

Management consulting: growth industry of the century?

Despite its extraordinary growth, there is very little understanding of the contribution of consulting to the practice of management. Harry Onsman reports.

Whilst some have suggested that management consulting is the second oldest profession in the world, and not dissimilar to the oldest, it is in fact very much a phenomena of the last 100 years. However, it has become a truly phenomenal growth industry in the last twenty years or so.

In 1980, there were around 18,000 management consultants world-wide, earning a total of about USD \$2 billion per year, with the largest consultancy (Booz.Allen & Hamilton) turning over roughly USD \$ 150 million per annum.

By the late 90's, the industry was worth over USD \$ 62 billion globally, with about 140,000 consultants involved in the industry. There are now more than 30 firms that employ over 1000 consultants, compared with five in 1980.

That's a growth rate of more than 20 % per annum, something that most other industries can only wish for. Consultants News, the leading industry journal (<http://www.kennedyinfo.com>), predicts that the current growth rate of 13% per annum will continue during the year 2000 and beyond. Further, "consulting talent" continuous to outstrip supply.

The industry is very much an American home-grown development. Arthur D Little started the first consulting firm in 1886. Today, of the 50 largest consulting groups in the world, only four are non-US (see <http://www.kennedyinfo.com/mc/cn50.html>).

The industry's recent rapid growth has lead to the situation where for every two executives in the US at the level of seniority in an organisation where they have the authority to hire consultants, there is one external consultant. This ratio of 2:1 compares with a ratio of 10:1 in 1980.

The basis for this rapid growth was laid in the 1960's, when the third wave of consulting gathered momentum. It followed the first wave of groundbreakers like Arthur Little, Frederick Taylor, and Henry Gantt, the founders of the tradition who worked largely as loners, building theory and practice rather than building up bank accounts.

The second wave (1910-1960) was driven by the founders who established the firms that we still know today: Edwin Booz; James McKinsey; and in Europe, Lyndon Urwick. Following World War II, this wave really peaked with the formation of a host of second-tier firms such as CRESAP, Hay Associates and Tower Perrins.

The third wave (still growing today and taking on tsunami-like qualities) was driven by a number of developments.

Firstly, Bruce Henderson left Arthur D Little in 1963 to establish the Boston Consulting Group. Almost single-handedly, he operationalised the strategy process and invented strategy consulting. Eventually, this led to a host of imitators (Bain & Co, LEK Partnership, Monitor Company etc) but BCG still holds a treasured position in the strategy consulting game.

Secondly, and possibly more portentously, the major accounting firms started creating management advisory groups that augmented their accounting practices. Today, the consulting arms of Andersen, PricewaterhouseCoopers, Deloitte & Touche, and Ernst & Young rival or overshadow their accounting parents in size and revenue streams.

Thirdly, in the 60's, the universities moved into the consulting game, establishing centres that combined academic research with professional advice; Stanford Research Institute, Cambridge Research Institute, and Management Analysis Center were some of the earliest. Today, it seems that every university anywhere has its own consulting arm.

The practice of consulting

The sheer growth of the industry has changed the landscape of management. Management consulting is as much a part of management practice as is staff management and operations management. It has become a management technique in its own right.

However, you will not read much about this development in the professional literature of management practice. The intrusion of management consulting into the fabric of the management process remains largely undiscussed and under-researched. This may be due in part to a preference for secrecy on the part of both management and the consultants; the consultants want to protect their intellectual property and the managers want to be able to claim the credit for the gains achieved by adopting the consultant's advice.

This usually means that when things go wrong, everyone is able to blame everyone else, with no objective way of establishing who was right and who was wrong. Was it wrong advice? Was it badly executed? Sometimes it is only the official receivers who are left to ponder these questions.

All of this may well explain some of the jokes about consultants.

Joke # 1: Question: What's the difference between a management consultant and a used-car salesman? Answer: The used-car salesman knows when he is lying.

Joke # 2: A consultant is somebody who knows a hundred ways to make love to a woman but he doesn't know any women.

It has been observed that innovation in management practice is now driven almost exclusively by consultants (Payne, 1986). Those who are not consultants (eg academics and practitioners) who develop new ways of achieving results in organisations will almost certainly become consultants on the strength of their research findings and/or experience. Although there is also a healthy traffic from consulting to executive management, such moves usually start with consulting, thereby providing further evidence of the pervasive influence of the consulting industry.

Fred Hilmer, CEO of Fairfax, is Australia's paradigmatic figure of this journey. From McKinsey consultant and practice leader, to academia as a Professor of Management (whilst still consulting away happily), then on to the executive suite of one of Australia's foremost media organisations.

Virtually every initiative in management practice in the last twenty years has come out of the consulting industry rather than out of management practice, whether it is a long-lasting and proven tool such as the Boston Consulting Group's Market Strategy Matrix (dogs, stars, and cash-cows) or a short-lived fad such as Business Process Re-engineering (CSC Index).

If all this demonstrates the power of the management consulting industry, what has not been explained is why it developed in this way? Why do we now readily turn to consultants for inspiration and guidance? Why do managers so easily give up their ownership of idea generation to outsiders? Why has it happened more in some places (USA) and less in others (Japan)? And why has it happened so intensely in the last few years as opposed to the previous 100 years?

Some explanations are starting to appear (see for instance Canback, 1998) but it seems extraordinary that a complete and globalised industry can emerge and grow to the size that management consulting has without much awareness of its history, any real appreciation of its current impact, and no idea whatsoever of its future.

Hopefully, the research will happen and we will learn more about this phenomenal industry of the twentieth century.

Notes:

Canback, S (1998), Journal of Management Consulting, 10/2, pp 3-11

Consultants News, Kennedy Information

Payne, A (1986) Journal of Business Strategy, 7/1, pp 43-55