Consultancies as Management Schools (DRAFT, please do not quote!)

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Abstract

The objective of this paper is to examine the relationship between management consultancies and graduate business schools in a comparative and historical perspective.

It has been recognised recently that consultancies have increasingly come to play the role of "management schools". Many MBA graduates of the leading international business schools such as Harvard or Insead spend some time working for one of the leading global consultancies such as McKinsey or BCG and subsequently enter companies at the top management level. Examples of these career tracks abound especially in the United States, but can also be found increasingly in Western Europe. From the point of view of knowledge diffusion, this would suggest that this combination of MBA and consultancy "training" contributes to an increasing homogenisation of management practice following the mimetic process analysed by the neo-institutionalists.

This paper examines the complex relationship between graduate schools of business administration and management consultancies in detail. It argues that this relationship can indeed be described as "symbiotic", because the leading business schools and the top consultancies, mutually reinforce each other not only in terms of training, but also commercially and socially, namely by improving credibility towards potential clients and by enhancing the status of the individual graduates and consultants. But the extent to which the relationship actually contributes to a homogenisation of management practice, depends mainly on the content of the knowledge "taught" at each of these two "management schools".

Mainly based on evidence from Britain and the Iberian countries, the paper makes a first attempt to examine the evolution of the relationship and of contents diffused. It distinguishes stages in this development which occurred at different times in each of these countries, but show nevertheless remarkable similarities. Thus, historically, consultancies often acted as an alternative for general management training in the absence of graduate business schools in these countries. Subsequently, domestic consultancies often established their own training centres, both for clients and their own consultants. By contrast US consulting firms initially sent their staff to US business schools and then contributed to the establishment of similar institutions in the host countries. Given the much larger numbers trained in the domestic institutions a possible homogenisation therefore proceeded only slowly. It seems to have accelerated more recently in line with the increasing predominance of US consultancies in Western Europe which prompted the domestic consultancies to adapt their recruitment and training practices.

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Introduction

Consultancies are known for recruiting young graduates from well-known business schools such as Harvard or INSEAD. According to several studies, in 1995 and 1996 around 32 per cent of MBA graduates went into consulting (*Management Consultant International*, October 1997). Consultancies also rank very high among the job choices of students, even if they do not hold an MBA. In a recent independent survey of more than 7,500 graduates from 56 business or engineering schools and universities in 14 European countries, three American consultancies, McKinsey & Co., The Boston Consulting Group (BCG) and Andersen Consulting, topped the list of companies which business and engineering graduates in Western Europe would prefer for their first employment, followed by the German car producer BMW.[1]

The close relationship between business education in general, and MBAs in particular, and consultancies is not new. More recently, it has been recognised that consultancies have increasingly come to play the role of additional management schools, a sort of "graduate graduate school of business" (Engwall 1998, 25). Thus, according to Henry Mintzberg, the best strategy to end up in a top management position is as follows:

> After the MBA, you work as a consultant with some prestigious firm for a time, skipping from one client organization to another. And then you leap straight into the chief executive chair of some company, making judicious moves to other in the hope that you may one day end up running a company like IBM. (quoted ibid.)

The chief executive of IBM, Louis Gerstner, is indeed a former McKinsey consultant, and so are (or were) his colleagues at Westinghouse, American Express and the investment arm of SBC Warburg (*Business Week*, 20 September 1993; *Fortune*, 1 November 1993; *The Economist*, 22 March 1997). But this phenomenon is not limited to the United States. In Germany for example, former consultants also direct or sit on the executive board of several companies, including the postal service, the re-insurer Kölnische Rück and Lufthansa. And in the case of at least one large German family firm in the food retail sector, the son and designated successor of the owner not only completed an apprenticeship and university education, but also spent several years at McKinsey from where he returned with a number of former colleagues, who are now in charge of company strategy.[2]

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[1] "Consulting firms become top dogs", *Financial Times*, 15 May 1996. This result is partially driven by the fact that these consultancies operate in many European countries. At a national level, domestic companies are usually ranked higher. In Germany for example, McKinsey only achieved 5th place after BMW, Siemens, Mercedes-Benz and Lufthansa, see "Starre Strukturen schrecken ab", *Handelsblatt*, 24/25 May 1996.

[2] Interview with the internal adviser to the company owner, 14 January 1994.

There are several reasons why management consultancies and MBAs enjoy a mutually reinforcing, almost "symbiotic" relationship. One basic reason derives from the fact that by learning at the business schools how to analyse complex situations and to develop quick solutions, MBAs are practically made up for consulting jobs, and can therefore be used immediately to generate fees (Cox 1997). Another reason is the absence of a clearly defined body of knowledge in management consulting, compared to other professional services like accounting or law. Hiring consultants with MBAs from "recognised" business schools therefore enhances the credibility of consultancies towards potential clients. At the same time, business schools benefit from the fact that their graduates join well-known consulting firms in terms of their general reputation and in terms of attracting highly qualified applicants who in turn will join leading consulting firms.

The close relationship between consultancies and business schools therefore acts as a selection process for a new class of top managers or, as *The Economist* puts it, "a new global elite" (quoted in Engwall 1998, 25).[3] Regarding the dissemination of management knowledge, this elite is likely to make a significant contribution to the increasing similarity of management practices across the globe. It has already been suggested that the use of management consultants leads companies to imitate each other, by adopting what are seen as "best practices" (DiMaggio and Powell 1983). In addition to this mimetic process, through their close relationship with business schools and their role in management training, consultants might also increasingly act in a "normative" way. They are more and more able to determine what is considered "good" and "bad" management practice, just like certified accountants determine what is good accounting practice. While these definitions are much more formalised in the accountancy field, one could nevertheless argue that the leading, high-profile consultancies such as McKinsey play the role of standard-setters with respect to management practice. Since both the leading MBA schools and the leading consultancies are of American origin, it appears likely that this standardisation will follow the US management model(s), something for which the recent focus on "shareholder value" might be a good illustration.

However, caution is in order before arriving at such a conclusion. This paper will argue that in terms of the types of knowledge diffused consultancies can indeed serve as a complement to graduate business schools. But, at least in Europe, they actually acted very often as an alternative, because of the belated development of MBA programmes and their –

[3] From all we know about elite production and re-production, this process is likely to be not only driven by "merit", but also by social criteria (Bourdieu 1989).

at least until very recently – relatively limited role in the formation of the business élite in many countries. Over time therefore, the role of consultancies as management schools changed due to the evolution of business education and the changing nature of the consulting service itself.

Consultancies, business schools and knowledge diffusion

There is a broad-based and rapidly increasing literature on management knowledge and its diffusion. The typology proposed recently by Kipping and Armbrüster (1998) in a review of the literature on management consultants and management knowledge seems to be especially relevant for our purpose. They suggest to distinguish the following knowledge types:

- <u>General management knowledge</u>: concepts applicable to a wide and diverse range of organisations, e.g. total quality management, re-engineering, benchmarking, …
- <u>Specialist knowledge</u>: more in-depth knowledge about particular management areas such as human resources, IT, etc., or a specific industry, e.g. telecommunications;
- <u>Procedural knowledge</u>: knowledge about how to carry out certain processes, e.g. how to analyse and change an organisation, how to implement a new IT system, etc.

This typology shows the role of graduate business schools in complementing the largely specialist skills of managers (1) by providing them with additional knowledge of specific functional areas and, probably more importantly, (2) by familiarising them with general concepts and ideas.[4] At the same time, the typology makes it clear that consultancies can also play a "teaching" role in order to complement the knowledge acquired at business schools. First of all, the training received at consultancies differs from the one delivered at business schools in one fundamental aspect, namely that it is <u>applied</u>. Consultancies offer "students" the possibility not only to learn new concepts and theories, but also to test them by implementing or at least trying to implement them. Secondly, their implementation requires additional skills, namely of the procedural type, which are normally not taught – and certainly not practised – at business schools.

The skill formation at the consultancy occurs in different ways. Consultants familiarise themselves with general management knowledge by attending MBA programmes before joining the consultancy and through management publications afterwards. They acquire specialist function- or industry-related knowledge either through their previous work experience or, more importantly, through on-the-job training. Until very recently, it has been a defining characteristic of consultancies that they hire young, inexperienced graduates and develop their skills by assigning them to different management areas and different industry or service sectors (Berry 1991; Nevins 1998). Finally, the different processes employed by consultancies (e.g. how to carry out overhead-value analysis or how to implement an Enterprise Resource Planning system) have to be taught in-house in a more formalised way, because they cannot be acquired easily outside, nor purely by doing and/or by observing more experienced consultants. The different teaching methods employed by consultancies are summarised in the following table.

Table 1: What and how consultants learn

Type of knowledge	*Teaching Method*
General	MBA programmes, publications
Specialist	On-the-job training
Procedural	Formal training

The areas shaded grey are – to a larger or lesser extent – "subcontracted" by consultancies to graduate business schools. This also explains why consultancies have, for such a long time displayed a considerable affinity to business school teaching based on "case studies"; it prepares future consultants for the subsequent on-the-job training and thus makes the transition from theory to practice relatively smooth.

The above table also provides some explanation why organisations hire consultancies when it comes to the transfer and the acquisition of different types of knowledge.[5] First of all, there is the speed of implementation. Despite their young age, consultants can bring to bear new general concepts very fast. In applying these ideas they have considerable authority, derived from their role as external observers and, more importantly, from the reputation of the consulting company as a whole. Hiring a young MBA as an employee might be much

[4] Following the literature on "management fashions" (e.g. Abrahamson 1996; Kieser 1996), it is recognised that these concepts are subject to frequent changes (at the very least in terms of the predominant terminology), which does however not alter the role of business schools in their transmission.

cheaper for the client, but clearly does not have the same effect, because this person will take a long time before reaching a position of influence in the organisation. In this respect sending top managers on executive development programmes, which are also offered by most business schools, constitutes as possible alternative when it comes to the acquisition and subsequent application of up-to-date general management knowledge.[6]

Regarding specialist knowledge, consultants do not compete with business schools in the same way. Most MBA programmes will teach function- or industry-specific knowledge only in a rather superficial way (namely by offering certain elective courses). The same is – or at least used to be – true for consultancies, because they usually assign the young consultants to a wide range of different projects, so that they can gain some practical experience in many functional areas and sectors. Nevertheless, the consultancy as a whole clearly has an advantage over the business school, because it can provide clients with "best practice" or "benchmarks" based on the collective knowledge of a specific sector (e.g. financial services) or management function such as human resources. Here the alternative for a client might be to headhunt an experienced manager from another company in the same sector or functional area. However, they cannot "update" and broaden their knowledge as fast as a consultancy can.

Finally, in terms of procedural knowledge, consultancies have an even more pronounced advantage over a business school. Companies themselves obviously also have procedural knowledge, but this is "routine" type knowledge, i.e. it is carried out repeatedly and only evolves very slowly (Nelson and Winter 1982). Consultancies, by contrast, develop processes which they apply to change the existing routines in companies.[7] They codify these processes as far as possible, because they need to apply them to a wide range of different clients and to teach them to their consultants. Since companies do not require these kind of changes on a permanent basis, it appears more efficient if they buy them, whenever the need arises. This also means that they are not normally part of the business school curriculum, (a) because the exact processes are specific and more or less proprietary to each consultancy and (b) they are not part of the body of knowledge usually required by general managers. Therefore, if companies want to appropriate this knowledge, they need to hire the consultant

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[5] This is obviously not to say that the acquisition of knowledge is the only reason why companies hire consultants, far from it (cf. Kieser 1998).

[6] It should be noted, but cannot be developed that consultancies, like business school professors, increasingly disseminate general management knowledge through publications (Micklethwaite and Wooldrige 1996).

[7] To what extent these changes are "successful", i.e. actually lead to a modification of existing routines in the long-run is the subject of considerable debate and cannot be addressed in this paper (cf. Kogut and Parkinson 1993; Kipping 1996).

who carried out the work. The following table summaries the different ways in which the different types of knowledge can be transferred.

Table 2: Alternative transfer mechanisms for management knowledge

Knowledge type	*Training type*	*Transmitter to organisation*
General	MBA programme Executive Development	Consultant Executive
Specific	On-the-job (consultancy) On-the-job (other company)	Consultant Executive
Procedural	Consultancy	Consultant

Thus, the interaction between consultancies and business schools mainly concerns the transfer of general management knowledge, where they not only complement each other, but also constitute possible alternatives. However, as we will try to show in the following part of the paper, in Europe this relationship has actually gone through various stages.[8] In a first stage, graduate business schools were not available and therefore consultancies assumed their role in the sense that they (1) provided general management training for their own consultants and (2) executive development for their clients. In a second stage, consultancies, mainly of American origin, became instrumental in setting up graduate business schools in Europe, to which they could subcontract or delegate these functions. In a final, more recent stage, this relationship has been called into question, because of a change in the requirements for consultancy services, which is bringing consultants into increasing competition with business schools.

Stage I: Consultancies as substitutes for business schools

Graduate business schools first developed in the United States around the turn of the 19th century. They provided full-time training in business administration, leading to a Masters degree (MBA), following the model of other professional schools such as those of law or medicine. The first such institution was Wharton School at the University of Pennsylvania in Philadelphia founded in 1881, soon followed by similar schools at the University of

[8] Our evidence is mainly from Britain, Germany and the Iberian countries, but we believe that most other countries have displayed similar patterns, albeit at different times and with a different intensity.

California and Chicago (1898), New York (1900), Columbia and Harvard (1908) (Engwall and Zamagni 1998, 8). They experienced a real take-off especially after the Second World War. Many of them also offered short training courses for existing managers, like the 13-week Advanced Management Programme at HBS. Today, in the United States the MBA is more or less compulsory for entering a middle to top management position.

In Europe by contrast, a significant and pronounced development of similar institutions only occurred from the 1960s onwards (Locke 1989). And this despite US efforts to export their "model" of management education to Western Europe since the immediate post-war period (Gourvish and Tiratsoo 1998). US-type business schools were indeed opened in a few countries during the 1950s, namely in Italy, where they did not last very long, and in Spain, where many of today's successful business schools like IESE and ESADE were founded in the late 1950s (Engwall and Zamagni 1998, 13). In the other parts of Europe, they only started taking a foothold during the subsequent decades, following with the establishment of Insead in 1959 and the London and Manchester Business Schools in the mid-1960s. MBA programmes have now become common place in many –but far from all– European countries. Among those, where graduate business schools made no or little inroads are Germany, France (despite the fact that Insead is located in Fontainebleau near Paris) and Portugal. And even in countries, where many institutions are offering MBA degrees, like in the UK, they continue to account only for an insignificant share of those becoming top managers (Cassis 1997).

At the same time however, consultancies focusing on ways to improve productive efficiency, already saw a significant development in Europe during the inter-war period and a considerable expansion during and immediately after the Second World War (Kipping 1997 and 1999). Initially most of the service providers were of American origin, including for example C. Betrand Thomson, Wallace Clark, and most prominently, Charles E. Bedaux. The latter was a French immigrant who had opened his first office in the United States in 1916. Soon he expanded rapidly, first in the USA and then, from the mid-1920s onwards, also abroad. Due to the nature of their activities, most of the consultants at the time had an engineering background.[9] To what extent these engineers saw consulting as a way to escape from a narrow and highly specialised job is shown in the motivation of E.N.B. Mitton to respond to an advert of the British Bedaux consultancy. He had studied engineering and geology at Cambridge in the 1930s with the view of becoming a mining engineer. Then, he continues,

[9] It should be noted that in many countries accountancies also offered advice in management matters and, this appears rather unique, in the Netherlands social scientists became also involved in consulting.

> I did one year postgraduate at Birmingham University which gave me a mining diploma which exonerated me from 7 years to 5 years statutory underground work. The underground work was very good, it was simply being a miner, pick and shovel, conveyer belts, then being a deputy which equates to being a foreman. I got my manual certificate and then became a mine under-manager and then an acting manager. Then about 1937 I rather thought to myself: 'Am I going to spend the next 40 years doing this same thing or ought I to look for something slightly different'. (Interview on 23 April 1997)

While not explicitly seen as a management or business school, the consultancy was a way to acquire some broader knowledge and experience.[10] Another reason was, already at the time, the remuneration which was higher than his salary as a mining engineer, even during the training period. Mitton, like all new Bedaux consultants at the time, first received some training in time-and-motion studies. In his case, it lasted 9 weeks (instead of the usual 14), took place on the job, with some evening study. He had to write several reports for example on "how you determine fatigue factors", which shows that the knowledge was largely of the procedural type. But he also covered quite a wide variety of sectors, applying scientific management methods not only in a coal mine, but also in laundries, weaving mills, etc.. Asked whether the latter required any specialist knowledge, he responded: "I wasn't going there to advise them on textiles. I was to advise them how to utilise their machinery, their floor space and their materials". Incidentally, Mitton stayed with the consultancy –for a total of 34 years– and eventually became its Managing Director in 1960.

Mitton did not draw an explicit comparison of his –limited– formal and extensive on-the-job training with a graduate business school. Len Brooks, who joined the same consultancy about 20 years later, did:

> You know, at the time, that is in the late 1950s, there were no business schools in Britain. Instead, after a few years of practical experience, one would join a consultancy and, as a result, one would increase one's market value, increase one's skills and go back into industry or commerce in a totally different role. (Interview on 4 September 1996)

Brooks stayed ("I took to it so well, loved it so much. I was obviously on the escalator in terms of the way that I was being treated") and was eventually to succeed Mitton as Managing Director. Thus, what had clearly changed was the recognition that joining a consultancy was like going to a business school. This was probably due to the fact that graduate business schools like Harvard had become relatively widely known following the American efforts during the immediate post-war period to promote US-style management education in Western Europe.

Apparently since the early 1950s, the actual training of new consultants had changed little, even though the training period had expanded to about 6 months had become more formalised, with a period spent at the consultancy's own "college" in addition to the still predominant on-the-job training, and typed reviews of specific tasks to be submitted to Head Office. However, the objective of the training and most of its content had changed little. Once again, the focus was on the "how to" processes, albeit understood in a somewhat more general manner:

> You had to learn how to be a consultant quite apart from the technical content of what you are doing. Because if you are in a managerial position with a hierarchy, then one is in the habit of implementing things. But as a consultant you are not in the end finally responsible. You've got to persuade management in such a way to make changes and that requires a great deal of skill. (ibid.)

In terms of the content, the focus was still clearly on the specialist side, i.e. shop floor management, including "work study, method study, time study, production control and manufacturing management" (ibid.). And among the eight books on the "reference and reading" list for trainees from August 1956,[11] four were related to industrial relations, trade unions, the role of foremen and industrial psychology. However, the list also contained Fayol's *General and Industrial Management*, demonstrating how close this and –most likely– other British consultancies had come to being substitutes for business schools in terms of transferring general management knowledge. The similarity is striking in another respect. The consultancy's college mentioned by Brooks not only served as a training centre for new consultants. Its most important role was to provide short courses on different aspects of management for outside clients, similar to executive development programmes in the US, though with a slightly more technical /specialist orientation.

Most other British consultancies at the time offered also courses for middle and higher management. The first mover in this respect in Britain was probably Anne Shaw, who had spent some time in the USA during the 1920s with Lillian Gilbreth, the famous motion study pioneer. After her return to Britain, she initially worked in an internal work study department,

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[10] The motivation of the consultancy was somewhat different, they actually looked for a specialist to work in the South African gold mines. They nevertheless kept Mitton, even though this project fell through, and sent him to work at the electrical equipment manufacturer Ferranti.

before setting up her own consultancy (Tisdall 1982, 31-2). The Anne Shaw Organisation was never really successful,[12] but the training centre she established in 1945 became a kind of trend setter. Initially teaching managers how to design better machines and improve shop floor layout, 25 years later it offered courses on "dynamic group development" and "leadership" (*New Society,* 2 July 1970), concepts not too far from some of the things taught at business schools today. At the same time, the consultancy Urwick Orr, trained 1,500 managers per annum in management by-objectives, network analysis and effective public speaking (*ibid*.).[13] Overall, in 1969 the members of the British Management Consultancies Association (MCA) gave 726 courses, up from 234 in 1965.

But Britain was far from the only European country where consultancies assumed the role of business schools both for the training of their own staff and in terms of executive development. Portugal is another case in point. Consultancies in the country developed very late (Amorim 1999; Amorim and Kipping 1999), but almost from the outset and in the absence of US-type business schools, they showed signs of acting as "management schools". This was especially the case of two American consulting companies, McKinsey and Hay Consulting Group.[14] During the 1960s and 1970s, contacts with them were considered like a "second business degree".[15] The Portuguese case is somewhat different from the British one mentioned above. The "on-the-job training" concerned neither those working as consultants with McKinsey or Hay nor the managers attending courses organised by these consultancies. It actually refers to those on the client side who had worked closely with the consultants during their assignments.

The importance of this training is clearly demonstrated through two facts: On the one hand, many of those managers who had intensive contacts with McKinsey went on to become top managers of leading Portuguese companies or well-known politicians, such as the Finance Minister Miguel Cartoga (Correia *et al*. 1994). On the other hand, the two major clients of

[11] To be found in Len Brooks' personal files.

[12] It employed never more than 30 consultants, compared to several hundred for each of the largest British consultancies already during the 1950s (see footnote 13 below).

[13] Urwick Orr and Partners had been founded in 1934 by Lyndall Urwick, a leading British management thinker and Leslie Orr, a former Bedaux consultant. Together with the former British Bedaux re-named Associated Industrial Consultants (AIC) in 1937, and two other Bedaux spin-offs, Production Engineering (also founded in 1934) and Personnel Administration (1943), it was one of the so-called "Big Four" which dominated the British consultancy market until the 1970s (Tisdall 1982; Kipping 1996).

[14] McKinsey actually only opened an office in Portugal in 1987. But between 1967 and 1979 it carried out several assignments for the large Portuguese conglomerate Cooperativa União Fabril (CUF), from its foreign, namely London and Madrid offices. Incidentally, CUF was disbanded as a result of the nationalisation after the April revolution in 19??.

[15] According to several consultancy and company representatives interviewed.

McKinsey and Hay, CUF and Quimigal, established their own consultancies, called Norma and Forum Atlantico respectively. These then transmitted the knowledge acquired during the collaboration with McKinsey (corporate strategy and organisation) and Hay (human resources management) to other companies, especially in South America. In addition, some former Quimigal human resources managers became independent consultants. This highlights the actual or perceived gap in terms of management knowledge between the US consultancies and their Portuguese clients.

Overall therefore, we can see how consultancies filled the "void" created by the absence of graduate business schools in certain European countries. In the British case, they did this <u>actively/directly</u>, by instituting increasingly formal training procedures for their own consultants (transmitting all three types of knowledge) and by setting up training centres and offering courses for middle and higher managers (focusing initially on techniques, i.e. specialist knowledge, and then increasingly on general concepts). In the Portuguese case, they played this role <u>passively/indirectly</u> (and perhaps even unwillingly), by brushing off some of their "aura" and knowledge, be it general (strategy and organisation) or more specialised (human resource management), on those managers from the client side involved in the consulting projects. The "value" of these contacts with the leading consultancies becomes apparent when the client companies establish their own consultancies on this basis to "re-sell" some of the knowledge acquired.

Stage II: Consultancies and business schools as complements

As seen above, the European consultancy market had developed from the mid-1920s onwards, largely under the impulsion of US-based service providers such as Bedaux. They had focused almost exclusively on the shop floor and improvements in productive efficiency. By providing an example and, more importantly, through spin-offs, Bedaux et al. contributed significantly to the expansion of consultancy markets in Europe. The domestic consultancies grew especially rapidly during the Second World War and the immediate post-war period, fuelled by the need to increase productivity and, sometimes, also benefited from government support (Kipping 1997).

However, during the 1960s their predominance was increasingly challenged by a new type of consultancies from the United States, who conducted assignments for CEO's on corporate organisation and strategy (McKenna 1995). These consultancies had rather diverse origins, for example in contract research (Arthur D. Little), industrial psychology (Booz) or management accounting (McKinsey). After growing rapidly in the United States from the 1930s onwards, they also expanded massively to Western Europe since the late 1950s. Initially their work was mainly for US and/or European multinationals, but soon they also consulted domestic clients in many European countries (McCreary 1964; Servan-Schreiber 1967; Kipping 1999):

Table 3: The Expansion U.S. Consultancies in Europe during the 1960s

	Offices in Europe		*No. of Consultants*		*European Revenues*	
	1962	*1969*	*1962*	*1969*	*1969 (m$)*	*% of total*
Booz Allen	1	2	70	111	5	9
Arthur D. Little	1	4	30	53	6	16
McKinsey & Co.	1	6	15	160	8	35
A.T. Kearney	0	5	0	60	2	15

Sources: McCreary (1964), p. 165; *Fortune* (cf. Kölle 1969).

At the beginning, most of these American consultancies transferred staff from their US offices to Europe. But, given the increasing numbers of new recruits required and the need to interact closely with domestic client firms, they soon needed to start hiring locally. Since they focused on the corporate level rather than on the shop floor and strategic rather than operational issues, the new US consultancies needed people with sufficient general management knowledge and a different procedural knowledge, e.g. “how to extract information from middle or top managers” and “how to make them change their ways”. As a result, they could not recruit graduates with specialist knowledge such as engineers, accountants or, to a lesser extent, social scientists, like most of their European counterparts did. And neither could they, for similar reasons, pouch consultants from the existing service providers.

In the United States, these consultancies recruited most of their new consultants from the graduate business schools which had started to flourish especially after the Second World War. In the case of McKinsey, the development of their recruitment and human resources policy has recently been examined in detail by McKenna (1999). He highlights the role of Marvin Bower who had gradually assumed control of the consultancy’s New York office after the death of the James O. McKinsey in 1937.[16] Bower was largely responsible for increasing the focus of McKinsey on CEO-level assignments. As part of this transformation, Bower, himself a Harvard-trained lawyer, established a close relationship with the Harvard Business School (HBS) where the consultancy would recruit a large share of its consultants at least until the 1980s.

The mutual benefit derived from this relationship and the mutual dependence is demonstrated in another episode recounted by O'Shea and Madigan (1997). At one point the HBS was apparently considering dropping the case study, which had been the core of its teaching since the beginning. Bower violently opposed such a move. Given the function of the case study in preparing business school students for their future role as consultants, this is not surprising. Bower eventually prevailed in this dispute, namely by threatening to withdraw the funding which McKinsey provided to the business school.

When arriving in Europe, McKinsey and the other American consultancies, did not find similar institutions to which they could delegate or "subcontract" the basic training of their consultants regarding general management knowledge.[17] Their reaction on the whole was twofold. On the one hand, they contributed to the establishment of US-type graduate business schools in Europe. On the other hand, they sent promising you consultants for further training to the American business schools. McKinsey for example, played an important role in the establishment of the Institut européen d'administration des affaires (Insead) in 1959 (Gemelli 1993). In addition to the Ford Foundation and the French multinational Pechiney, McKinsey was one of the major driving forces and sponsors behind the initiative. A kind of American enclave, located in Fontainebleau near Paris, Insead is today, one, if not <u>the</u> leading European business school.

It is not known, but highly likely that McKinsey and other general management consultancies of American origin also played a similar role in the establishment of other business schools in Europe during the 1960s and subsequently. It is known that the British Management Consultancies Association (MCA) contributed financially to the London Business School (LBS),[18] even though most of its graduates would end up working for American rather than British consultancies. Up until today, roughly one third of LBS MBA students enter consulting as their first job after graduation.

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[16] The New York and Chicago offices co-existed until 1946, when Bower acquired the exclusive right to the McKinsey name of the leading partner in chacago, Tom Kearney, who subsequently traded as A.T. Kearney.

[17] With the exception of a few fledgling business schools in Italy. But at the time, Italy was certainly not one of the consultancies' major target markets.

It should also be noted that the newly established business schools also became involved in the lucrative executive development market, thus competing directly with the courses that continued to be offered by many of the British consultancies. The US consultancies, by contrast, had never undertaken these kind of activities. Sometimes they even recommended their clients to send promising executives to these programmes in order to prepare them for the responsibilities they had to assume in the organisation (re-)designed by the consultants (from interviews). This shows how highly complementary the relationship between the consultancies and the (European) business schools actually was.

In countries where there were no graduate business schools or where the existing ones were not of sufficient quality and standing, consultancies had to pursue other ways to provide their new recruits with sufficient knowledge of general or, in certain cases, specialist management knowledge. In Portugal for example, the Boston Consulting Group, which only opened an office in the country in 199?, initially send consultants trained in other offices. Subsequently, they also recruited locally young graduates who were then sent to attend MBA programmes in well-known business schools such as Harvard (general management), Stanford and Chicago (technical), MIT (technology), Kellogg (marketing) and Wharton (finance) (Correia 1994; Correia and Cardoso 1994).

But the need to find alternative arrangements not only concerns the "less developed" part of Europe. Until very recently, there were also no US-type graduate business schools in Germany. In addition, the German mass university system made it even difficult to identify "high fliers", independent of their actual educational background. On the one hand, the American consultancies would therefore target the (few) Germans studying for an MBA at business schools abroad. In addition, McKinsey also instituted a three-year fellowship under which promising young graduates would spend a total of one-year at Insead and the rest working as consultants.[19] Despite these efforts, in the early 1990s only about a third of the McKinsey consultants in Germany actually had an MBA degree. The rest were graduates from German universities, usually in business economics (*Betriebswirtschaft*) or joint economics and engineering degrees (*Wirtschaftsingenieur*). Many of them held a doctorate and had worked some time as "scientific assistants" at the university.[20]

Focusing on these "assistants" was one way of overcoming the selection problem, i.e. identify those willing and capable of learning fast enough on the job and in the –rather short–

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[18] According to documents in the MCA Archives.
[19] Internal company information.
[20] Interview with a McKinsey Director in Germany on 12 July 1993.

internal training (including a so-called mini-MBA). From the 1980s onwards, the American consultancies, especially McKinsey, followed more recently by BCG, also specifically targeted students who were members of German National Scholarship Foundation (*Studienstiftung des deutschen Volkes*). This foundation admits less than 0.5 per cent of all German students, independent of their discipline, based on their high school or intermediary university exam results and a further screening through interviews. Once again, this was a mutually beneficial relationship, because the *Studienstiftung* was originally designed to promote students with high potential for academic careers, but when this market dried up, they were only to happy to find alternative outlets.

The fact that the vast majority of German consultants does not have an MBA shows the limit of the relationship between American consultancies and US-type business schools.[21] The same is probably, possibly to a lesser extent, for most other European countries. In France for example, the so-called Grandes Ecoles continue to dominate access to top management positions (Bourdieu 1989; Bauer and Bertin-Mourot 1992) and most likely also to top management consultancies. And, as already mentioned, even in Britain, MBAs have only made very limited inroads into executive positions (Cassis 1997), though probably much more into consulting.

This also has important implications for the content of the background training received by consultants in Europe and thus the "homogenisation hypothesis" discussed at the outset of the paper. Even if we assume that those studying at a graduate business school are imbued with general management knowledge of American origin (something which needs to be verified), the majority of those entering consultancies in the different European countries, even if these consultancies are of US origin, have received training in national institutions. This would suggest considerable caution before assuming that American consultancies automatically diffuse American management models. This depends (1) on the extent to which the curricula in each country have become "Americanised" and (2) on the training the new recruits receive at the consultancy, either on the job or in formal training sessions.

As a matter of fact, it is the latter which is changing quite dramatically in recent years. While this phenomenon is driven by more general changes in the consultancy market and therefore not restricted to the European countries, it is likely to affect Europe in a peculiar

[21] The MBA is not at all mentioned in a survey of the background of consultants in Germany at the beginning of the 1990s. The number of "other degrees", which might include them is around 2 per cent (BDU 1991). It should be noted that the sample is biased towards consultancies of German origin. At the same time the 33 per cent share of MBAs at McKinsey, mentioned above, is most likely the highest and not representative either, not even for consultancies of American origin.

way, possibly achieving the standardisation / homogenisation of the management knowledge diffused along American lines. However, these developments also more or less side line the business schools in this process.

Stage III: Consultancies as competitors for business schools ?

Over the last few years, the MBA finally seems closer to triumph in Europe than ever before, despite the recent warnings from Bob Locke (1996) about *The Collapse of the American Management Mystique*. Enrolment in MBA programmes is growing fast. Faced by shortage of public funding and the increasing need for self-financing, more and more educational institutions embrace what is seen as a possible money-maker, attracting high-fee paying students from abroad. Even Oxford has now established its own Business School, though not without some resistance from some more traditional quarters of the University.

And in Germany, a recent change in the framework law for higher education, allowing the award of Bachelors and Masters degrees, seems to have opened the flood gates. Universities, but even more so private institutions, often with business support and in collaboration with foreign universities, are springing up and offer business administration degrees at the undergraduate and graduate levels. The Federation of German employers (BDA) and its Swiss and Austrian counterparts established a Foundation for International Business Administration Accreditation (FIBAA) to help companies through the growing "maze" of MBA programmes (Kipping 1998, 108).

Similarly, consultants are growing fast, faster, it seems, than ever before during the short history of the industry. Nothing, it would appear, can stop these two carriers of American management knowledge from standardising, some might say "McDonaldising", European management practice (Engwall 1998). At the same time, however, the "special", complementary relationship between graduate business schools and management consultancies of US origin, which has been developed during the post-war period initially in the United States and then, to a lesser extent, in certain parts of Europe, appears all of a sudden increasingly shaky.

To a certain extent, this relationship is falling victim to its own success. The general management knowledge on which its was founded and which it helped diffuse at an ever increasing scale and speed, has become commonplace. Ideas such as the "multidivisional structure" or the "portfolio matrix" which, respectively, made the fortune of McKinsey in Europe in the 1960s and BCG in the 1970s are now taught already at undergraduate level.

New concepts are popping up at very high rates (cf. Lindvall 1998) and are spread around the globe very quickly through what Micklethwaite and Wooldrige (1996) call the "management theory industry", which comprises not only business schools and consultancies, but also management gurus and business publishers.

These changes and the rapid succession of new management "fashions" or "fads" have fomented uncertainty among managers and thus probably contributed to the increasing use of consultancies (Kieser 1998). But at the same time, they also mean that consultancies have to go beyond the level of general management knowledge to "prove" their usefulness. It is not surprising that some of the highest growth rates in the consulting sector were actually achieved by those offering "specialist" services, namely in information technology. There also seems to be growing demand for purely procedural knowledge, for instance "change management", sometimes of a rather dubious nature (Armbrüster and Kipping 1999).

In terms of the background and training of new consultants, this has also shifted the focus away from degrees providing general management knowledge such as the MBA. In this respect it is crucial to distinguish between the selection function of the business schools, which good ones among them will continue to fulfil, and their role as conveyors / transmitters of management knowledge, where they are becoming less important, at least for the consultancies. The large accountancies which entered the consulting market at a larger scale only during the 1980s seem to have been the first to see the need for more specialist training for their consultants. They have developed two basic ways of providing this training, either through their <u>own dedicated training centres</u> or by creating <u>customised products</u> in collaboration with established educational institutions.

Andersen Consulting is an example for the first approach. It was only established as a separate division by Arthur Andersen in 1989, has since outgrown its parent and is now filing for divorce. All its new consultants undergo a six-week introductory training at the consultancy's own "University" near Chicago.. PriceWaterhouseCoopers follows the second approach, at least partially. They have jointly developed an MBA programme with the University of Georgia, where they send some of their consultants (*Management Consultant International*, August 1998). Incidentally, the need to invest more in staff training is one of the reasons, why provide big is becoming increasingly beautiful in the consulting industry. Only the large consultancies can actually make this effort. Not only is it costly to put more resources into formal training for consultants, the time spent in training is also lost revenue, because it cannot be billed to clients (Kipping and Scheybani 1994).

The “traditional” consultancies have so far been rather slow to respond to these challenges.[22] On the one hand, they have established so-called practice areas, in order to “codify” and “pool” knowledge generated through their project. They use face-to-face meetings and increasingly IT-based-media such as intranets to assemble and then disseminate this information. On the other hand, they are also making some changes to their recruitment pattern, increasingly hiring specialists, either in specific industries (e.g. telecommunications, biotechnology) or functional areas such as human resources. These “experts” are often located outside the “normal” careers tracks and thus not subject to any “up or out” policy for example. Their share among all consultants has so far remained relatively limited. Should it continue to grow, however, it will eventually pose a threat to the way consultancies are organised and managed today.

But change is not limited to consultancies. Business schools also evolve, often in similar directions. Many of them increasingly customise their programmes, namely in executive development, according to the specific demands of the clients.[23] Companies also establish “corporate universities”, often in conjunction with educational institutions. But training there might also be provided by individual academics and/or consultants.

Outlook

As one can see, the boundaries between consultancies and business schools in terms what they teach become increasingly blurred. The age when consultancies subcontracted most of the training of their consultants to graduate business schools seems definitely passed. They will probably continue to recruit from these well known schools, but now mainly because they operate a very good “pre-selection”. The question that has to remain unanswered for the time being is to what extent consultancies and business schools will enter into open competition. So far consultancies have only used their training centres for their own staff. But, given the costs of operating these facilities, they might eventually use them to provide training to their clients – not unlike the British consultancies in the 1950s.

One indication that the development might go into this direction, is the creation of “solution centres”, apparently pioneered by Andersen Consulting in 1994 (Aldrick 1998). They pool consultants working towards the solution of particular problems. The idea is that

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[22] The following is based on non-systematic observations and conversations with industry insiders.

[23] Interview with Dr. Michael Heuser, Head of International Programmes at the German training management centre USW (Universitätsseminar der Wirtschaft) on 27 September 1996.

by clustering expertise, these centres will create “spill-over” effects. (In our terminology, we could see this as “organised” procedural knowledge). More importantly from our point of view, however, is the fact, that clients are invited to visit these centres, so that consultants can develop solutions for them in a shorter time. This does not seem to far from a customised training centre, focusing, however, not on general, but on highly specialised management knowledge.

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