The Business of Consulting

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Hybrid firms feed off digital fear

Threat of disruption from new competitors is driving growth, says *Andrew Hill*

Management consulting's success tends to be measured by the ebb and flow of demand for strategy consulting services, and the tide has definitely been coming in over the past year or so.

Demand for strategy consulting, which advises top managers on the major long-term decisions they make, seems to be on the rise. A paradoxical combination of confidence and fear has driven big companies back to the strategy practices of the consulting firms — the high-end, high-margin part of the traditional business.

Confidence comes from improving economic conditions and a sense, at the strongest companies, of being in a position to act on new visions of the future after weathering the financial crisis.

Fear comes from the threat, chiefly, of disruption at the hands of new competitors, both from the digital domain and from growth markets such as China.

As Bob Bechek, worldwide managing director of Bain, the consultancy, puts it: "The search for profitable growth in a world awash with capital drives a powerful desire for strategy advice."

Fee income from "strategy" consulting grew by 16 per cent in 2014, more than in recent years, according to Source Information Services, the industry research group. In some individual markets, growth in strategy consulting was even higher.

The UK Management Consultancies Association — whose members do not include traditional "strategy houses" such as McKinsey, Boston Consulting Group and Bain — clocked the growth in strategy consulting at 44 per cent in 2014, an indication of how other consultants are now moving into this area.

Yet as the borders are blurring between management consultants and other advisory groups (just as communications, advertising, headhunting and legal firms edge into adjacent areas), so the boundaries of strategy consulting are becoming harder to define.

"Strategy has morphed into work around the growth agenda for corporations," says Fiona Czerniawska, co-founder of Source. "Other consulting firms see that as an opportunity." She suggests that the likes of McKinsey, BCG and Bain are "in a castle of their own making with a wall around it — and that wall is of clients' own perceptions [of the firms]". Pretenders to the strategy crown, which include the Big Four professional services firms, plus Accenture, are bent on winning more lucrative, high-end advisory work. They are also throwing large numbers of staff at implementation and operational improvement tasks.

In one sense, there is little new in the way in which different consulting practices are overlapping — mingling strategy with execution. When he founded his firm in 1926, James O. McKinsey, described it as a group of "accountants and management engineers" even though he employed no actual engineers.

As Christopher Wright and Matthias Kipping observed in *The Oxford Handbook of Management Consulting*, it is a "myth" that management consulting is "solely the province of boardroom advisers".

Even in the "gilded age" of strategy consultants in the 1960s, the largest companies were in fact operational improvement firms such as HB Maynard (later bought by Accenture).

What has now emerged, though, is a breed of hybrid consultants, who claim — like half-man, half-horse centaurs — to offer all the advantages of strategic vision and more detailed digital knowledge or big data expertise.

Now, like most of its peers, McKinsey employs plenty of engineers — and integrates their work with that of the strategy practice.

"[Clients] need to make good decisions that lead to appropriate resource allocation towards the right things for execution and implementation," says Sven Smit, a McKinsey director.

continued on page 2

Inside

In-house teams challenge industry business models

Internals

Companies can solve many problems themselves, but independent advice can still be helpful, says *Brian Groom*

When German utility Eon decided a year ago to split itself into two independent companies — one focusing on renewables, the other on fossil fuel and nuclear generation — it turned to its 80-strong team of in-house consultants to implement the move.

More than 20 members of Eon Inhouse Consulting were assigned to the project, analysing the activities of each Eon unit and then drawing up an organisational structure.

"We co-operate very closely with the client," says a team member. "They know that we will stand behind our solutions in the long term as we are all still going to be working for the group when our proposals are finally implemented."

Over the past 20 years, the growth of internal consulting has been one of the most notable features of the fast-changing management consulting scene.

The extent of internal consulting is hard to gauge, in part because some units go under different names, but companies including American Express, Cisco, IBM, Google, Samsung, Airbus, Prudential, Dell, Wyeth and Citibank have used in-house groups. About two-thirds of companies on Germany's Dax 30 index have them, including BASF, Deutsche Bank and Siemens.

Internal consulting groups vary from ad hoc teams to fully-fledged organisations of 100 consultants or more. Many have to compete for projects with external consultants even in their own company, while others also seek business on the open market. Deutsche Post's in-house consulting arm, for example, sells its logistics and supply chain expertise to clients in sectors such as fashion, consumer electronics and ecommerce.

"I think it's still growing," says Lawrence Hrebiniak, emeritus professor of management at the University of Pennsylvania's Wharton School. "Internal consultants have a more in-depth knowledge of the company, they help to keep sensitive issues in-house and they can facilitate the implementation or execution of a strategy."

Companies often use them because they are cheaper than hiring strategy consultancies such as McKinsey, Bain or Boston Consulting Group.

The downsides, Prof Hrebiniak says, include a tendency for internal teams to encounter more resistance than external ones and be seen as less independent. "People may say: 'You are squealing on us, you are acting as informers.' They are also sometimes accused of telling the boss what he wants to hear."

> People may say: 'You are squealing on us, you are acting as informers.'

Prof Hrebiniak says in-house consulting is useful for internal problems of co-ordination or distrust, for example. External consultants are likely to continue to be used for strategic issues such as mergers, changes of product focus and entering foreign markets.

Large companies are also awash with executives who are ex-management consultants and may feel they have the resources to handle some consultancy-type exercises themselves. There are 30,000 alumni from McKinsey alone, including about 450 running billion-dollar-plus organisations.

Corporate managers generally are seen as "more flexible, more project-orientated, less hierarchical, more results driven" than they were 20 years ago — "qualities that consultants in the past were able to bring to an organisation", says Alan Leaman, chief executive of the UK's Management Consultancies Association.

Having ex-consultants as clients can be a benefit to the consulting industry, he argues. "You have got someone on the client side who has a really good line of sight about what they will need, what their own strengths and weaknesses are, and probably fewer of the traditional hang-ups about needing help and being big enough to go and ask for it."

However, David Heron, managing partner of Wilton & Bain Management Solutions, sees "growing pressure on organisations to seek alternatives to using the normal big firms, driven by cost and value".

He runs a network of 500 interim managers, most of them ex-management consultants. Sometimes a client will hire two or three of these to work alongside an in-house team. "There is a growing need for organisations to have an internal transformation and change capability. Part of the role of the independents that we put into organisations is to upskill the permanent workforce," Mr Heron says.

Prof Hrebiniak argues that the growth of internal consulting "has to pose some threat to the traditional consultancies, particularly if people continue to see them as expensive".

The big firms, though, seem relaxed about this type of competition. "It's fine because those are the problems we shouldn't be solving, almost by definition," says Harry Gaskell, EY's advisory managing partner in the UK. "We need to be helping companies with problems they can't solve for themselves."

Hybrid firms are thriving on need for digital skills

continued from page 1

Rich Lesser, the head of Boston Consulting Group — whose founder Bruce Henderson claims to have "defined" strategy consulting — points to his firm's ability to develop software tools that allow clients to analyse their research pipeline, for instance.

Maintaining that "we have no desire to be a software company", he sees strength however in "blending" teams across practices.

Accenture Strategy, while not claiming to compete with the traditional strategy groups, describes its 8,000 consultants as a combination of technology strategists and business strategists.

Returning to consulting in a big way since a retreat in the wake of the Enron scandal (see page 4), the Big Four accountants — PwC, Deloitte, KPMG, and EY — continue to push their one-stop-shop approach.

One of the keys to McKinsey's early growth, as Duff McDonald writes in his 2013 history, *The Firm*, was "to persuade people that [its] ability to solve problems was just as inspired as the solutions themselves" (see page 3).

For all consultancies, this has become more difficult as the clients themselves have developed their own strategic knowledge, with the help of former consultants or staff trained in the same disciplines as their advisers.

"If a company already has sufficient resources inside itself to tackle the problems it faces, they are going to reach for external consultants less. So external consultants have had to change what they offer," points out Chris Osborne, co-chairman for Europe, Middle East and Africa at FTI Consulting, which often works alongside other consultants offering specific expertise to customers in areas such as regulation.

But Ms Czerniawska says that while clients "are much better able to do the kind of things consultants did in the past, it doesn't mean they have the capacity".

16%	44%
Fee income growth in 2014 for strategy consultants	Fee income growth in 2014 for strategy consulting work

Provided consultancies can continue to offer sufficiently expert advice, combined with ever more powerful analytical tools that companies have neither the time nor skills to develop in-house, they are likely to be able to command a premium for their services.

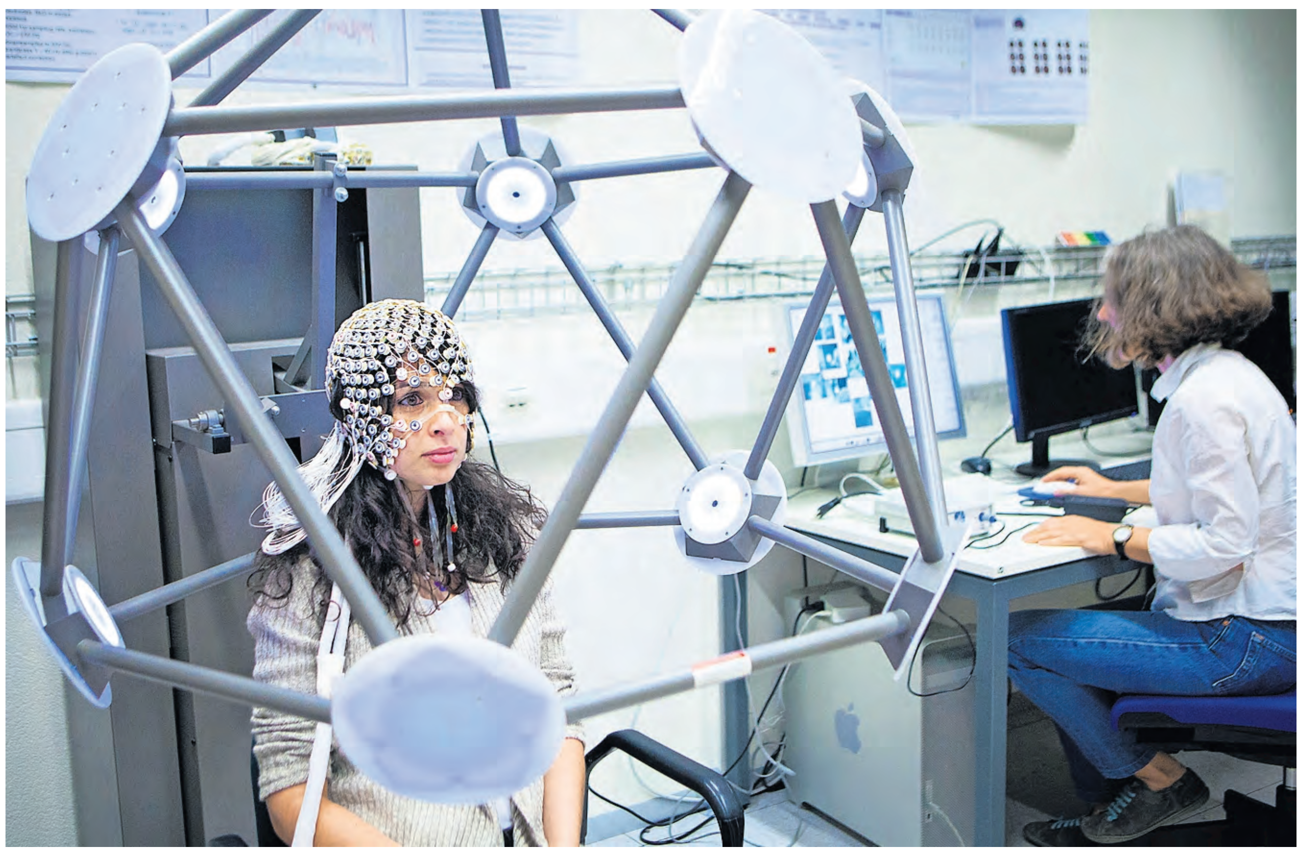
Even so, it is clear that just as digital disruption is driving business to the consultancies, and greater availability of data is allowing more profound analysis of what is going on in clients' businesses, consultancies face growing pressures to offer ever more compelling combinations of strategic advice.

Strategy houses used to apply a stable strategic framework to examine where a company should compete, how, and when. They would then proceed to a plan to execute the strategy.

Now they are obliged to adapt those strategic answers to fast-changing global realities, and to back them with empirical evidence, gleaned on the hoof from analysis of the dynamic data provided by the client.

"The profession called consulting has had to innovate more in the last five years than in the previous 20," says Vivian Hunt, McKinsey director.

Mind does matter when it comes to generating trust



Brain power: latest discoveries in neuroscience are providing new insights
Alamy

Neuroscience Unravelling the brain soup recipe is important to shaping leaders, reports *Ross Tieman*

Sometimes the key to turning a business around lies in changing the actions of those who work in it. Management consultants have been using behavioural and organisational psychologists to help analyse leadership and workplace behaviour for decades. Now, however, they are turning to a new breed of expert on human behaviour — the neuroscientist.

Deloitte has just launched a leadership consulting practice which will use the expertise of Kaisen Consulting, a boutique firm of business psychologists that Deloitte acquired in September.

Adam Canwell, Deloitte Leadership Consulting head, says that while the company draws on psychology for many insights, findings emerging from neuroscience add valuable knowledge and scientific rigour.

"There's been some quite interesting work in neuroscience . . . particularly looking at brain elasticity and what it is that we can truly develop in people," he says. "Neuroscience would be saying you need more neural pathways to make people think differently," he explains. "If you can change the way a leader thinks, it has a much quicker impact on raising their capability than changing their behaviours." But can neuroscience really deliver in a workplace environment? Paul Zak, an applied neuroscientist at Claremont Graduate University in California, urges caution. "I think most of what's out there is snake oil," he says.

Nonetheless, Prof Zak, author of *The Moral Molecule*, is dedicating himself to research that integrates neuroscience and economics. His work has seen him study companies including shoe and clothing retailer Zappos.com, Barry-Wehmiller, the technology and services provider, and The Morning Star Company, a California-based agribusiness and food processing company.

He has come to the conclusion that their management practices can be explained through neuroscience.

Prof Zak's insights are founded in his research into the neuroscience of trust.

At a country level, he says, high trust between individuals correlates strongly with investment, per capita income growth and even happiness. Low trust correlates with depression.

Trust, he believes, acts as an "economic lubricant".

His laboratory experiments identified a neurochemical, oxytocin (OT), which fleetingly raises our trust in others when they act kindly toward us. But when we are highly-stressed, its release is inhibited by the hormone epinephrine, and we move into survival mode, to focus only on ourselves. Testosterone is also an OT inhibitor, and young and successful men tend to have more of it.

Deriving effective management techniques from this brain soup is tricky. Yet Prof Zak says: "Where people are empowered with trust you get to control your life more.

"And when you control your life, you are psychologically and physically healthier, and more engaged."

The recipe for success, he says, is "a trusting organisation with a transcendent purpose". It is a formula which he says can nourish the kind of motivation that causes employees to email at 3am with solutions to longstanding work problems.

Jonathon Hogg, partner at PA Consulting Group, says: "We instinctively react to workplace uncertainty with fight or flight responses. Neuroscience shows the brain needs certainty to think rationally. If we can't see the full picture, we react as if we face a physical threat."

Openness and allowing individuals to offer input and to shape outcomes can reduce the risk of destroying value when remodelling organisations, he says.

Barbara Marder, a senior partner with talent consultant Mercer, based in Washington, DC, leads a team studying innovations in "predictive hiring".

> 'If you can change the way a leader thinks, it has a much quicker impact on raising their capability'

Instead of relying upon CVs and interviews, they ask applicants to play 15 or 20 computer games designed with the aid of neuroscience — revealing a cognitive and emotional profile.

The result is matched against the gaming profile of high-performers in the role to be filled. Combined with techniques such as machine-learning and trawling social media profiles, this approach opens the way to hiring based on capability. "Companies won't worry where they went to school or what their grades are," adds Ms Marder.

Neuroscience is also contributing to a better understanding of behavioural psychology, a field which is shaping the design of public policy. The Behavioural Insights Team, a consulting firm spun out of the UK Prime Minister's office, is now solicited worldwide. Owain Service, managing director, says two particular insights help put more jobseekers at government agencies back into work.

First, he says, if you want somebody to do something, make it easy for them. Second, we are much more likely to do things if we create plans that are linked to our daily routine. Mr Service says he can even persuade many of the unwilling to pay their taxes.

Being able to develop that kind of influence would give many companies plenty to think about.

Strategy specialists forced to amend their offering

GUEST COLUMN

Tim Morris

As a distinct niche of the broader consulting industry, the strategy specialisation emerged after the second world war, principally among a small group of American consulting firms. Many of these have been acquired or disappeared, but one notable survivor is McKinsey.

Business consulting had emerged much earlier, around the beginning of the 20th century in the US and Europe. The first waves of consulting firms concentrated on applying to large-scale manufacturing the principles of scientific management, made famous through the work of Frederick Taylor and others.

Other firms also came into existence to work on accounting and control problems presented by the scale and growing complexity of the largest enterprises. Strategy consulting was distinctive in being concerned with the agendas of top managers, advising them on the application of major decisions like mergers and international expansion.

The term strategy was not commonly used at first. Indeed, much of what strategy firms did in the 1950s and 1960s was concerned more with organisational matters rather than what might be called pure strategy. At the same time, the discipline of strategic management was emerging in leading business schools, drawing on economics and ideas from military planning.

The emergence of strategic consulting as a term to describe these firms' distinctive activities and claims of expertise occurred in the 1970s. During this period firms such as McKinsey , Bain and the Boston Consulting Group were busy defining theories which would shape the industry.

One could think of the period between the 1960s and 1990s as a golden period for strategy consulting. The leading firms developed reputations for this work particularly as the notion of building a sustainable competitive advantage came to underpin what strategy meant. Other advances in academic thinking, such as the idea of building unique resource and capability bases to support a strategic position, further helped to develop the market.

Since then, the business of strategy consulting has evolved for a number of reasons. One is that clients themselves have become better educated and more sophisticated, not least because of the proliferation of MBA and executive education. Most executives have an excellent overview of the concept of strategy and now want to focus on how to execute well. At the same time, strategies have become more temporary or emergent and companies have been encouraged to be agile and more entrepreneurial, particularly as digital technologies have transformed industries. and created new opportunities. And today, companies have also to be seen to be doing the right thing. These trends have been reflected in the activities of consulting firms.

> 'Clients have become better educated and more sophisticated'

So I see the activities of strategy specialists spreading across a number of areas. A niche speciality remains pure strategy in the sense of advising clients on creating and sustaining competitive advantages. Aiding these specialists is the use of big data to deepen their analytic capabilities.

More mainstream strategy now focuses on implementation processes, or strategy execution (in a way that echoes earlier work on organisational effectiveness in the 1950s). This is the somewhat crowded domain of the established strategy firms as well as Accenture, IBM and the Big Four accounting and advisory firms. Further consolidation would not be surprising.

A third area is innovation: just as the discipline of strategy in business schools has expanded into areas such as entrepreneurship, so consulting firms are developing capabilities to address clients' concerns with renewal.

And a fourth area plays to the term purpose, the successor to vision (which itself replaced plans and goals) as the buzzword of chief executives. Purpose links strategy to the wider stakeholder demands facing today's chief executives along with the question of how to differentiate organisations and bolster commitment among employees.

Purpose also links to leadership development so it invites a range of potential interventions, such as counselling, that can be combined into a lucrative consulting-client relationship. Purpose also encapsulates the preoccupations of leaders in the early 21st century, when the relative simplicity of competitive advantage has given way to more complex and dynamic leadership challenges. Successful consulting firms will be the ones that seize the opportunities this complexity presents.

The author is professor of Management Studies at Saïd Business School, University of Oxford

Contributors

Andrew Hill
Associate editor and management editor, FT
Brian Groom
Freelance writer
Ross Tieman
Freelance writer
Rod Newing
Freelance writer
Ian Wylie
Freelance writer
Emma Boyde
Commissioning editor
Steven Bird
Designer
Emily Lewis
Picture editor

Hunt for 'bike and jeans' brigade is the new priority

Skills gap Staff need to combine digital skills with business savvy to gain clients, says *Ross Tieman*

A large chunk of consulting has long earned its corn advising others on computerising and modernising their businesses. But now, in the midst of the industry's own digital transformation, partners are wrestling with an unfamiliar problem: how to acquire sufficient skilled staff when all the world is trying to hire millennials with digital mastery.

Management consulting, in particular, is caught in a triple bind.

Clients are crying out for advice on how to reshape their businesses to best profit from the digital revolution. That has pushed consulting firms to vastly expand their digital offering (which already accounts for 27 per cent of UK activity, according to the Management Consultancies Association).

Yet, as they race to recruit, management consultants, long used to lording it at university job fairs, are finding themselves sidelined as youngsters head for Google, Facebook and Amazon, or even unknown but exciting start-ups.

And it is not just data-crunching skills that are in short supply. As infrastructure projects pick up after a long slump, consultants are discovering that engineering has gone digital, too, and they are battling to hire engineers.

Richard Stewart, managing director of Mindbench, a management consultant recruitment company, says there is a real shortage of people who can both understand and use complex data, and who also possess consulting skills. "It is difficult to find and hire those people," he says. As a result, consulting industry leaders are devoting lots of money and effort, and all the ingenuity for which their trade is renowned, to closing a yawning gap between demand and capacity.

Part of the solution might be offered by the very technologies that clients are so desperate to understand. Peter Lumley, a digital expert from PA Consulting, says: "As a business, we now do things in hours or days that in the past took us months or quarters.

"About three weeks ago, we downloaded 2m rows of data for a client and put it into a visualisation tool that gave back insights within four hours. Just to get the server for that would have taken me three months in the past. But we put the data in the cloud and I paid $35 on my credit card. It's a different world."

Yet, even with cloud-enhanced efficiency, consultants need a much bigger proportion of employees with digital skills. They have set about rebalancing skillsets in five principal ways — with hiring some way down the list.

Consider Accenture, a consultancy that has long majored in technology services. Bruno Berthon, global managing director of Accenture Digital Strategy, says digital is such a big opportunity for the company that "soon half our business will be in the new technologies".

Or Arup, the engineering consultancy that gave us the Sydney Opera House and many of the world's most iconic bridges.

Volker Buscher, who leads Arup's information and communication technology business in Europe, the Middle-East and Africa, explains that even engineering a bridge has become a data-intensive digital project.

"The people I am looking for, and am trying to find globally right now, are what we call digital practitioners," he says, adding that they also need to be able to specialise in different areas and liaise with clients.

But hiring is only the first element of a triple strategy. The second task is to bolster the skills of existing technical employees. Arup is simultaneously training 3,000-4,000 employees in digital skills. Meanwhile, the company is also adapting to more collaborative working made possible by digital tools. "This will create more porous boundaries with partners," Mr Buscher adds, explaining that the partner firms range from start-ups to major corporations.

Collaborating with start-ups is a way to gain absent or additional skills and capacity. It can also be a prelude to strategic acquisitions. Last month, EY acquired a French data-analytics specialist, Bluestone Consulting, with a view to deploying Bluestone's expertise more widely.

Deloitte has also used acquisitions, such as that of US app boutique Übermind, to reinforce development of its Deloitte Digital arm, which now has 550 people in the UK and more than 1,000 in the US.

To help attract and retain the digital natives who provide all the coding, engineering, data crunching, analytic and digital design skills it now offers clients, Deloitte Digital is located away from the main business, with premises that offer younger joiners the bare-brick, bike and jeans, bring-your-own-device, collaborative environment they are used to.

Opinions in the consulting world are divided about the need for bean bags and scrawl-on walls, but the consensus is that firms need to develop staff who combine digital skills with business understanding and can win the confidence of clients, whether in tech companies or old-world industry.

Consultant salary ranges

	Basic Salary	Bonus	Benefits	Total remuneration
Junior Consultant (1-3 years - Top consultant)	£39,695	8.3% (Average bonus for those that received one)	7% Average benefits	£45,795 (Basic+Bonus +Benefits)
Junior Consultant (1-3 years - Digital)	£30,000-£45,000 (80%)	5-10% (most common)	5-10% (most common)	£43,125 (based on mid-range £37,500 + 7.5% bonus + 7.5% benefits)
Junior Consultant (1-3 years - Infrastructure)	£30,000-£40,000 (80%)	5-10% (most common)	5-10% (most common)	£40,250 (based on mid-range £35,000 + 7.5% bonus + 7.5% benefits)
Manager (5-9 years - Top consultant)	£75,356	8.1% (Average bonus for those that received one)	10.1% Average benefits	£89,066 (Basic+Bonus +Benefits)
Manager (5-9 years - Digital)	£55,000-£70,000 (+70% of sample)	5-10% (most common)	10-15% (most common)	£75,000 (based on mid-range £62,500 + 7.5% bonus + 12.5% benefits)*
Manager (5-9 years - Infrastructure)	£55,000-£70,000 (70% of sample)	5-10% (most common)	10-15% (most common)	£75,000 (based on mid-range £62,500 + 7.5% bonus + 12.5% benefits)*
Partner (Top consultant)	£136,968	13.9% (Average bonus for those that received one)	10.6% Average benefits	£170,568 (Basic+Bonus +Benefits)
Partner (Infrastructure)	£120,000-£140,000 (+60% of sample)	15-20% (most common)	15-20% (most common)	£175,500 (based on mid-range £130,000 + 17.5% bonus + 17.5% benefits)
Partner (Digital)	£120,000-£125,000 (30% of sample) £130,000-£145,000 (20% of sample)	15-20% (most common)	15-20% (most common)	£165,375 (based on mid-range £122,500 +17.5% bonus + 17.5% benefits)

FT graphic Source: Top-Consultant/Management Consultancies Association (Oct 2015)

* Top of salary range - £70,000 leads to - £84,000 package

Money matters
Experience counts

Consultancy companies are scouring the world to hire digital and infrastructure experts, but that does not mean pay is going through the roof.

Business advisory firms, in particular, have long offered some of the best packages to woo the brightest graduates from top universities.

Now, instead of simply waving fancy money under the noses of economics and history graduates or those with newly minted MBA degrees, they are casting their net further afield to include more engineers, mathematicians and IT specialists.

Graduates joining the fast-expanding digital arms of consulting firms are being paid well, but still less than novice strategy advisers, who are typically the cream of the crop.

According to UK data from a Top-Consultant/Management Consultancies Association survey last month, junior digital consultants typically earn an average of £43,125. Infrastructure peers typically earn less, with total remuneration averaging £40,250.

The Top-Consultant Salary Benchmarking Report 2015, however, shows strategy consultants continue to earn the most — those with one to three years' experience typically achieve packages exceeding £50,000 a year. Experience rapidly adds value. Digital consultants with five to nine years under their belt have acquired business skills to complement their digital expertise.

This group can expect a package totalling £75,000 — yet that lags behind the industry average paid to consultants across the board of £89,066 for those with comparable experience. The biggest premiums are paid at partner level. Those with digital understanding out-earn rivals, taking home an average package worth £175,500, while their relatively plentiful engineering colleagues in the infrastructure realm earn below average rates.

Ross Tieman

Truth behind the 'vainies, brainies and Bainies' labels

Founders

Modern-day consulting can be traced to the start of the 20th century and some say early influences can still be detected. *Ian Wylie* reports

What works in one place will work in another, according to the underlying tenet of consulting.

But does that apply from one century to the next? And do the methods of the consulting industry's founding fathers have any relevance today?

"The DNA of a consulting firm tends to explain its core competences as well as the evolution of competition within consulting over many years," says Chris McKenna, author of *The World's Newest Profession* — a history of management consulting. The practice began in the early years of the last century with the application of scientific management principles to production lines.

Arthur Little, who founded Arthur D Little, one of the first strategy consulting firms, in 1909, was a chemist who taught papermaking at Massachusetts Institute of Technology. He specialised in technical research, "management engineering" and conducted analytical studies, precursor of the consulting studies for which his firm would later become famous. But according to Mr McKenna, Little opposed the systematic sharing of ideas. Each challenge, he believed, demanded a unique solution.

Other consultants did not waste the opportunity. When Dupont, GM and Standard Oil found success reorganising around product rather than functional divisions, many consultants built successful practices transposing this idea from one company to another.

A former major in the US army, Edwin Booz's consulting firm, Booz Allen Hamilton, aimed to bring industry experience to government. Hired to prepare the US navy for the second world war, Booz Allen recommended changes such as replacing old chains of command with new management units. It continues to provide consulting service to the US government in defence and intelligence.

We can only imagine what Major Edwin would have thought of Edward Snowden — a Booz Allen-employed contractor when he blew the whistle on the National Security Agency in 2013.

Likewise, it was while spotting inefficiencies among military suppliers to the US Army Ordnance that James McKinsey, a young accounting professor at the University of Chicago, saw potential in using accounting principles as tools of managerial decision making.

It was not his only bright idea. McKinsey, who once diagnosed a client's problems just by looking at its letterhead, devised the General Survey Outline (GSO) that probed why managers did things, not just how.

But McKinsey didn't waste time with niceties. One colleague recalled him saying: "I have to be diplomatic with our clients. But I don't have to be diplomatic with you bastards."

> 'The DNA of a consulting firm tends to explain its core competences'

He may have contributed to today's caricature of McKinsey consultants, summed up in the words of one former partner as possessing "lots of IQ, not much EQ", a reference to a perceived lack of emotional intelligence.

However, it was his successor, Marvin Bower, who is considered the father of modern management consulting thanks to his principled insistence on impeccable professional standards in substance, ethics and style.

"The broader history of strategy consulting firms has been the emergence of an elite group of three — McKinsey, Boston Consulting Group and Bain & Co — and each employs a different strategic orientation," says Mr McKenna.

"McKinsey offers deep industry knowledge, BCG spans disparate industries to offer novel economic models, while Bain offers careful counsel within each organisation. These orientations derived from the vision of their founders," he says.

Bruce Henderson, a mechanical engineer who left Arthur D Little to found BCG in 1963, brought new concepts to the profession such as the "experience curve", "growth-share matrix" and the "rule of three and four".

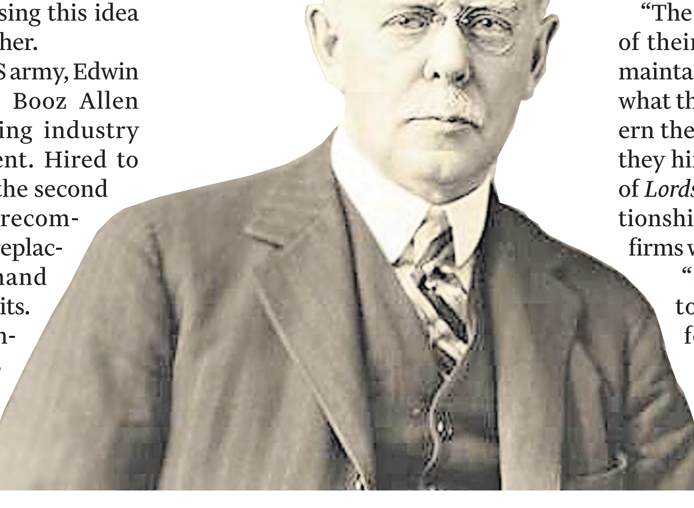
John Clarkeson, who succeeded BCG's founder as chief executive, recalls Henderson as an intellectually driven, rigorous thinker with a passion for writing. "On every flight, he would carry a Steno pad for writing and reworking his short essays," says Mr Clarkeson.

Bill Bain, who quit BCG in 1973 to start his own firm, adopted another approach. Instead of parachuting in teams of consultants, it was Mr Bain's idea to work for only one firm in an industry, on a retainer, and develop a long-term relationship.

Over time, the big firms' values and methods have earned them sobriquets — deserved or otherwise — from some of those who have observed their working practices. McKinsey consultants have been branded "vainies" who lecture clients on the McKinsey way. BCG consultants are the "brainies" who quote academic theory, while "Bainies" are more interested in delivering quick results than reports.

"The firms that still bear the imprints of their founders are those that have maintained considerable continuity in what they do for clients, how they govern themselves and the type of people they hire," says Walter Kiechel, author of *Lords of Strategy*. Of course, the relationship between founders and their firms was not always harmonious.

"Both BCG and Bain had fairly tortured relations with their founders, eventually showing them the door," says Mr Kiechel.



One size does not fit all: Arthur Little believed in finding unique solutions

Big Four see new opportunity after Enron retreat

Disruption Technology is driving change as traditional firms tackle threats from low-cost networks, specialists, and in-house advice, says *Brian Groom*

Forces that "have disrupted so many businesses, from steel to publishing, are starting to reshape the world of consulting", a group of academics wrote in a seminal article in Harvard Business Review in 2013. Two years on, disruption is well under way, fuelled by the impact of technological change across the business world.

Where it will lead is uncertain, but already this disruption is provoking shifts in the strategies of the industry's main organisations, including the "Big Four" accounting and advisory firms — Deloitte, PwC, EY and KPMG — and strategy consultancies such as McKinsey, Bain and Boston Consulting Group.

All these firms are determined to see opportunity in the face of threats from specialist boutiques, low-cost networks of freelance consultants, encroachment by firms from other sectors, data companies and clients who want to handle more projects in-house.

"I have been in consulting for 30 years and there has never been a more exciting time," says Harry Gaskell, EY's advisory managing partner for the UK. "It's great at the moment, just in terms of the quality of the problems and the aspirations that we are working on with our clients."

Estimates for the size of the global consulting market vary from $90bn to $350bn, depending on the definitions used. Kennedy, a US-based firm that has analysed the sector since the 1970s, puts it at more than $230bn, after growing at a compound annual rate of 4.5 per cent since 2011.

Gartner, another research firm, calculates that the Big Four now have a combined 40 per cent of the market. They have significantly increased their share over the past decade through organic growth and dozens of acquisitions. Gartner said Deloitte was the world's largest consulting firm in 2014 by revenue.

This has been a turnround for PwC, KPMG and EY, which disposed of their consulting arms when the 2002 Sarbanes-Oxley Act in the US restricted auditors from providing services such as consulting to their audit clients after the collapse of energy giant Enron.

In the mid-2000s, they started to rebuild in consulting, seeing better growth prospects there than in audit and tax. The rapid expansion of Big Four consulting businesses has brought renewed concern about conflicts of interest, though the firms insist the dividing lines are clear.

Much of their growth is in areas such as technology, data analytics and cyber security. "Digital transformation is driving a tremendous amount of change," says Jim Moffatt, managing director of Deloitte's global consulting business.

The boundaries with technology firms such as Accenture, which also has a strategy arm, are blurring. Strategy firms have themselves been embracing technology through units such as McKinsey Solutions and Boston Consulting Group's BCG Digital Ventures. The big strategy houses, still typically seen as the industry's elite, have undergone shifts. Classic "blue-sky" strategy consulting has declined from 60-70 per cent of the market 30 years ago to about 15 per cent today, according to Kennedy. Firms have moved towards nitty-gritty "functional strategy", including operational areas such as procurement and supply chain management.

The creation in 2007 of McKinsey Solutions, which embeds analytics and software tools in a client's business, was a departure from McKinsey's traditional model of sending in clever consultants to write a report on a company's strategic direction for the chief executive.

Strategy, however, is making a bit of a comeback as companies grapple with new technology. The Big Four have been building their strategy capabilities: PwC acquired Booz & Company, now rebranded as Strategy&, while Deloitte bought US strategy consultants Monitor. "Everyone is looking at innovation. You have got convergence of different industries," says Karen Briggs, who heads KPMG's UK advisory practice.

Ashley Unwin, PwC's consulting leader in the UK, Europe, Middle East and Africa, says his firm is trying to create as broad a range of capabilities as possible. "We don't want to be a one-trick pony, we don't want to be just an implementer or a technology house or a strategist. We think there's an opportunity to work that entire continuum."

PwC has been among those leading a trend towards payment by results rather than hourly rates. "We work with clients on problems that matter to them and we don't just put 10 per cent at risk, we put 90 per cent at risk. We take significant upside if we get it right and significant downside if we get it wrong," Mr Unwin says.

Big firms also realise they need to collaborate more with other providers. "The scale and scope of problems now are requiring a broader range of skills," says Richard Houston, managing partner for consulting at Deloitte UK.

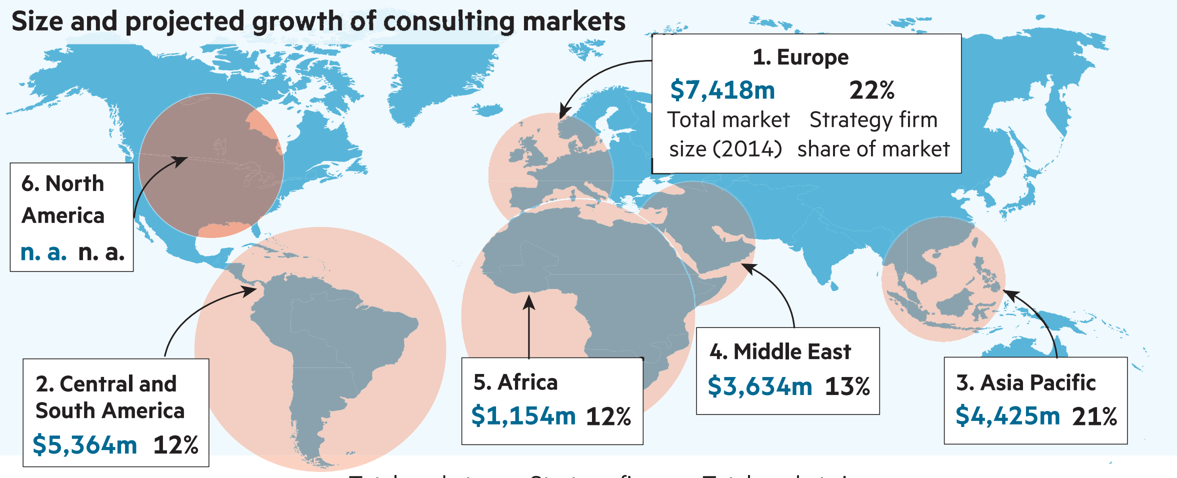
The industry is creating strategic alliances such as PwC's with Google, Deloitte's with data-mining company Kaggle and KPMG's with McLaren Group to use predictive analytics in its audit and consulting work.

In this world of dissolving boundaries, the Big Four can find themselves competing for the same work with strategy, technology and niche firms.

"If you embrace disruption, the opportunities are greater than the threats," says Mr Moffatt. "The companies that will be at risk will be those that resist it."

'The scale and scope of problems now require a broader range of skills'

Size and projected growth of consulting markets

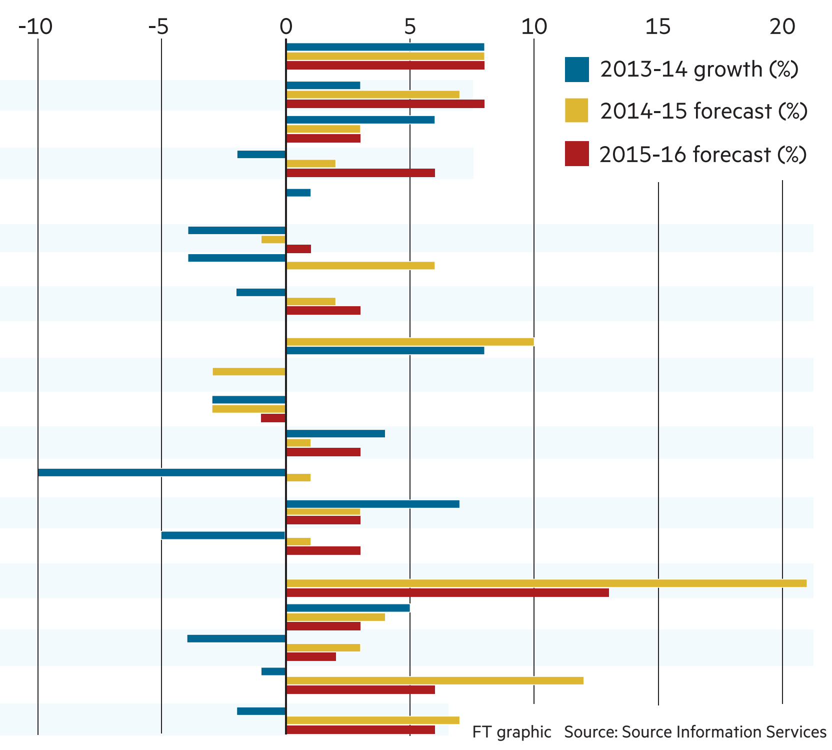


Total market

	2013-14 (growth)	2014-15 (forecast)	2015-16 (forecast)
Europe	-1%	3%	3%
Central and South America	2%	6%	8%
Asia Pacific	-1%	28%	28%
Middle East	6%	5%	7%
Africa	-1%	20%	23%
North America	n. a.	n. a.	n. a.

		Total market size, 2014 ($m)	Strategy firm share of market
1	United States	57318	17%
2	United Kingdom	10409	17%
3	Germany	9382	33%
4	France	5759	19%
5	Australia	5086	12%
6	Canada	4396	10%
7	China	3672	23%
8	India	1962	32%
9	Singapore	1770	32%
10	Italy	1503	20%
11	Brazil	1478	17%
12	Spain	1475	15%
13	Netherlands	1441	14%
14	Japan	1310	27%
15	South Africa	1258	10%
16	Saudi Arabia	1224	13%
17	Switzerland	1183	25%
18	Sweden	1062	23%
19	UAE	867	22%
20	Mexico	858	17%

Total market size



FT graphic Source: Source Information Services

More clients question whether firms deliver value for money

Fees

But some customers still lack clarity about what they expect consultants to be able to achieve for their company, says *Rod Newing*

Clients are primarily looking to consultancies to fill capability gaps, to independently analyse, review and challenge their business and to bring discipline to major cross-functional projects. These are not new requirements, but Ian Peters, director, customer-facing strategy at Centrica, the energy services company, says the use of consultants is driven by the accelerating pace of change.

"The world is more uncertain than it used to be. Technological drivers are much more dominant, there is far less clarity of outcomes and geopolitics is driving more strategic change," he says. "That doesn't mean that consultants know the answers."

Mr Peters says he has seen too many people hire consultants to validate what they wanted to do anyway, but deemed too difficult to achieve internally, which he thinks is the wrong motivation. He also sees a risk that strategic thinking is outsourced to consultants.

Applying specific expertise not available internally can be controversial. Mark Summerfield, chief executive of The Co-operative Insurance, who has long experience of using consultants, says he can access skills in specialist areas that he does not choose to keep on the payroll on a full-time basis.

He likes consultancies that bring objectivity, rigour, insight and learning from others who have been down similar paths. He has also used firms who have individuals with skills in a particular areas.

"What consultants can't do, and I wouldn't expect them to, is to drive change from the inside," says Erich Silhanek, vice-president, global commercial finance and pricing at Sony Mobile, which has been using various consultants for the past 10 years, including EY. "Consultancy projects are very much focused on the here and now."

He believes that consultants should hand over the project in such a way that the change process becomes embedded in the client organisation. That enables the client to continue to drive change when the consultants have left.

Choosing a consultancy firm with the right fit for both the organisation and the specific project is important to clients. "It is one of the hardest things," says Mr Silhanek. "You need a cultural fit as well as experience."

Mr Peters has been employing consultancies for the past 20 years, including Baringa. He has observed a wide spectrum of consultancy styles. "Some are more inclined to 'work with' you," he says, "whilst others 'do to' you."

Everybody agrees that the individual consultants are as important as the firm itself. "It is about their experience and intellectual capability," Mr Summerfield says.

Consultancy firms are under pressure to deliver greater value for money to clients.

One approach is to invest in pre-packaging specific services, with the cost of development being shared across multiple clients. However, clients do not always see it as a positive trend.

"The behaviour I find unhelpful is the temptation to resell a work product they have created and wish to resell repeatedly," Mr Summerfield says. "I tend to resist being presented with a package 'off the shelf' that is used as a solution, irrespective of what the problem is. When we can, we tend to be more specific about scope."

Value for money is an important consideration.

A report published this year by Source Information Services found that only 38 per cent of 900 senior executives in multinational organisations think that consultants add value over and above the fees they have charged.

The report says that firms have yet to find a consistent, systematic way of explaining the value they add to clients (see box).

Mr Summerfield believes the set fee approach is no longer appropriate and that payment should relate to the benefits consultants bring to the client.

The last word goes to Mr Peters. "In a world of increasing pace and uncertainty, the need for consultants is rising," he says. "However, that requires a different participation model."

Best practice Key performance indicators should be established early on

The Chartered Institute of Procurement and Supply is dedicated to promoting best practice. Emma Scott, a representation manager, says that the earlier clients engage with their procurement function the more likely they are to get measurable success out of a consultancy project.

"The [procurement] function is quite often brought in at the last minute, as an 'international rescue'," she says. She adds that rather than being seen as the police or the gatekeeper or even the box-ticker, a procurement function should have a really strong relationship with the consultant. Ms Scott advises that procurement professionals should be involved early on and set out, in some detail, key performance indicators. This helps not just to match competency, skills and knowledge, but also to measure success. She also advises that clients should seek references for individual consultants, as well as the firm.

"You need evidence-based references of projects that have delivered tangible results," she says, "rather than just a marketing brochure full of nice comments."

The procurement function should keep the project on track, measure success, demonstrate value and identify and deal with scope creep, which happens when the contract is slowly extended.

"The procurement function can show a consultancy how to demonstrate tangible deliverables and value for money," she concludes. "That is gold dust for them to go on and sell to another business."

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Emma Scott: seek tangible deliverables