trust and ownership of intellectual property.

Undoubtedly, delegates recognised and valued the importance of collective experience and wisdom in the value-offer, and for many the current sales model is about the selling-

on of experience – the personal and collective wisdom based on experience. No longer is it sufficient to tell the client 'what is happening' or 'what you should do', but work with clients on 'this is how you do it'. This working practice requires a blend of consultants' experience with a practical understanding of theory. To facilitate the transfer of academic knowledge via the consultant to clients, 'translation' work is needed to move theory into application. It was emphasised that this was particularly necessary regarding the adoption of management practices.

- What is the legitimacy of management innovations and how can their value be demonstrated to clients?
- Does the procurement process constrain innovative solutions in the public sector?
- How can industry and academia collaborate to translate the best available international evidence relating to a project for use to in keeping clients up to date with the latest thinking?

5.8   RELATIONS WITH ACADEMIA

The general feeling was that connections between the consulting industries and higher education were under-developed and that greater opportunities for collaboration exist. The extent to which the two sectors do work together is not known, but the sense was that it is infrequent. On the grounds that there is no focus for academic input or for the development of the profession, a case was made for consulting practice to enter the mainstream of academic thinking, in the same way that engineering and law, for example, have their own dedicated research communities. That is, there needs to be better links between consultants and academic departments. Indeed, some delegates regarded the relationship between academia and consulting industries as closer to competitive than collaborative, but that one way to address this was by addressing the immaturity of the body of knowledge relating to the consulting industries.

Certainly, closer collaboration between the two communities could help address the problem of lack of awareness within the consulting industries of the output of past research projects and the tangible benefits of future research. The group encouraged a multidisciplinary approach that promoted research into management practices rather than research which has a specific focus on areas such as marketing. In this context, one immediate activity delegates identified as useful for industry is an inventory of past and current work undertaken on management practices. Delegates also saw an important role for AIM in acting as a bridge between researchers and consultants: helping researchers gain increased access and consultants to be involved in and become more aware of academic research.

The archive of previous research was recognised as an important resource with the implicit acknowledgement that a number of the issues raised are not new and that past research could assist with the resolution of contemporary problems. There is a role for previous research in two ways: first to address internal management requirements and second, as a resource to draw upon during client engagements. It was the latter that the group considered more alluring. But, it is not without its challenges: for example, translating multi-disciplinary and disparate academic output into succinct and useful

knowledge for clients to use and identifying the best available evidence relating to particular projects.

- How can the results of academic research (from across the disciplines) be better exploited and used more effectively in the consulting industries?

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• John Barber	Consultant Economist	
• Simon Bates	Director	Atkins Management Consultants
• Danny Chow	Lecturer	Birkbeck College, University of London
• Tony Court	Director	Arthur D Little
• Ian Daniell	Founder	Forim
• Sandra Dawson	Master, Sidney Sussex College	Cambridge University
• Nigel Edwards	Director	Medicon Strategic Development Ltd
• Claire Fitzpatrick	Press and Communications Officer	AIM
• Ian Gill	Managing Consultant	PI Consulting
• John Goldfinch	Managing Partner	GAP Consulting
• Allan Gregory	Executive Director	The Nichols Group Ltd
• Bridget Hynard	Account Manager-Practices	Institute of Business Consulting
• Colin Light	Director	PricewaterhouseCoopers
• Geoff Llewellyn	Managing Director	RPM Business Consulting Ltd
• Paul McLintic	Director of Product Development	KoKo Union
• Alan Meekings	Founder	Landmark Consulting
• TA Mitchell	Outreach Consultant	London Business School Centre for Corporate Governance
• Neil Morris	Partner	Digital Public
• Joe O'Mahoney	AIM Scholar	Cardiff University
• Eduardo Pereira	Firmwide Knowledge Manager	PricewaterhouseCoopers
• Lynda Purser	Director	Institute of Business Consulting

APPENDIX 1:   INTERVIEWEES

1.	Colin Light	Director	PWC
2.	Beverley Brooks,	Partner	KPMG
3.	Paul Taylor	Partner	Accenture
4.	Deborah Flemming	Founder	Chameleon-Works
5.	Aidan Brennan	Partner	Head of KPMG Advisory
6.	Lynda Purser	MD	IBC
7.	Peter Hill	CEO	MCA
8.	Aidan Davies	Buyer	Symbian
9.	Jan Gower	Vice President	IBM
10.	Chris Henning	Managing Consultant	PA Consulting
11.	Peter Walmsey	Head (Prof. Serv.)	OGC
12.	Prof. Sturdy	Academic	University of Warwick
13.	Sunil Patel	Head (Pub. Sect.)	Atos Origin
14.	Colin Moughton	CEO	StayMobile
15.	Monique Eban	Consultant	Accenture
16.	Melissa Wakefield	Contractor	Independent

APPENDIX 2: WEB SITES

http://www.managementconsultancy.co.uk/

http://www.managementconsultingnews.com

http://www.imcusa.org/

http://www.mca.org.uk/mca/

http://www.ibconsulting.org.uk/

http://www.consulting-times.com

http://www.consultant-news.com

http://www.mckinseyquarterly.com/

http://www.gettingdrunkinfirstclass.com/

http://steveshu.typepad.com/steve_shus_weblog/management_consulting/index.html

http://poweryogi.blogspot.com/

http://top-consultant.blogspot.com/

http://www.top-consultant.com/

http://www.accenture.com/Global/Accenture_Blogs/Consulting_Analysts_Blog/

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