The Business of Consulting

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Changing face of the war for talent

Soldiers and weapons of the consultancy business are evolving, writes *Andrew Hill*

Consultants first popularised the expression "war for talent" in the late 1990s. Nearly 20 years on, the martial vocabulary persists — and consultancies themselves are in the front line.

The soldiers — and the weapons — are changing, though. While the essential model of management consulting may not have altered much, consultancies are looking for different types of people, and the differences provide interesting clues as to how the business is evolving.

A naked appeal to the ambitious analytical graduate or MBA student still sits at the core of how consultancies attract people. But these days, such overtures are often dressed in the alluring garb of the technology companies and digital agencies with which consultancies compete for recruits. Consulting groups further embellish their approaches with millennial-friendly claims about the wider social purpose of advisory work that would probably have made most 1990s recruits laugh.

Consultancy heads are acutely aware that while they can still attract the cream of top universities and business schools, if they cannot field a team of sufficient breadth, depth of knowledge and diversity of background for their clients, they may not get the business. "Saying 'I'm smart and I went to Oxford' — that doesn't cut it any more," says Bob Bechek, worldwide managing director of Bain. What is more, he adds, consultants have to be more than the caricature "group of brilliant assholes" who once sought to dazzle clients.

As well as the people with top degrees, international backgrounds and incisive analytical skills they always want to hire, consultancies now give added emphasis to qualities such as teamwork, collaboration and empathy. "In the digital age, you need people with broader and softer skills," says Johan Aurik, managing partner of AT Kearney.

He identifies a paradoxical challenge for 21st century consultants: even as clients' demand for detailed, technically grounded advice on everything from cognitive computing to cyber security increases, so does the need for people who can present such advice in convincing and accessible ways.

Imagine, for example, a personable,

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Inside

Competitors forced to work together to tackle complexity

Collaboration

The age of individual consultancies providing an end-to-end service is over, reports *Ian Wylie*

The UK government wants the long arm of the law to stretch even further, by encouraging police forces to collaborate across their borders, cut costs and detect and prevent crime better.

Yet implementing the IT system that would facilitate this data sharing and intelligence gathering across police forces is an example of how consultancies — often competitors — are increasingly collaborating, too.

PA Consulting, a UK firm with a strong technology focus, first collaborated with Canadian software provider Niche to combine Sussex police force's 60 software systems into one. The two companies worked together again to implement the same system for Surrey police, then again across five forces in the Midlands and nationwide for British Transport Police.

So when a big metropolitan police force in Europe was looking to transform its core systems and processes, PA and Niche were confident enough in their alliance to work together for the first time as a single commercial entity under the name PA Niche.

The one-stop shop consultancy — where one consulting firm offers an end-to-end service — is dead, claims Andrew Hooke, head of consulting sectors at PA Consulting. "Increasingly we are seeing a growing complexity in the nature of consulting projects. That requires multiple specialist skills that a single firm simply does not possess," he says.

He cites transforming the health services in a city or region as an example. Such a project would demand specialist skills in advanced analytics to process data, such as waiting-list times and performance of operating theatres.

It also needs expertise in technology to make systems more efficient; in HR to manage people issues; and in change management to deliver the programme on time and budget. These skills, says Mr Hooke, can only be provided by companies working together.

"It won't be long before the big consulting firms won't be able to deliver on their own, nor should they. Collaboration won't be needed across all consulting activities but it will become the norm," says Mr Hooke, who predicts that alliances will soon account for more than half of a consultancy's revenues. "Clients want it and even the big firms are seeing a real need to work together," he says.

Clients are fed up with being force-fed advice and project teams they have little input in shaping, says Chris Preston, managing partner of Odgers Interim Consulting, a firm that supplies interim consultants. "Naturally, business leaders want expert consultancy delivered by experienced individuals. But all too often, the senior director or partner who won their confidence simply staffs the project with young and inexperienced associates who are likely to be learning on the job," he says. "The value of external advice and support has not disappeared, but the way this guidance is offered and purchased has."

Big data tools mean clients can quickly create a collaborative environment to develop multi-sourced projects, says Chris Geldard, UK managing partner at Capco, a consultancy focused on financial services. "These environments are self-contained, which means the technical know-how and competitive advantage can remain with the client," he adds.

So far, so good. But the challenge with more collaborative approaches to consulting is ensuring all partners are accountable for the project and its outcomes, says Mark Lillie, a partner in Deloitte's UK business. "Clients may demand that outcomes are delivered in a collaborative way, so the challenge for consultants becomes one of establishing accountability and incentivising the behaviours of the partners, so you don't end up with a blame culture," he says.

He adds that there are lots of conversations going on about how these less hierarchical alliances and ecosystems might be bound together in a more formal way. Deloitte is exploring the opportunities for more extreme collaboration, through crowdsourcing. Its Pixel platform enables Deloitte teams and clients via crowdsourcing vendors including Topcoder, 10EQS, Wikistrat and InCrowd to seek input from the public on developing new products or ideas, and even on designing, building and testing new digital products.

Andrew Hooke: seeing demand for 'multiple specialist skills that a single firm does not possess'

The key to successful alliances, multi- or crowdsourced projects is managing them tightly, says Mike Hockey, director at Roc, a consultancy whose clients include Tesco, BAE Systems, Nestlé and the BBC. He cites a study by Bent Flyvbjerg, a management professor from the University of Oxford's Saïd Business School, whose analysis of more than 250 infrastructure projects from around the world showed 90 per cent ran over budget.

One common factor, Prof Flyvbjerg found, was "strategic misrepresentation" — otherwise known as lying. "Naturally, there is an element of competition between consulting firms when they are involved in a multi-sourced engagement, each party is angling for a bigger piece of the pie," he warns. "These individual priorities can have a detrimental effect on the overall success of a project."

Pharma sector has produced some bitter pills to swallow

Drugs An industry in flux offers rich pickings for management consultants, writes *David Crow*

Michael Pearson (front row, left) at a Senate committee hearing on Valeant in April this year
Andrew Harrer/Bloomberg

The reputation of management consultants in the pharmaceuticals industry has taken a bruising in recent months following the near-collapse of Valeant, the Canadian drugmaker.

A clutch of former McKinsey executives took control of the company in 2008 and started implementing a strategy they had been pushing to other drugmakers for years: buy rival companies, cut the research budget, raise the price of their medicines, fire their scientists, repeat.

"Our strategy is basically the education I had through McKinsey," Michael Pearson, former chief executive of Valeant, said in an interview in 2014, when the company's shares were soaring. But Mr Pearson's approach ended in disaster for Valeant following a series of scandals ranging from improper accounting to aggressive sales techniques and massive price increases.

The company has lost more than 90 per cent of its value since the summer of 2015 and is groaning under a $30bn net debt load amassed during Mr Pearson's years-long acquisitions spree.However, a little more than a year ago, the company was still in the ascendancy, and many rival chief executives were wondering if they too should follow the Valeant playbook.

"I was speaking with a CEO of a major pharma company when Valeant was flying high and its business model was being held out as an example," recalls one management consultant, who points out that several activist investors were also pushing for drugmakers to be more aggressive.

"The CEO asked me how long they could keep going, and I told them it was basically a roll-up, and like all roll-ups it will eventually hit the wall," the person adds, referring to a strategy when a company grows through repeated acquisitions.

Despite the cautionary tale with Valeant, the pharmaceuticals industry continues to provide rich pickings for management consultants.

That is because the sector is in constant flux, in part because of what executives describe as the "built-in obsolescence" of their products. Once the patent on a drug expires and cheaper copycat alternatives flood the market, the price drops to a few cents per pill, meaning pharmaceutical companies must constantly search for new sources of growth.

"When you look at the agenda for pharma over the last couple of years, a lot of it has to do with change," says Mitch Morris, global leader for healthcare at Deloitte.

Jeff Greene, global transactions leader for life sciences at EY, says one of the biggest shifts in the industry is "the movement from paying for drugs to paying for value".

Healthcare systems, whether public or private, are close to breaking point as they contend with ageing populations and the soaring price of prescription drugs.

For that reason, many are demanding that the industry adopt a radically different reimbursement model known as "outcomes-based pricing".

Rather than being paid for every pill or injection they sell, pharma companies would receive payments based on how well their drugs work.

If lots of patients do well on a particular medicine, the pharmaceutical group would be reimbursed.

If the treatment underperforms in the real world compared to clinical trials, they could end up with nothing. Mr Morris says the industry is still working out "how to play" the new trend.

Mr Greene says the move towards value-based pricing will mean that companies try to specialise in a few core areas, such as cancer and diabetes.

"With the pressure on pricing, it's harder for one company to be world-class in multiple businesses," he says. "The drive towards outcomes is causing people to say they need to be very deep in a particular disease area."

The pharmaceuticals industry is also contending with the disruptive technological forces that many established companies are struggling to navigate. Silicon Valley giants such as Google are moving deeper into healthcare, as are older technology titans such as IBM and engineering conglomerates such as GE.

Mr Morris compares drugmakers to the automotive industry, which is facing an unprecedented threat from the rise of ride-sharing services and driverless cars, much of it originating in Silicon Valley.

'It's harder for one company to be world-class in multiple businesses'

Greg Reh, US life sciences sector leader at Deloitte, says advisory and consulting groups can use insights they have gleaned from their work with other industries to help drugmakers deal with disruptive technology.

"There have been more [pilgrimages] to the West Coast by pharma execs to meet the leading high-tech companies to learn from them," he says.

Mr Greene agrees: "The notion of industry convergence is a very hot topic at the moment, and one of the best things we can do is talk to people about what's going on in other sectors."

So how do management consultants avoid the kind of reputational disaster that can arise from cases such as Valeant's?

Mr Morris says the solution is to focus less on grand strategy, and more on workable plans that management consultants can help put in practice.

Competition and technology change face of the war for talent

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multilingual graduate of China's Tsinghua University with a PhD in data science from MIT and a sideline in computer game design and fine art. She sounds like precisely the kind of "left brain, right brain" candidate consultancies are chasing. But here is the second challenge: everyone else is chasing candidates like her too. She could pick a berth at any of the best-known technology companies, as well as other professional groups — from law to advertising — that increasingly overlap with and blur into the work of management consultancies.

Fiona Czerniawska, director of Source Global Research, which analyses trends in the industry, says: "The underlying attractiveness [of consulting] is still there, but the immediate temptation of technology has dented [consultants'] ability to attract people."

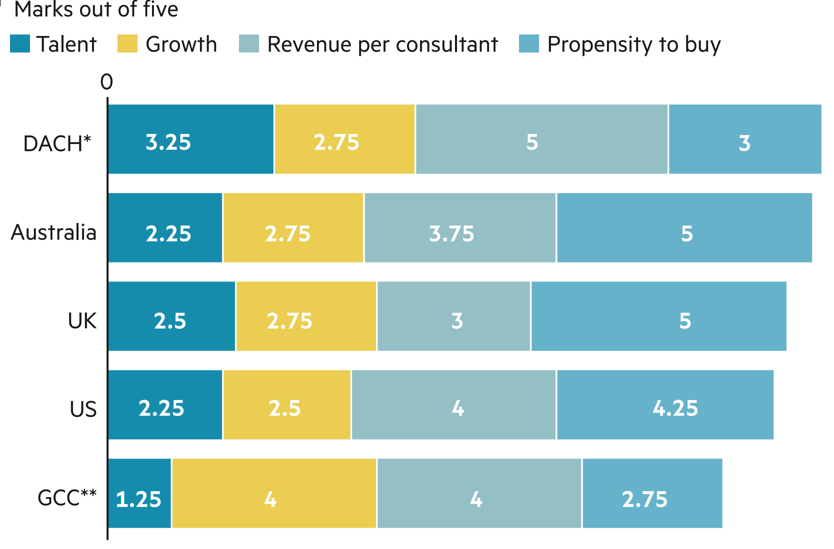
Where consultancy bosses describe a refined duel for the best minds in the world, she depicts pitiless trench warfare. Attrition — the rate at which staff leave — is fairly steady at around 15 per cent, Ms Czerniawska says, but the market is growing at 7 per cent annually worldwide, meaning ever more recruits have to be found. The biggest groups are pitching indiscriminately for anyone they can find, she claims: "If you were a manufacturing company and you were running out of iron ore, you would have to [look] to produce a different raw material so I'm surprised they haven't innovated more."

Consultants dispute this analysis. Many say they are making successful efforts to fish from a wider pool and to appeal to those who have left in an effort to convince them to return. PA Consulting, KPMG, PwC and IBM supported UK research carried out this year by She's Back, an advisory group, and the Management Consultancies Association, looking into why women leave the industry and how to attract them back.

Frank Mattern, global head of recruiting at McKinsey (whose consultants came up with the "war for talent" metaphor), says the group is hiring more people who have had six or seven years of in-depth industry experience, or deep technical knowledge: "People with more technical degrees: that's something we can't build in everybody, or it takes too long, or it doesn't get to the same level of depth." These more experienced consultants now form up to a third of McKinsey's intake of recruits.

Rebecca Emerson, UK head of Oliver Wyman, is cherry-picking highly experienced senior staff who may never have worked in consulting, such as Sir Hector Sants, former head of the UK financial regulator, who joined in 2015. "If you have been through industry you see much more what it's like to own a difficult problem," she says.

Top five most attractive consulting markets
Marks out of five



FT Graphic Source: Source Global Research * Germany, Austria, Switzerland ** Gulf Cooperation Council members

Deloitte, meanwhile, is probing the other end of the pipeline. In the UK, its BrightStart scheme aims to identify the sparkiest school leavers. McKinsey says it tries to find the best and brightest upcoming stars in frontier markets such as Nigeria or Vietnam.

At the same time, consultancies are styling themselves in ways that suggest they are as sexy as the technology groups and start-ups that many younger candidates favour. You are nobody in professional services in the early 21st century if you do not have some form of "lab" or digital unit, structured in less conventional ways than traditional firms and offering the opportunity to innovate and experiment.

Norman Lonergan, who leads EY's global advisory practice, says it requires a "heavy investment" just to bring new recruits to the door — an investment that he believes is paying off in rankings that show EY is the world's "most attractive employer" after Google and Apple. In an "if you can't beat them, join them" move, rivals PwC and Deloitte have actually formed alliances with, respectively, Google and Apple.

Yet the principal attraction of consulting remains the same as it ever was. Ambitious staff get to "do a variety of things, for various clients: from strategy to advisory and design, to implementation", says Richard Houston, managing partner of consulting at Deloitte UK.

Eventually, the tools produced by technology companies are bound to revolutionise consulting itself. Consultants say they are using machine learning, for example, to supplement rather than substitute for staff. In due course, though, the advance of artificial intelligence, in areas such as systems implementation and repeatable research, could diminish the need for consultancies to hire at current rates.

No wonder, then, that younger potential employees are choosy. They need to select the employer that best arms them for a future war for talent that could pit them not against each other but against serried ranks of machines.

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EU referendum boosts demand and doubts

Brexit Companies seek advice on impact of vote but a fall in deals and investment affects consultancy work, reports *Catherine Belton*

The UK's decision to leave the European Union has seen companies call on consultants to help them prepare for the change.

From car manufacturers to defence system designers to widget makers, consultants are helping companies examine the impact withdrawal from the single market might have on supply chains, where, for example, components to manufacture just one part might cross borders three or four times.

"For almost 40 years, companies have been designing their supply chains . . . based on an operating assumption that there is very little paperwork and zero tariffs," says Michael Garstka, managing partner of Bain & Company's UK business.

"The complexity of the detail of the supply chain that's been configured for a borderless world is probably the most profound thing that companies are having to deal with."

The resulting mathematical modelling and redesigning of business structures as companies set up contingency plans for a so-called hard or soft Brexit could seem like a boom time for the consulting industry.

But the reality is more nuanced as smaller firms as well as bigger consultancies see a fall in deals and investment projects as a result of the uncertainty surrounding the UK's decision to leave the EU. A recent survey by the Management Consultancies Association showed that more than one in 10 firms had already suffered a decline in revenue as clients put development plans on hold a result of the Brexit referendum vote.

"You only have to have one or two major projects put on hold and that's your pipeline gone in some cases," says Alan Leaman, chief executive of the MCA, which represents more than 60 per cent of the UK's £6bn-plus consulting industry. Half of the members' clients had experienced a negative impact on growth expectations and confidence as a result of the June vote, the survey showed.

For some firms, hours spent advising clients on the potential impact of Brexit were providing only a "temporary" boost, Mr Leaman says. "When there's a car crash on the motorway the emergency services get called out. But there's also a big tailback holding everyone up."

The picture varies across the industry and global firms may well be better positioned to hedge the downturn. Bain is still on track for its strongest year yet as large clients push ahead with far-reaching moves to stay on top of the growing digitalisation of industry sectors, Mr Garstka says. "Most of the major businesses we're dealing with [are still working on] longer sectoral trends," he says.

For example, the impact of the digitalisation of the UK retail banking industry, as banks switch to expanding online businesses and close branches, is "much more profound than from Brexit". The same goes for media clients as publishing platforms switch from print to online and mobile devices.

Alan Leaman: you only need to put one or two major projects on hold and your pipeline is gone

The problems that Bain worked on before the Brexit vote continue today, Mr Garstka says. "That's the core of our work at the premium end of the consulting business and we see this continuing to grow."

Other global firms, such as AlixPartners, which employs almost twice as many people in Europe as it does in the UK, are noticing an effect on their smaller contracts. Some smaller deals by hedge funds and in the private equity sector have been "put on ice", says Eric Benedict, a managing director at AlixPartners. "But for advice on performance improvement of operations . . . it's very much business as usual."

However, there is anecdotal evidence suggesting that a deeper downturn has started. Some of the consultancy giants are now facing excess capacity after embarking on a hiring spree in the past few years in anticipation of continued industry growth. The consulting industry had been one of the UK's fastest growing sectors in recent years, with the big four and others notching up double-digit growth as increasing technical innovation fuelled demand. At least one large consultancy firm recently asked junior analysts to take sabbaticals as the pipeline of deals started to wind down, says one senior industry executive.

Some firms are already reporting a blow to income because of the vote to leave the EU. Oliver Wyman, the New York-based consultancy group, recently reported a one-10th drop in revenues owing to "global growth concerns, exacerbated by Brexit uncertainty". Capita, the UK-based IT and business systems provider with offices across Europe, South Africa and India, also warned of lower profits and revenue growth due to "continued delays in decision making and lower conversion of our pipeline".

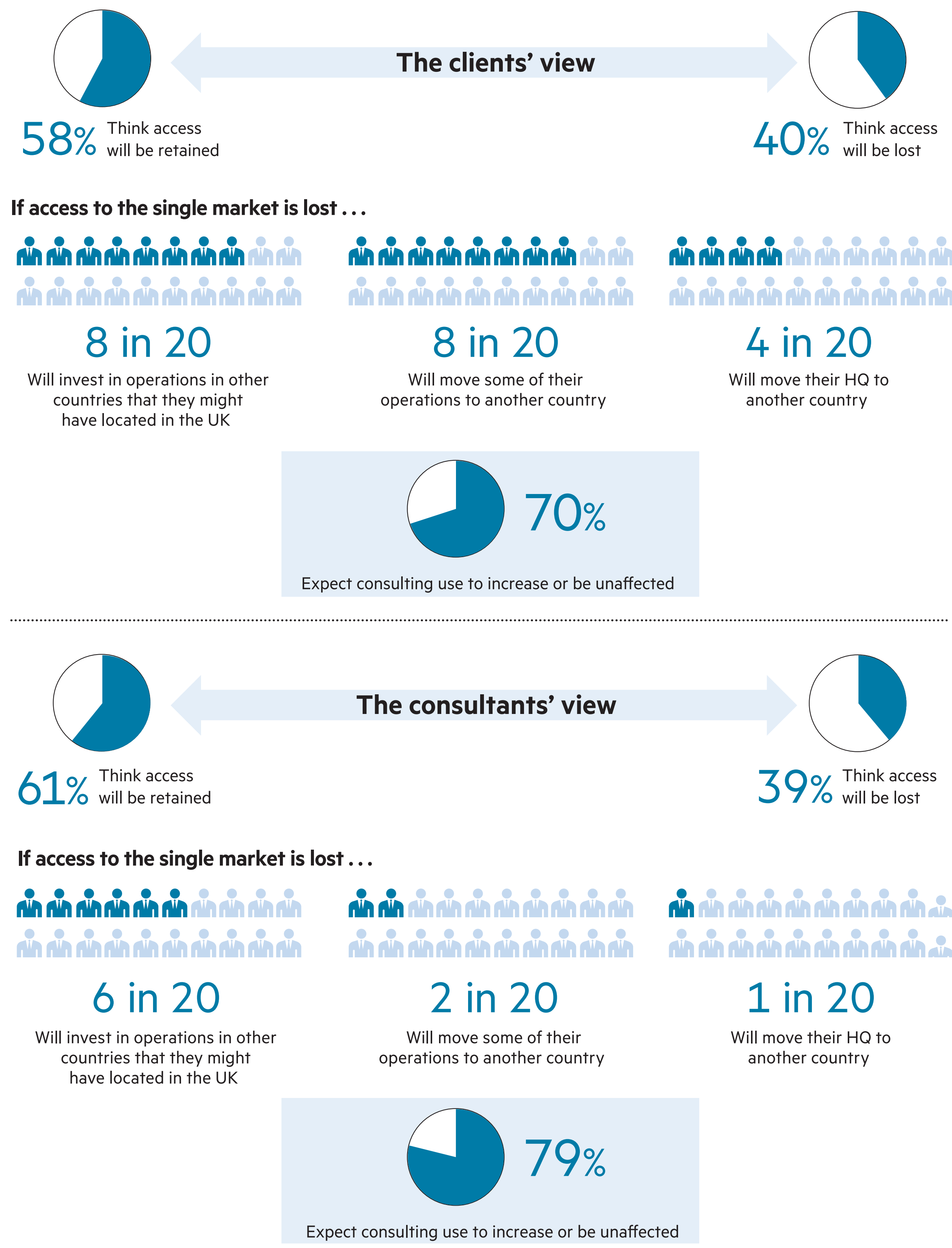
An industry shake-up could be looming, says Adrian Bettridge, managing partner at Baringa, the UK-based global management consultancy. He believes that midsized firms such as his could seize market share from bigger firms as clients look to cut costs and seek faster, more flexible forms of advice.

"We're going to see a shake-up in the consulting market in a similar way there was as a result of the financial crisis of 2008," he says.

The outlook is not clear even for consultancies that have previously worked closely with the government. A senior executive at one such UK consultancy says his firm had offered to help government work through the impact of Brexit on a number of key UK industries, but had received no response. "It's not clear where they're getting advice from," the executive says. "But it's well understood that relations between [Theresa] May and business are perceived to be strained," he adds.

"We're in a post-factual world where anyone who knows anything about anything is not to be trusted."

Consultants and their clients are worried about Brexit



Source: Source Global Research Source surveyed decision makers in almost 100 companies between Sep 28 2016 and Oct 25 2016

Going solo is 'win-win' despite pressure of finding new jobs

Independents

Survey suggests flexibility, shorter hours and similar pay are behind a boom in freelancing, says *Andrew Hill*

If you draw a parallel between freelance management consultants and the "gig economy" of Uber drivers, Deliveroo takeaway food couriers and Task Rabbit online assistants, sooner or later consultants will point out that their work has always consisted of "gigs".

Certainly, as long as there have been consultants, some people have left large professional services firms, or industry jobs, and branched out on their own, pitching for a succession of projects as individuals or in teams.

While technology may not have helped create an entirely new category, however, it has certainly revolutionised independent consulting.

Chris Bryce, chief executive of Ipse, the UK association of independent professionals and the self-employed, says: "Now people have the ability to work almost anywhere [and] to do desk research that it would have taken huge departments to do in the past."

No wonder that UK official statistics indicate that almost half the growth in the number of management consultants and business analysts since 2011 (when the category was first defined separately) has been among self-employed advisers. They now make up 55,000 of the 175,000 consultants identified by the Office for National Statistics.

Who are these people? More to the point, are they happy outside the umbrella of larger employers? The FT, and two top-ranked business schools, Insead and London Business School, collaborated with Eden McCallum, which co-ordinates a network of independent consultants, to ask 251 current and 108 former independent consultants about their work.

Nine out of 10 current independent consultants claim they are somewhat or very satisfied with their lot, and eight out of 10 of the whole group believe independent consulting will continue to grow in future. Well over half of the independent consultants said they had deliberately chosen to become independent.

Three-quarters of the consultants surveyed claimed they were earning more money, or the same, as they did as full-time employees, reaping a median annual income of £120,000. That may seem low compared with the seven-figure sums that some partners can earn working for big consultancies, but the survey also revealed that, for eight out of 10 independent consultants, billable work takes up less than nine months of the year. "Flexibility is a big bonus," as one consultant confirmed for the survey.

Dena McCallum, co-founder of Eden McCallum, commented: "The survey data confirm what we have witnessed at first hand over the past 16 years. Independent consultants see this as a real win-win."

Independent consultants are not a homogeneous bunch, though. One insight from the survey is that many younger independent consultants are using their freelance roles as a way of supporting experiments in entrepreneurship. Having worked for a big consultancy helps, but the under-40s also work more billable hours, and 39 per cent of them say their next move, if they left independent consulting, would be to start their own business.

Nevertheless, the volatility of independent life may not be for everyone. Whether you thrive, said one of those questioned, "depends on your personality and life stage, [and] whether you can handle the uncertainty and keep yourself motivated".

Asked about the main surprises, another cited "just how difficult it is to adjust to not knowing when the next job will come and the amount of networking" needed to secure new work.

Two small subsets of those surveyed were less happy: one group, dubbed "bridgers", want mostly to return to corporate roles; and the other "strugglers", miss the corporate community and earn the same as, or less than, when they were part of it.

Gig work: nothing new for consultants

Fiona Czerniawska, director of Source Global Research, which provides research and data about the consulting industry, says independent consultants largely serve the 60 per cent of the market that is represented by calls for individual specialist skills or "staff augmentation" projects, where companies outsource work to lower-cost freelancers. For the other 40 per cent of consulting business, she says it is still important for companies "to have a brand name or the financial clout [of a big consultancy]".

Teams of consultants do increasingly put themselves forward for some of the bigger projects that used to be the exclusive domain of large consultancies.

The rise of intermediaries, such as Eden McCallum or Talmix (formerly MBA & Co), recognises and capitalises on the opportunity.

"The growth of technology and individuals' changing work preferences are facilitating the growth of networks of highly skilled freelance professionals, so it makes sense to make the most of this," says Anne-Marie Malley, UK human capital leader at Deloitte.

Deloitte often pairs its teams of consultants with freelance specialists, or brings in "associates" from its network of former employees.

Those in favour of the gig economy see gig workers as a disruptive force, shaking up incumbents. The same has been said of gig consultants. But, for now at least, it seems almost as likely that a growing army of independents will coexist with their former employers as that they will one day put them out of business.

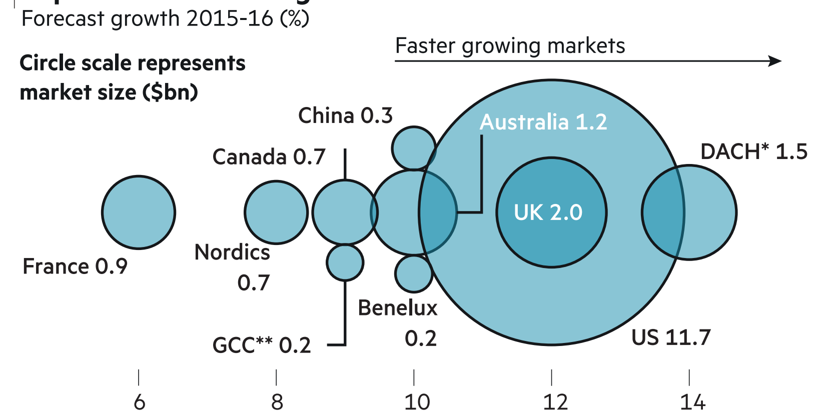
Explosion in data ushers in new age of artificial intelligence

Automation

The days of old-style consulting, with people mulling over PowerPoint presentations, is coming to an end, writes *Ian Wylie*

Top 10 markets for digital transformation in 2015

Forecast growth 2015-16 (%)



FT Graphic Source: Source Global Research * Germany, Austria, Switzerland ** Gulf Cooperation Council members

Delegates at an event hosted by Accenture last month in the Conrad Hotel in lower Manhattan were welcomed and registered by a smiling Amelia. But Amelia does not work only in events. She is a hologram — a cognitive agent who can take on a wide variety of service desk roles, emulating human intelligence and capable of natural interaction with people.

The age of automation and artificial intelligence (AI) has been predicted for decades — and it may finally be arriving, thanks to the explosion in data, the fuel that powers the AI machines.

Consulting firms are not only implementing automation and AI for clients but also using it to transform their own back-office functions and operations. It is a shift that might soon affect their strategy work, too.

Amelia, developed by New York tech company IPsoft, is one of a team of intelligent virtual agents that Accenture is using to assist its human employees via machine learning.

Together, they manage projects, apply analytics to hit targets, and make judgment-based decisions. The "scrum master" agent, for example, monitors Agile development project software, alerting the project manager to potential problems and providing possible solutions.

The "data scientist" agent helps identify data patterns and mines information to help consultants and their clients make more insight-based decisions.

Over the past 18 months, Accenture estimates that it has automated 17,000 tasks and roles, saving it around 20m hours of work per year. Rather than using automation to cut jobs, Accenture has put staff to work on higher value tasks, explains chief technology officer Paul Daugherty.

"So, for example, in finance and accounting, we've been able to automate a lot of the invoice processing, approvals and other manual decision-making and free up those people to do higher value advisory work, like doing better analysis of spending patterns rather than simply processing transactions," he says.

"Intelligent augmentation is the way we think about equipping our people. We want to be a firm of people with deep specialisations, augmented by the right tools," he adds. "We want to use the technology to allow people to do their jobs better and live their lives better."

According to analysis by Deloitte — using research by Oxford Economics as well as a study by Carl Benedikt Frey and Michael Osborne of Oxford university — only 7 per cent of management consultant and business analyst jobs are at high risk of automation in the next 10 to 20 years. In comparison, 35 per cent of jobs overall in the UK are at high risk.

However, one of the consequences of the introduction of AI into consulting will be greater clarification of consulting methodologies, predicts Harvey Lewis, Deloitte's UK artificial intelligence lead in technology consulting. There will be repeatable, common approaches that are supported by machines, and then a class of essentially human approaches for dealing with more varied, wide-ranging and uncertain problems.

> 'Clients want us to arrive, ready to load in their data, and provide insights on the first day of the project'

"Consulting firms have a lot of intellectual property locked up inside their consultants' heads, which, if codified and converted into algorithms, can be used by computers instead," he says. "This will allow computers to work on the repeatable consulting tasks by following prescribed methodologies, while the human consultants are freed to work on those projects where inputs, outputs and outcomes are more uncertain or which require greater creativity, subjectivity, social interaction and perceptiveness or human judgment."

If consulting can be codified then the cost of performing certain types of consulting work is likely to fall, says Mr Lewis. This means that consulting can be offered to more organisations, such as start-ups, small and medium enterprises and charities that might not previously have been able to afford consulting services.

However, AI could also have a significant impact on the way strategy consultants do their job.

"The days of old-style consulting, where the work was centred around a bunch of people mulling over a PowerPoint presentation and analysis for the client, are either dead or dying fast," says Mr Daugherty. "Increasingly, strategy consulting is moving to fast-paced database analysis, supported by machine learning. Clients will want us to arrive, ready to load in their data, understand the situation and particular dynamics of their business and provide insights on the first day of the project."

'Massive bias' stops advisers becoming bosses

Leadership The failures of a few consultants who ended up running companies distract from the many successes. By *Brian Groom*

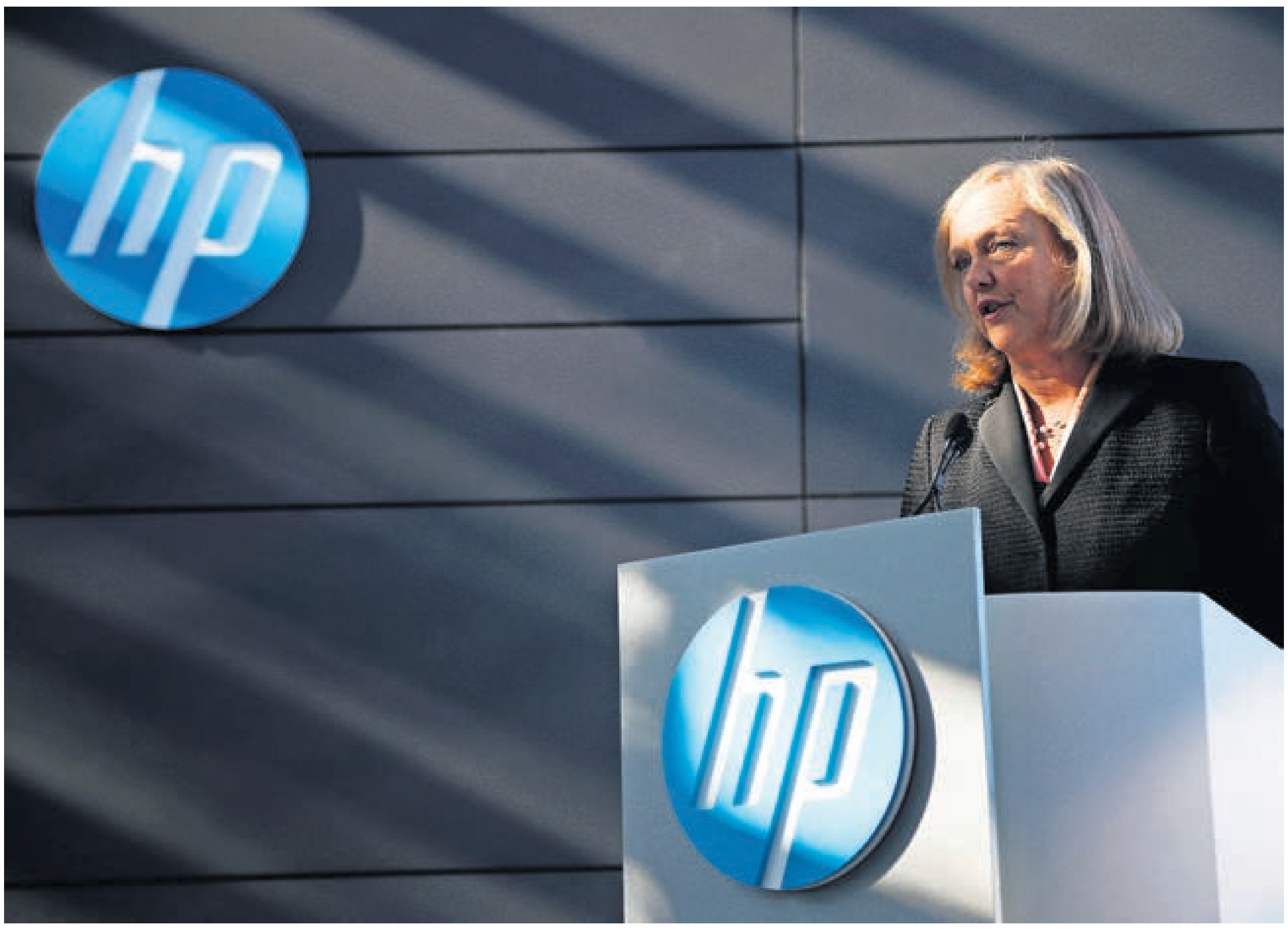
Company directors are often hesitant about hiring a management consultant to be their chief executive. Perhaps they have the occasional rare but horrifying experience in mind, such as that of Enron, the former energy trading company, and Valeant, the Canadian drugmaker.

Enron's collapse in 2001 led to the jailing of Jeffrey Skilling, the former McKinsey partner who became Enron's chief executive.

Michael Pearson, who became chief executive of Valeant in 2008, also happened to be a veteran of McKinsey. He built Valeant into one of the world's biggest pharmaceutical companies, but things started to crumble last year when it was revealed the company had been using a secretive network of mail-order pharmacies to boost sales. Shares are down more than 90 per cent from their peak. A criminal probe has already resulted in charges being brought against a former Valeant manager and the former chief executive of Philidor, a defunct mail-order chain, alleging they participated in an illegal kickback scheme. Mr Pearson stepped down as chief executive in March. He was also given a payout worth more $10m and Valeant retained him as a consultant.

However, such disasters are not the norm. Some of the world's most prominent executives have a background in consulting, such as Sundar Pichai, chief executive at Google (ex-McKinsey), Indra Nooyi, chief executive of Pepsi (ex-Boston Consulting Group), Meg Whitman, chief executive of Hewlett Packard Enterprise, and John Donahoe, chairman of PayPal (both ex-Bain).

Appointing a consultant remains relatively unusual, however. Research by Spencer Stuart, an executive search firm, found that only 5 per cent of chief executives appointed at S&P 500 companies between 2004 and 2010 were of former management consultants with five years or more of consulting experience.



Ex-Bain: Meg Whitman, chief executive of Hewlett Packard Enterprise
Stephen Lam/ Reuters

Jim Citrin, who leads Spencer Stuart's North American CEO Practice, says there is "massive bias" among independent directors against considering consultants: "People make generalisations, they say 'consultants are not good operators' or 'I've never seen a consultant be able to implement'."

He adds: "You should check that bias at the door and be open minded because there is evidence which suggests that they might very well be the right candidates."

Spencer Stuart found that when consultants did take the helm, they tended to improve a company's financial performance over the course of their tenure more often than other leaders — 71 per cent of the time versus 42 per cent for those without management consulting backgrounds.

In cases where the company was in "crisis" or "challenged", the ex-consultants were able to move it to the "stable" or "growth" category 92 per cent of the time, versus 70 per cent for non-management consultants.

Mr Citrin says the best consultants have skills similar to those of chief executives, particularly if they have been a leader in their own organisation — "being the strategic leader of a business, being able to articulate that and communicate that to a board and a leadership team".

He cites examples such as Gene Hall, the ex-McKinsey chief executive of Gartner, the technology research firm, whom he persuaded the board to consider in 2004. "He has taken the company from $600m in value to $8.5bn in the last 12 years," Mr Citrin says.

> 'Being the smartest person in the room is not the most important thing'

Not all consultants can make the transition: ability to analyse is not the same as being able to make change happen. Mr Citrin says the risk is probably too high if a consultant has not worked in a management capacity.

Chris Williams, reader in management at Durham University Business School, says: "It's all about the fit between a consultant's experience and capability and the strategic challenges facing the company." A consultant with experience of transformational projects for multiple clients can be useful for a company that needs strategic redirection or wants to diversity into new sectors or business lines.

But, he warns, some consultants lack experience of implementation or dealing with the range of stakeholders that a chief executive must deal with, such as employees, trade unions and governments.

Fiona Czerniawska, director of Source Global Research, a consulting industry specialist, says: "Companies hire consultants as CEOs because they're very smart, analytical people, but they're only going to succeed as CEOs if they can take people with them — and that requires more than just the ability to present data."

For consultancies, having former employees running clients' businesses can bring advantages. Many professional services firms have followed McKinsey's lead in creating alumni networks in the hope that these will bring more business their way.

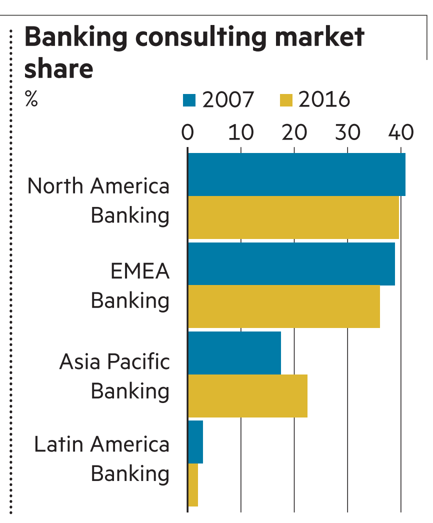
For individuals who want to reach the top in business, boards' bias against appointing corporate advisers suggests that consultancy may not be the perfect route, unless supplemented by operational experience.

Mr Citrin insists, nonetheless, that experience of management consulting is "a great grounding for any kind of professional career later". For those who make the transition, he warns against intellectual arrogance. "Being the smartest person in the room is not the most important thing."

Good news for banks means bad news for their advisers

Finance

Consultants enjoyed a boom after the crisis, but the good times are coming to an end, says *Laura Noonan*



FT Graphic Source: ALM Intelligence

Winston Churchill is often credited with having coined the phrase "never let a good crisis go to waste". He might have been thinking of the kinds of crises that involve heavy artillery, guns, armies and clashes of cultures such as the second world war he had just lived through. Decades later, however, the phrase has gained a special relevance in the shiny world of financial consultancy.

Retail and commercial banks have spent almost $200bn on consultants' advice since the global financial system hit its iceberg in 2008. Spending has risen every year since 2009, often by double digit percentages, to the $29.1bn paid in 2015. In fact, this year's spending has already eclipsed that, with $29.74bn spent by early November, according to ALM Intelligence, which provides analysis to consultants.

The data it collects include a tally of the amount spent on a broad range of services, including consulting on compliance and regulations as well as experts hired to help with restructuring and human resources costs.

But the halcyon days for consultants to the banking industry are coming to an end. "The question isn't about whether it's going to fall or not, it's about how steep is the drop off on the other side," says one senior banker at a large institution that has made heavy use of consultants in recent years.

The rate of increase in spending has already slowed — in 2013, global bank consultancy spending shot up 20.9 per cent, the rise for 2015 was just 4.9 per cent. Tom Rodenhauser, managing director of ALM Intelligence, does not believe the industry is heading for falls over the next few years, but says: "These kinds of growth figures just aren't sustainable. Consulting has always been a rollercoaster, whenever there's a high, there's always going to be a low."

Banks' greatest need for consultants was to help them comply with the unprecedented flow of new regulations that came out of the financial crisis. The pace of regulatory change is expected to slow considerably as the EU pushes back against the latest round of reforms and Donald Trump's administration looks likely to pursue a more bank-friendly environment. "Given that regulations are at an apex, the use of consultants is at an apex too," says Mike Mayo, a New York-based analyst at CLSA, the brokerage firm.

Banks also made ample use of consultants to support them in their post-crisis restructurings. Even though some industry heavyweights such as Credit Suisse and Deutsche Bank are still in the middle of their strategic overhauls, most of the world's banks have put their houses in order already.

Another big reason banks employed consultants was to help with compliance and other tasks related to the masses of litigation that banks were hit with for everything from mis-selling to rigging the interest rates and other prices offered to clients. Those lawsuits are mostly tailing off and banks have done most of the necessary work to create checks and balances to prevent future breaches.

> 'Given that banking regulations are at an apex, the use of consultants is at an apex, too'

In areas where there is still work that needs doing "we're starting to feel much better about using our own resources", says the banker, who concedes that banks have been guilty of using consultants as "additional skilled labour" when they needed to do things quickly, rather than using them for the "value-add" areas where their high fees could have been justified. Consultants' fees vary greatly, but they average around double what regular employees earn, he says.

Mr Mayo says investors have not, historically, been particularly sensitive to prices charged. For compliance and regulatory spending, banks had no option but to spend whatever was required, he says. Meanwhile, for cost and restructuring projects, if banks had to spend a lot of money to save even more, then investors were supportive.

Now, though, bankers say they are fighting harder to control the costs as investors increase their scrutiny.

Despite the slowdown, a consultant working for one of the biggest US firms says lots of banks are still spending. Some banks with "resilient balance sheets" and good business models are investing in consulting to "get ahead of the curve in terms of customer advocacy [and] digital", the consultant says.

Banks that have been slow to tackle their underlying problems still demand the kind of business turnround support that was popular during the crisis.

Another potential glimmer of hope for banking consultants is a prospect few others would relish. As central banks around the world prepare to unwind the biggest monetary stimulus package the world has ever known, combined with the unpredictability surrounding Mr Trump's presidency and the UK's EU exit, the next crisis could be closer than people think. Then the gravy train could start all over again.