The “Fashionable Knowledge” of Management Consulting

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Abstract

In the evolution of strategic disciplines much of the knowledge produced has been widely diffused by the management consulting industry. But can this sector be regarded as knowledge intensive activity based on true structure of expertise knowledge? One way to understand if we can consider that sector as a source of knowledge dissemination is realizing its relationship with the market in terms of knowledge, rather than identify only as a set of static techniques to be applied as in most of times they have been doing. This article presents itself as a reflection about the real reasons for the increasing use of management consulting services, indicating simultaneously that can really be a true field of opportunities for the academic class if the study will focused in the establishment and institutionalization of micropractices (strategy-as-practice) that are used and its implications in terms of organizational results.

Keywords: management consultancy, knowledge, strategy-as-practice

1. Introduction

Nowadays, some opinions relate the management consultancy industry with the contract hesitations or their inability to produce knowledge. In fact, it happens that a great part of the academic literature is itself generalist by associating knowledge to one of the most important motivations for seeking this type of services. This is even recognized by Dawes, Dowling and Patterson (1992), by Alvesson (1993, 1995) and by Engwall and Kipping (2002) as the “intensive knowledge” activity.

In face of this reading, can management consulting services be associated to an activity of intensive knowledge based in a true structure of specialized know-how? Before elaborating on any given line of thought, it’s important to realize that the management consultancy industry does not reflect a field with a single focus on the financial and economic aspects of its nature (Fincham & Clark, 2002), because the knowledge it generates for the business activity pushes it to levels of importance where not even the simple economic and financial meanings can.

Although there exist thousands of management consulting firms all over the world, Fincham and Clark (2002) identified a set of five consulting companies representing a significant proportion of the industry’s profits, over the course of several years. They called them “the big 5”: Arthur Andersen (which in the meantime was forced out of business by the American authorities in 2001, after the Enron’s scandal), Delloite&Touche, Ernst & Young, KPMG and PriceWaterhouseCoopers (PWC).

According to the authors, these companies were the main focus of academic research and comments for many years, which in turn made them the key drivers for the spreading of ideas in the management area all over the globe, through a set of best practices and new organizational concepts (design).

In the same line of thought, Kipping and Engwall (2002) indicate that these five companies dominated the consultancy business until the end of the last century, employing thousands of consultants all over the world with profits of billions of Euros, which made it possible to continuously develop successful business models. This grandeur can be exemplified by the case of Arthur Andersen which in 2000 at Enron alone profited about twenty million Euros in auditing processes and twenty one millions Euros in the positioning of consulting business (Fincham & Clark, 2002).
However, as we know, the beginning of this century has been full of rapid and radical transformations in the organizational world, and also the consulting sector has seen the side effects of this turbulence. Has a result from this paradigm shift, in the year 2000 CAP Gemini acquired the consulting business branch of Ernst & Young. In 2002 PriceWaterhouseCoopers announced the creation of PWC Consulting through the launching of an IPO, only to sell it some months later to IBM. Still in 2002 KPMG sold all its UK and Germany business consulting practices to ATOS Origin, thus becoming ATOSKPMG. Still in this year, the Arthur Andersen consulting practices were also incorporated into Deloitte & Touche.

In strict terms, the corporate enlargements herein mentioned are in some way the response from many companies in this area, to an increase attempt of creating larger competences and to reduce vulnerabilities. In more broad terms, it’s the result of market responses to the periodic changes of the clients, and their views. According to Kipping (2002) these changes evolve along the way from an initial phase that the author defines as “scientific management” whose key factor was centered on the base efficiency of the company or “shop-floor efficiency”, to a second and third (the current one) phases focused respectively on organizational and strategic components, and on network based computer work and enlarged business systems.

On the other hand, even if these changes somehow create a barrier to the industry legitimacy, the truth is this assumption has above all contributed to the development of studies in the academic world regarding this sector, originating the so-called “critical approach” analysis of Fincham and Clark (2002). The focus of this analysis is on the contribution, conceptualization and comprehension nature of the consulting work, and on the real value of consultants and how they pass that value to their customers (Clark, 1995; Alvesson, 1993; Starbuck, 1992). Both approaches are implicit in the attempt of understanding the industry capacity for improvement or at least influence the organizational practices of companies, to understand their contribution in the production of knowledge. The concentration of the management consulting industry has become focused on the increment of knowledge, and on the importance and separation of this knowledge inside and between organizations and Nations.

It’s however important to underline that this was not always the case. In truth, between the years of 1950 and middle 1980 the main concern for the study of the consulting industry was primarily the organizational development. To paraphrase Porter and Millar (1985), the big strategic objective in this phase was mainly to focus on identifying a given problem and later propose solutions to its resolution. This fact is emphasized by the reports of those involved in consulting projects that had achieved successful results in various operations carried out by them. Their view however was underestimated down the chain and more specifically the client’s opinions on them. It’s not clear though, if the clients were effectively convinced of the consultant’s real value and “know-how”.

Transposing of this type of questions and worries, was the reason that foster the interest of academic circles for this industry sector, which according to Hollander’s approach (1972) it gathered around the following three different areas of investigation:

**Management consultancy**—the questions related to the consulting firms management itself, like the investigation of personal practices of organizational consulting and the selection of people with high potential for success (Armbruster, 2004).

**Ethics and Professionalism**—the rules of conduct in professional environments and ethical reflections themselves (Armbruster, 2004) and the obligations of consultants in relation to the implementation of those rules (Payne, 1986; Greiner & Metzger, 1983).

**Consulting Processes and Relationships**—the added value of the consulting itself (Delany, 1995) with emphasis on processes (Greitner & Metzger, 1983) and the study of the client/consultant relationship (Devinney & Nikolova, 2004; Werri & Styhre, 2002; Fincham, 1999; Sturdy, 1997; Kübr, 1986; Greiner & Metzger, 1983).

The three areas of Hollander’s investigation are what Abrahamson (1996) and Alvesson (1995) resume as “the industry of knowledge”, composed by consultants (the “knowledge workers”) and by consultancy agencies (the “intensive knowledge firms”, as they called them).

**2. The Reasons for the Growing Use of Management Consultants**

So, what are the big reasons for the growing use of consultants and for the explosion of this sector of the industry, which is becoming an industry by itself? There are a number of reasons in all business areas to use consultant professionals in organizations, the most common being: (1) the use of the external consultant to
investigate causes and recommend the necessary corrective measures, related to serious business problems that exist inside the companies (Fincham, 2010); (2) the need of an objective analysis about what is happening inside the companies because internal staff may not understand or recognized the problems, and even if they do they may not be sufficiently objective about the issues (Kipping, Kirkpatrick & Muzio, 2006); (3) the possibility the consultant brings to act as a catalyst by stimulating and proposing new ideas, is an essential measure specially in bureaucratic organizations that almost certainly are resistant to change; (4) the fact consultants are independent and objective in their approach, combined with the experience and time to spend on a thorough evaluation of human potentials (McLarty & Robinson, 1998); (5) the search for new knowledge and innovations to face the global economy; (6) seeking the consolidation of competitive advantages; (7) the introduction of outsourcing processes (Lopes da Costa, 2011); and (8) the pursuit of sustained continuous improvement processes (Fincham, 1999). In reality, the causes for the increase of management consulting services are many, which resulted the proliferation of multiple consultancy firms in this sector of industry.

It is important to refer that although the consulting sector is today seen by many in the literature as the process of spreading innovation and the source for the developing of ideas, regardless of the different categories included in their areas of operation [Policy and Business Development, Financial Management, Management, Marketing and Sales, Production, Distribution and Transportation, Information Technologies, Economic Planning, Human Resource Management, Management Sciences, Technology Management, Strategy, Project Management (excluding construction) and Public Relations (McLarty & Robinson, 1998: 257; INE, 2006: 35; Eurostat, 2007: 383; The Economist, 1997: 5)], the truth is the current build-up of the business activity converges today to the importance of “networking” on the strategic consulting processes.

The “networking” in fact illustrates the important role it has in terms of organizational survival of the companies, as a critical factor in the acquisition of necessary resources for success and growth (Aldrich & Reese, 1993) of various types of organizations facing today’s globalization at institutional levels in the business world.

As suggested by Rothaermel (2001), Baum, Calabrese and Silverman (2000) Powell and Koput and Smith-Doerr (1996), the important thing is to know, how to complement assets and acquire resources to the survival and growth of these “networking” companies. The creation of the type of collaborative strategy between different organizations is the key factor here.

Consequently, the management consultancy can be referred as a segment in the industry whose objective consists in assisting clients on the most diverse subjects of strategic scope, such as: planning, growth, mergers and acquisitions, market positioning, competitiveness and resources allocation (Lundgreen & Blom, 2009). All of these subjects are represented as a set of three main areas according to Clark and Fincham (2002): Strategic Management (in broad terms), Accounting/IT and IT/Information Systems – see Table 1.

<table>
<thead>
<tr>
<th>Activity area</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – Strategic Management</td>
<td>McKinsey / Bain / BCG</td>
</tr>
<tr>
<td>2 – Accounting/IT</td>
<td>Arthur Andersen, Delloite &amp; Touche, Ernst &amp; Young, KPMG and Price Waterhouse Coopers (PWC)</td>
</tr>
<tr>
<td>3 – IT/Information Systems</td>
<td>CAP Gemini, Ernst &amp; Young, EDS, IBM, SAP</td>
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3. The Evolution of Turnover in Management Consulting

Traditionally, companies like McKinsey, Bain and BCG are the ones enjoying a bigger status in the consulting filed. This is because of their specialization during years of experience on this industry sector, being seen by many as experts in strategic advice to be followed by organizations. Their success has for many years being reflected in the spread of knowledge through many companies and even in academic studies, in this area. These
companies have been according to Fincham and Clark (2002), the main disseminators of the basic concepts of strategy.

But even if these firms have this leading role, the truth is that the biggest growth in the sector (linked to high levels of management in the consulting area) has been directly connected to “the big 5”. These companies have achieved along the years and more precisely since the beginning of the 21st century, an extraordinary growth. This volume is reflected in a massive bet on business accounting, although much of its capacity and growth is also linked to activities with a more IT business emphasis, like the case of Anderson/Accenture, whose specialization has been capitalized in big IT projects.

The current integrated computer-based systems (like the Business Process Reengineering and the Enterprise Resource Planning) have become true vehicles of strategic implementation which lead many companies to specialized in this type of activities, competing in order to obtain this sort of projects (Fincham, 2003). This market has had a considerable growth in recent years, mainly due to the creation of efficient organizational standards coupled with cost reductions, on one hand and the development of true competitive advantage conditions, on the other (Bloomfield & Danieli, 1995).

However, although computer-based systems linked to management information services are becoming over the years a key important factor for the organizations, as put by Porter and Millar (1985) like the way to higher levels of efficiency and competitive advantage, it’s no less true that the role of management information technologies cannot be dissociated in the consultancy business, with its inherent strong political factor. Bloomfield and Danieli (1995) see this like a resource many times used as symbolic in establishing identities and inter-relationships between consultants and clients, where the former make use of the information technologies as a mediation factor in their approach to the companies. The authors conclude that the technical competences cannot be separated from the social and political factors. This leads them to state, by definition, that the development of management information technologies carry out by consultants, also constitutes a political process. Which is a way the later allows themselves to express their condition of sophisticated experts in organizational development.

The truth is that the existence of multiple services in this industry sector has generated enormous profit gains when compared to other industries (Powells, 1997). This is either due to the so called computer experts (known for their great complexity and restructure abilities), the degradation of the high strategic profile of consultants in general, the technical development of the area itself, or by any other unknown factor. So much so that its average annual growth in Europe has been around 17.5%. Having had in general a continuous and “explosive” growth, the market has since 1994 until 2007 shown a turnover increase of 654%, as seen in the data on Table 2 (Freire, 2008).

Table 2. Evolution of turnover in management consulting in the European market

<table>
<thead>
<tr>
<th>Year</th>
<th>Billionsof Euros</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>13,7</td>
<td>24,55%</td>
</tr>
<tr>
<td>1996</td>
<td>16,6</td>
<td>21,17%</td>
</tr>
<tr>
<td>1997</td>
<td>19</td>
<td>14,46%</td>
</tr>
<tr>
<td>1998</td>
<td>24,7</td>
<td>30,00%</td>
</tr>
<tr>
<td>1999</td>
<td>36</td>
<td>45,75%</td>
</tr>
<tr>
<td>2000</td>
<td>42,5</td>
<td>18,06%</td>
</tr>
<tr>
<td>2001</td>
<td>47,5</td>
<td>11,76%</td>
</tr>
<tr>
<td>2002</td>
<td>46,5</td>
<td>-2,11%</td>
</tr>
<tr>
<td>2004</td>
<td>48,5</td>
<td>2,11%</td>
</tr>
<tr>
<td>2005</td>
<td>64,5</td>
<td>32,99%</td>
</tr>
<tr>
<td>2006</td>
<td>74</td>
<td>14,73%</td>
</tr>
<tr>
<td>2007</td>
<td>82,9</td>
<td>12,03%</td>
</tr>
</tbody>
</table>


We can therefore conclude that we are dealing with a truly market industry. And if more confirmation was needed to demonstrate it, all it takes is a simple look at the consultant firms entering the European market: from
60,000 in 2001 to more than 85,000 in 2007. This factor alone has contributed to an increase in the total wealth generated in Europe (GDP) from about 0.12% to 0.60%, spanning six years between 2001 and 2007 (Freire, 2008).

4. The “Fashionable Knowledge” of Management Consulting

The consulting sector type of power, treated here in terms of original capital mandate, lead Fincham and Clark (2002) to provide a new observation angle between the consulting work and the professional activity, which they called “fashionable knowledge”. For this matter they developed a new perspective of organizational change in terms of management knowledge, starting from a model composed by three phases: theorization, diffusion and institutionalization. This model reflects different roles for professionals and consultants, linking the professionals’ to fashion theorization and the consultants’ to their diffusion, and both being part of its institutionalization.

But the knowledge management here portrayed by Fincham and Clark (2002) refers to the need for the perception of environment control by the consultants, at the same time validating that they have the necessary legitimating capacity, needed to implement their ideas with concrete actions. Which according to the Ernst and Kieser (2002) is where management consulting comes in. Therefore these factors are considered by the authors as the most important ones in the explosion of management consulting market in recent years, represented graphically through the Sturdy (1997) model - Figure 01.

![Explanatory model of the explosion phenomena of management consulting](source: Ernst and Kieser, (2002); Sturdy (1997).

In this model, Fincham and Clark (2002) point yet to another critical aspect of the literature on this subject, namely the extending use of some “metaphors” used in the consulting. Usually consultants are seen as “management agents” when in fact they’re fundamentally “capital agents”. Here we can associate this paradigm to the “agency theory” bringing forward the analogy between the Client-Consultant relationship and the Principal-Agent relationship, by tying the consultant to marginalized figure of the agent, accepted in the Principal’s class if it safeguards the interests of whom it represents and not those of the “small” business groups. Therefore, the idea of consultants as agents of management power suggests consultancy to be a form of “exclusion” of that power base. The management rests upon a weakened form of power and the consultancy’s own ambiguous legitimacy is yet overturn by the original capital’s mandate.

In this sense, increasing consensus, commitment, learning and future effectiveness are thus desirable results of any consultancy process truly effective. But to achieve them, it is important mentioning, the management consultants, whatever their specialty, must be sensible to human relations and processes and have the ability to improve the organizations’ capacity to solve their problems, current and future ones (Turner, 1982).
5. Conclusion

Considering all aspects of content described in this article, a simple reality comes into appearance: the management consultancy sector should not be viewed as a science, not even as art, but rather as something to take into consideration under uncertainty scenarios by the challenges facing the companies in the beginning of this century. Even if many authors still don’t share this vision about this phenomenon, one can conclude that Management Consultancy’s capacity of problem solving, the techniques they apply, and the role they represent in the global economy, will not fade away and will surely keep this industry as the study focus for many people. A result not only of the annual growth of 20% it has since 1980 (Canback, 1999), but also by a preference for this career as a choice by most students for their future work. And that makes the sector a true field of opportunities, with expectations to continue to raise interest for this research area and in this particular sector.

Therefore we conclude that, for some authors, there is not doubt that the Management Consultancy can be faced as inevitable. A resource, that allows the managing class to determine how much they can profit from it. However, despite that, and despite the Strategy Consulting to be a sub-dominant branch of Management Consulting (Poulfelt, Greiner & Bhambri, 2005) and the existence of a growing interest in Strategy Consulting and strategic influence in business, the number of studies that investigate the contributions of consultants in the strategic process is very limited (Bloomfield &Danieli, 1995; Knights & Morgan, 1991) as well as its contribution to the creation, dissemination and consumption of management knowledge, at the macro and micro levels.

In other words, as much as the management consultancy activities have had a considerable growth in terms of economic significance in recent years, these results have not been properly reflected by a growing number of empirical and conceptual researches. The result of this is a shortage of wisdom regarding the consultants’ actual work (Clark &Fincham, 2002)

To fight the lack of studies in this emerging field is necessary to penetrate this market and realize this activity, bringing to the academic field a considerable amount of information, and above all originality, and contributes in a clear way to the development of this field of research. One way of doing this is to understand and define the characteristics and factors that lead to the formulation of identity of this industry, by understanding its relationship with the market in terms of knowledge, instead of identifying it just as a technical set of static tools to apply on demand.

One way to address this gap will be through focus, by creating and institutionalizing activities and practices used in the Management Consultancy industry and their implications in terms of organizational outcomes, to gain a set of new developments in building up the literature, with the introduction of new theoretical and empirical perspectives in this area.

It’s therefore important to give a new direction to strategic thinking, primarily focusing on managers – in the way they act and interact, and “how they make” strategy. But this is also valid for teachers, researchers and the “strategy practitioners” themselves, like the consultants. All of this implies an analysis that goes way beyond the handling of big statistical databases and/or readings of conceptual approaches already made (Whittington, 1996).

So, one of the ways to contribute to the development of this strategic paradigm can be through the study of the Management Consulting industry, in a perspective of “theory-as-practice”. To achieve this goal, one must understand which are the true practices and “praxis” (activities) inherent to the management consulting work and that must be used by the consulting firms for the success of the different projects they deploy.

This direction towards practice, in itself a return to the micro analysis level, although not new within the social sciences it is however very recent among the international strategic investigation, and yet to be explore in Portugal.

In the same way there must be more studies about the more normal procedures of strategic work, something that has been neglected in the field of strategic study but that has substantial implications, whether in terms of organizational strategy or of the practices’ strategy. The reason behind this, is because the strategy-as-practice perspective seems to offer considerable opportunities for a significant appreciation and understanding of the strategic work (Jarzabkowski and Spee, 2009; Jarzabkowski, Balogun&Seidl, 2007; Whittington, 2007).

The pursuit of this path of research will therefore be an important contribution for the professionals of this area, many of which are starting to get disappointed with what the business schools have to offer them. This
contribution takes a special meaning in a moment where the organizations face an increasing turbulent environment and where the base resources of its competitiveness are becoming more and more tradable.

The goal will then be to understand: “where and how the strategic work is made”? By whom is made? With what consequences and what tools? Where were these tools been acquired? How the results of this work is communicated and consumed? The key to the organizational success may be contained inside these micro level details, which have the particular advantage of being invisible to a third party.

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