PART I

Introduction
“The consulting industry,” says Vernon Ellis, International Chairman of Accenture, “is on a journey of discovery.”

Consultants have always been – and continue to be – in the forefront of business change. Whether restructuring shipyards in the aftermath of the Second World War, pioneering the use of new technology in the 1960s and 1970s or transforming the delivery of public services today, consultants have been there, helping. But it is not just the work they do with clients that has changed, it is also the very nature of the relationship they have with those clients. And, as Ellis points out, the journey is by no means over.

A Brief History of Consulting

You don’t get clients like Walter Niehoff today.

When Peter Isaac, a consultant with Proudfoot, walked into Niehoff’s office in Germany in the early 1960s, it was decorated with photos, medals and other war memorabilia. Niehoff, a former Panzer tank commander, had returned from the Second World War to run his family’s factory making knitting machines, but the business was failing and the banks were making threatening noises. Isaac told the old man he had to cut costs, including making 100 of his 400 employees redundant, and that he should call in the trade union leader to explain this. Niehoff refused point blank, saying he hadn’t spoken to “that idiot” in two years and had no intention of doing so now. He sent Isaac instead. Seeing the writing on the wall, the trade union leader agreed, but only if Isaac would also look at how sales could be improved. “We make a good product which people want to buy, but we’re
hopeless at selling it,” he said. Isaac suggested he should deliver the message himself to Niehoff but the union leader refused, saying he hadn’t spoken to “that idiot” in two years and had no intention of doing so now. Once again, Isaac was the go-between, and he succeeded in getting Niehoff to agree. When, after six months, the firm was in a position to hire 150 new staff, the old man literally wept with gratitude.

Post-war businesses were changing, but not fast enough. Philip Burnford joined the consulting industry in 1964 when he was offered a job with MSL, the firm that dominated the market in management recruitment. Many of his clients were medium-sized manufacturing companies. “Often they were pretty cosy places,” he recalls. “People were promoted simply because they were next in line. They had no training for management, and no real understanding of what it required. They were very set in their ways and suspicious of anyone from outside the company, particularly of anyone better qualified than they were.” He remembers visiting a well-known manufacturer of agricultural machinery: “I was talking to the black-suited company secretary, who was fairly typical of the time and who doubled as a quasi-staff manager. We had agreed the specification for the development engineers they urgently needed when we were interrupted by the shuffling entrance of a very old gentleman, with a resplendent watch chain. It was the chairman and founder of the company. He listened for a while and then said: ‘Don’t go sending us any of those graduates. You can’t learn engineering at university.’ The company survived about another ten years.”

“We were agents of change, trying to get managers to take a more enlightened approach,” says Burnford. But change came at a price. Sir George Cox, the co-founder of Butler Cox which later pioneered multi-client programmes on the impact of technology on business, joined Urwick Orr in the late 1960s, attracted by the glamorous image consultants had already acquired and the training and variety of work on offer. His first six weeks were spent at the company’s management school, studying different disciplines and listening to presentations by prominent business leaders and trade unionists. “But my first assignment was with a mid-sized manufacturing company in the north of England,” he recalls. “I arrived on the Sunday night: it was cold and my plane was late. The next day I was taken on a tour of the plant, but it became clear that the local management resented me being there – and I realized I’d been imposed by their head office. I was put in a glass-sided office, by myself, in the middle of the factory with just a
metal desk and two chairs – to the obvious amusement of all the other staff! It was nothing like the glamorous strategic-level advisory role I’d envisaged!” Cox had an advantage, however. Like many consultants, he joined not only with considerable management experience under his belt, but direct experience of some of the most advanced deployments of computer technology. “I was the equivalent of the one-eyed man in the kingdom of the blind, not just consulting but running seminars on the lessons we’d learned.”

Technology, together with the human and operational change it brought with it, was already starting to take consultants far away from their advisory roots. At Proudfoot, Peter Isaac remembers feeling slightly insulted when Sir Ian McGregor, grappling with the mammoth task of restructuring British Steel in the early 1980s, told him that what distinguished him and his colleagues from other consultants was that they had dirt under their fingernails. It was a compliment, McGregor assured him: “You work at the coalface where things really happen, other consultants work in offices.”

Like their clients, consulting firms had to change too.

Most of Burnford’s and Cox’s fellow consultants had been retired army officers; the rest had been industrial engineers; most were in their fifties. Work came through referrals and repeat business: if a client didn’t know a consulting firm to use, they’d place an anonymous ad in a newspaper. The majority of sales calls resulted in chargeable work. But, while someone joining the consulting industry in the 1960s would probably have had an engineering background, those joining in the 1970s were mostly accountants. Pat Sherry joined Coopers & Lybrand’s audit division straight out of university in 1969, before moving to its consulting practice in 1973, but didn’t know whether to feel complimented or insulted when the senior partner told him he’d be better off in the firm’s embryonic consulting practice. It didn’t matter: the consulting practice wasn’t prepared to have him anyway, saying he was too young and didn’t have enough experience. When he reapplied two years later, having worked for a stockbroker in the interval, the firm accepted him. “But my father was a bit bemused,” remembers Sherry. “‘How,’ he asked, ‘could a client pay for someone so wet behind the ears?’”

Sherry’s father wasn’t the only person asking this. As consulting firms became increasingly involved in implementation, they needed more people, and there simply weren’t enough with experience. By the end of the decade, the average age of a consultant was falling, as were his or her years of
experience. Resourcing and efficiency were driven by leverage, an approach borrowed from law firms in which the expensive and limited time of a firm's most experienced and senior partners could be divided between multiple teams of more junior staff. But consulting firms took leverage to new extremes: while a law firm or a strategy consulting firm might have been content with leveraging the time of a partner across half a dozen individuals, those working on implementing new technology, where the average size of projects was typically much larger, were looking at a ratio of one partner to 30 or even 50 junior staff. Such ratios could only be achieved by codifying, and to some extent standardizing, the approach a firm would take. This in turn meant codifying their knowledge so more of it was more accessible to more people, and by increasing the level of training they provided.

Vernon Ellis joined Andersen Consulting in 1969 and became a partner ten years later. Although it had not yet opened its training facility for consultants at St Charles, Illinois, one of the first things the firm did was send Ellis on a computer programming course. “The firm had already woken up to this new way of doing consulting,” says Ellis. “When people thought about consulting then, they thought of the McKinsey model; they weren’t thinking about implementing technology or business change. We were one of the smaller consulting firms at the time, but we started to focus on technology.”

Needing a definitive way to approach increasingly complex projects, Andersen Consulting developed Method 1, building on individual bits of the jigsaw already put together by different parts of the firm. “But it wasn’t particularly visible to clients,” says Ellis. “We didn’t go in with it under our arms. The idea was always to use it as a tool.”

The proliferation of computer systems, the increasing use of minis as well as mainframes, and the focus on reducing costs all meant consulting services were in demand as never before. When Pat Sherry returned to Coopers & Lybrand’s London office after managing to extend a two-year posting in Bermuda to five years, he found a tough, commercial and hectic environment. “It wasn’t so much hot-desking, as hot-rabbit hutching.” The partner in charge of his business unit would walk round the office on Monday morning and if he saw someone there two weeks running he’d ask them to see him the following Monday. “Utilization was never a problem.” Within a year of returning, Sherry had a team of 30 people working for him on financial systems and technology projects. Vicky Wright joined Coopers & Lybrand in the mid-1980s, before moving to Hay Group, where she was the
UK Managing Partner. “Even when I joined consulting – and consulting firms were comparatively small in those days – there was a sense of unease around how consulting firms should best organize themselves internally. Like many firms today, Coopers had a matrix structure: individuals would be assigned to both a skills team and an industry group. Often, there would be a conflict between the two.”

Growth fuelled the desire for more growth, and bigger firms were already reaching the point where they couldn’t rely on a handful of senior people with excellent contacts to drive business. The buoyant market was also attracting new players. Vernon Ellis recalls a seminal meeting at Accenture at the end of the 1980s when the consulting partners decided that they needed to be globally integrated, independent of the Arthur Andersen management in each country. “We’d done some research on the way we thought the consulting industry would evolve during the 1990s and come to the conclusion that our main competitors would be IBM and EDS. Everyone was surprised at the time – but it proved to be quite right. At the time, we were still regarded as one of many consulting firms and we felt it was important to try and create a separate brand, positioning and image. We knew that, if we were to win the big projects which made a substantial difference to a client’s business, then we had to be more disciplined.”

By the 1990s, the market had indeed changed decisively, creating yet more pressure on consulting firms internally. Demand was polarized between very large-scale projects, typically involving technology but increasingly involving outsourcing too, and much smaller-scale, traditional advisory work. At the same time, clients, more accustomed to using consultants, were taking a more sophisticated approach to hiring them. “The whole nature of the client–consultant relationship had changed,” says Philip Burnford, who by 1991 had become Chairman of Hay Group. “Whereas before we’d been helping clients do something they couldn’t do for themselves, now it was more a case of working with the client.” Consulting firms had to choose: they could either thrive as small, but often highly profitable boutiques, or they could go for growth. Thus, while Coopers & Lybrand continued to be something of a cottage industry, focused primarily on advisory work, Deloitte and Pricewaterhouse moved into industrial-scale systems integration work, largely around packaged solutions such as SAP.

And what growth: much came on the back of a series of waves – of management ideas (total quality management, business process re-engineering)
and of technology (enterprise resource planning) – which affected both large and small firms. And by the end of the 1990s, the industry was riding the biggest waves of all – the year 2000 and e-business. But the surge in demand which accompanied the dot.com bubble masked the fact that the industry had yet to resolve some of its most serious underlying problems. The priority was recruiting sufficient people, rather than looking for people with specific capabilities. For many firms, the sheer scale of activity overwhelmed their core values. An even bigger problem was client expectations: with so many people entering the industry, with their average age and level of experience far lower than had been the case in the 1970s and 1980s, many clients were poorly served, paying too much for projects that yielded little or no tangible benefit. The underlying problem was that the business model of consulting firms had not kept pace with the times. While advising their clients on how to become global, how to exploit the opportunities of new technology and how to restructure their organizations, the consulting industry itself was struggling with all of these things behind the scenes.

The first years of the new millennium couldn’t have been a period of starker contrast. By 2000, consulting firms were unable to recruit fast enough: the “war for talent” was at the top of everyone’s agenda. The surge in demand for consultants had pushed prices through the roof. But by 2002, demand, no longer inflated by preparation for the year 2000 and the dot.com bubble, was falling rapidly; the consulting industry was left with what has been estimated to be 25% overcapacity. Between 2001 and 2004, consulting fee rates fell by between 10% and 20%. Pat Newberry was head of PricewaterhouseCooper’s financial services practice at the time: “Prices fell in a frighteningly short space of time: it was as though the tide went out and stayed out; the average daily rate halved. We weren’t equipped to deal with this, and the whole idea of the one-stop shop, offering a full range of professional services, had proved to be rubbish. We might have had a wide range of expertise, but it was unbelievably arrogant of us to claim to be expert in everything.”

Falling prices weren’t just the result of overcapacity, but of changes in the way clients bought consultants. Everyone talked of clients becoming more sophisticated: many were themselves ex-consultants, laid off in the post-millennium shakeout, and they knew the tricks of the trade. The decision to bring in consultants moved from functional heads to central procurement teams, many of whom focused exclusively on getting the
lowest possible price. They were buying bodies, not consulting teams or solutions to problems, and their approach rapidly commoditized some services.

This meltdown has triggered, although not resolved, a serious and long-overdue reappraisal of how consulting firms work. Peaks and troughs of demand are the inevitable consequence of today’s business world in which capital and information flow more freely than ever before. The key question for consulting firms is therefore not simply which products and services to provide, but how they can deliver them flexibly and profitably. Globalization means that there’s always someone out there who is inventing something cheaper, smaller and faster than the existing players can offer, and no company – consulting firms included – can afford to rest on its laurels. Offshore companies have undercut the prices of established firms; new technology means entire swathes of work can be done from places as far afield as India, Taiwan and South Africa, rather than in London or New York. Demographic change and clients’ desire for specialist knowledge have combined to squeeze firms’ ability to get the people they need. Consulting firms used to be up or out, and they could afford to be because they received so many more applicants than they had places. But the flow of people isn’t what it was, so the industry has had to become more concerned about the work–life balance and being able to offer flexible working. “The industry is transforming itself,” says Pat Sherry. “We don’t want to go through the recent boom-and-bust cycle ever again.”

Why Read This Book?

The evolution of the consulting industry has taken it far from its roots. Today’s consulting firms are bigger than ever; the projects consultants take on are far more complex and challenging. Yet, when you talk to clients about how they view the relationship they have with their consultants, one thing becomes very clear: they continue to view it in personal terms. Did they get on with the consultant? Could the two of them work together effectively? Success is attributed to the personal qualities of the consultants: they knew their stuff; they rolled up their sleeves and got on with things. By contrast, failures tend to be associated with consulting firms: the firm wants to sell more work; the firm did not staff the project with the people they had promised; they put their interests above those of their clients.
Consulting firms have responded to this divergence between perception and reality by transferring more and more responsibility to individual consultants. They have pushed their consultants into the limelight – then tried to hide behind them. Of course, they are not alone: organizations in all sectors are pursuing a similar philosophy; it is the dark side to the empowerment we strive to achieve.

But the peculiar problem for consulting firms is that neither clients’ attitudes nor their responses work well in an environment in which trust between individuals, while still vital, is not enough. Multidisciplinary projects and the focus on delivery not just advice, mean that clients need teams – firms. In these circumstances, consulting firms cannot afford to rely on one-to-one relationships: they need corporate relationships as well as personal ones.

As an industry, consultancies spend a great deal of time thinking about individuals: Who is the best person to put on this project? Who should go where in the matrix structure? Who are the partners or directors of the future? How can we build better, more effective relationships with our clients? I wouldn’t dispute that these questions are important, but I would argue that we don’t spend anything like enough time thinking about the role the firm has to play in answering them. What kind of environment, infrastructure, support and culture do individual consultants need if they’re to do their job properly? What can the consulting firm do that its employees cannot do for themselves? Is the role of the firm to invest in innovative ideas and new approaches? Is it to assure the quality of the people who call themselves consultants? Is it to provide comfort to clients in the form of a global brand? If consultants cannot answer these questions, then it is hardly surprising that their clients cannot either; nor is it surprising that clients see consulting firms as part of the problem.

In 2000 David Maister published a seminal book. The Trusted Advisor has rightly become the gold standard by which consultants judge their own behaviour. No one wants to be a mere contractor: everyone wants to be a trusted advisor. Yet this is now – after six years of turmoil in the consulting industry – only part of the solution. What good is it if your client trusts the handful of people in your firm who truly excel at building and sustaining long-term client relationships if they are not prepared to extend that trust to other people in your business? What good is it if they think “their” consultants are brilliant if they also think they are undermined by the com-
mmercial self-interest of the firm? The trusted advisor should be the tip of the iceberg: what good does it do you to have trusted advisors if you don't have a trusted firm?

“The concept of the trusted advisor still has enormous merit,” says Steve Gunby, Head of the Boston Consulting Group’s Americas region. “If your child were ill, there would be lots of people who would profess to be helpful, but if you found someone who was prepared to take the time to talk to you and your child, to understand what was going on and invest effort in finding precisely the right treatment, then you’ll return to that person again and again in the future. The same is true in business. Most companies are not in the business of replicating historical success but in identifying the changes they need to make in anticipation of future changes: they’re sailing into uncharted waters. These organizations want someone they can trust, to help them do what they need to do, not simply tell them what they need to hear; they need someone who can look beyond their own self-interest. Personal trust remains, and will continue to remain, an essential element of the relationship between a client and consultant. But today’s consulting projects are complex and multifaceted, taking them from pure analysis all the way to change management, the human principles of making the technology required work effectively, and the corporate implications of a specific decision. Most people cannot be an expert in all of these things – and that’s the challenge for consulting firms. A client cannot have a trusted relationship with everyone, but equally one person cannot have all the expertise in the world. Behind the trusted advisor there have to be people – an organization – who can deliver the skills and services the client needs.”

The purpose of this book is to examine how consulting firms are responding to this challenge.

The rest of Part I explores these points in more depth:

- Chapter 2 looks at why clients use consultants and the extent to which their attitude to them has become polarized: consultants good, consulting firms bad.
- In Chapter 3, we look at the way in which consulting firms are part of a broader trend across business as a whole, which weakens the role and responsibility of organizations.
- Chapter 4 analyses the trouble with the status quo. Clients’ preference for individual consultants over consulting firms is not enough in today’s
complex environment. Indeed, clients themselves implicitly recognize this, as the changes to the way they buy consultants demonstrate. Similarly, consulting firms’ desire to empower their consultants may sound laudable, but it does not necessarily equip them to succeed.

- Chapter 5 introduces the conceptual framework for this book and argues that instead of thinking of the client–consultant relationship as binary, we should recognize there is a third party involved – the consulting firm.