1

UNDERSTAND BUSINESS AND MANAGEMENT CONSULTANCY

CONTENTS

INTRODUCTION

Suppose that you are interested in business or management consultancy. Perhaps you are considering becoming a consultant yourself. *What* would attract you to consultancy? There are several reasons why you may want to become a consultant. One reason may be that the *content of the work* appeals to you. Consultancy is analytical and creative too. It is also social because you collaborate with many people, like consultancy colleagues, client management, and other client employees. Second, the *variety* in the work may attract you. Consultants do different types of projects (like growth strategy, operations improvement, mergers and acquisitions (M&A), or digital transformation projects), for different types of organizations (large or small) in different industries (such as financial services, consumer goods, and the public sector). A third reason may be the *performance impact* of consultancy that can be attractive for you. As a consultant you can have a major influence on your clients' (financial and societal) performance. For example, you may help clients to become more sustainable. Fourth, the *prestige* of consultancy may be interesting. You may work at a high level because you advise (top) managers of (large and iconic) corporations. Moreover, the prestige of your consultancy firm also reflects on you. Even if you only worked for a prestigious consultancy firm for a few years, it would look exceptionally good on your CV. A fifth reason may be that you find the *steep learning curves* of consultancy attractive. Consultancy firms offer extensive onboarding programs followed by an elaborate training curriculum and various mentoring and coaching initiatives. The variety of projects and the level of the work allow you to quickly acquire valuable knowledge and skills. Sixth, the *financial reward* and the fast and structured *career path* are other aspects of consultancy that may appeal to you.

Success stories of friends and acquaintances in consultancy as well as positive reporting in the (social) media may contribute to your high *expectations* of consultancy. However, it is relatively difficult to get a good idea of consultancy *before* working there yourself. Consultancy is a *confidential matter*. Most clients of consultants do not want it to be known that they hire consultants, let alone what they use consultants for and what exactly the consultants do for them. An exception is public sector clients who are obliged to be transparent about hiring consultants and who must recruit consultants through public tenders. Due to their clients' need for confidentiality, consultants will not voluntarily reveal what they do for which client. Moreover, consultancy is *not a legally protected profession*, like for example accountancy, law, or medicine. Therefore, there is no need for consultants to obtain a professional license or to sign up in a public register. Anyone can call herself a management consultant. Additionally, consultancy lacks a professional body to monitor the compliance of the profession's members to the standards of the profession. With some notable exceptions, such as *Accenture*, most consultancies are *private partnerships* with no legal obligation to publish financial and other information about their business.

If you rely on *hearsay* information, you may need to get a better idea of what consultancy entails. Therefore, you may wonder: *What is business and management consultancy about?* To make it easier to answer this question, we break down or deconstruct this question into sub-questions (spoiler: deconstructing complex questions into simpler sub-questions is a frequently used technique by many top consultants). We answer two sub-questions. The first sub-question is as follows: *What* do consultants do? The second sub-question is: *Why* do managers hire consultants?

Learning Goals

After reading this chapter, the reader should understand:

- what consultancy is
  - *the difference between business consultancy and management consultancy*
  - *the difference between internal and external consultancy*
- what the supply of consultancy offerings is about
  - *different offerings*
  - *different providers*
  - *different models*
- what the demand for consultancy looks like
  - *different types of clients*
  - *different reasons for hiring consultants*

WHAT IS CONSULTANCY?

Many people may have an intuitive understanding of what consultancy is. So it is good to make the concept of consultancy explicit. Therefore, we start with an exploration of what consultancy is. Since consultancy is not a constant, we will also pay attention to its origins and development over time.

Advice-Giving

Business and management consultancy is about professional advice. *Advice is a recommendation or suggestion of what someone should do in a particular situation*. Advice is about decisions. What is the best decision? The advisor *recommends* a certain option, but the advisor does *not* decide. The right and the responsibility to decide are exclusively reserved for the client. Advice is also given outside business and management consultancy. For example, a friend may advise you to visit a certain city during your vacation. Another example is that a career choice advisor recommends that you become a consultant. Some people use the terms business consultancy and management consultancy interchangeably. However, we may use the managerial position of the client and the nature of the topic to be advised to distinguish between the two terms.

> *Management* consultancy is professional advice on strategy and organization-wide, cross-functional topics for the top management of an organization to improve the organization's performance like profit.

Management consultants advise top managers on a specific topic. These managers need advice because they have a managerial problem that they need to solve. They ask for advice on the best solution to this problem. A fictional example is that the chief executive officer (CEO) of a large fast-food restaurant chain sees that the consumer trend toward healthier eating is causing a decline in sales. What should the CEO do? One option to solve this strategic problem is for the CEO to engage a management consultant to advise on how the fast-food chain can best respond to the consumer trend.

> *Business* consultancy is professional advice on functional topics for the middle and lower management of a department of an organization to improve the department's performance.

A fictional example is that the information technology (IT) manager of a company receives an increasing number of complaints from internal users about the slowness of the IT system. What should the IT manager do? One option to solve this functional problem is for the IT manager to engage a business consultant specialized in IT to provide advice on how the IT manager can best respond to the slowness problem. Figure 1.1 maps business and management consultancy. We note that there is no uniform definition of business and management consultancy and that there is no consensus on the scope of business and management consultancy. An example is IT consultancy. Does IT consultancy belong to the scope of business and management consultancy or not? Due to differing views on scope, estimates of the size of the business and management consultancy market vary.

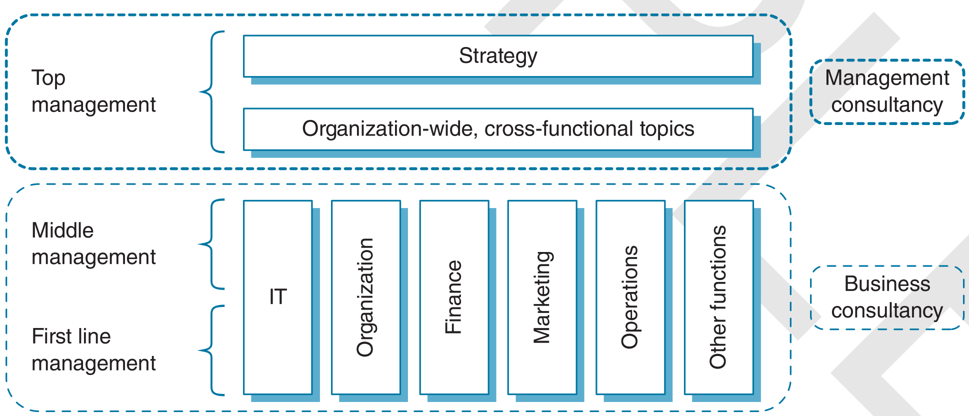


Figure 1.1 A mapping of business and management consultancy

Note to Figure 1.1: For the sake of clarity, we provide a few examples rather than an exhaustive list of features.

History and Development of Business and Management Consultancy

Business and management consultancy as we know it today is the result of a long-term development. We will take you on a bird's-eye view of the history of consultancy. Our overview starts with the origins of business and management consultancy and then we describe how consultancy has evolved into the broad and global industry it is today through the addition of new consultancy areas and countries.

Factory Operations

Business and management consultancy emerged in the 1890s with advice on factory operations. From 1870 to 1900 the Second Industrial Revolution introduced industrial mass production. The factory managers faced large challenges in adopting the revolutionary new mass production technologies (like the internal combustion engine and the electric engine) and operating at an unprecedented large scale. The efficiency of the factory operations was one of the major concerns of management at that time. The first generation of consultants were called "*industrial engineers*" or "efficiency experts." The oldest consultancy firm was founded in 1886 by *Arthur D. Little*. Little was an American engineer who set up a research laboratory to provide engineering advice to factory managers for improving factory operations. The first successful service of consultancy was "*Scientific Management*": a method for improving the efficiency of operations by studying and optimizing each part of an operations task. The intellectual father of scientific management was the American engineer Frederick W. Taylor (1856–1915) who is often called the "*grandfather of consultancy.*" Taylor discovered the principles of scientific management while working as an engineer and manager in the American steel and paper industry. Later in 1893, Taylor set up a consultancy practice to implement scientific management at clients for a fee.

Organization

In the 1930s, consultancy expanded to include various business functions. Organizational advice became important with the rise of large corporations in the United States in the 1920s. Large U.S. corporations like Du Pont, General Motors, and Standard Oil (now Exxon) developed a decentralized, multi-divisional organization (the "M-form"). Other large U.S. corporations also faced similar organizational problems and management consultants began to advise on M-form organizations for these organizational challenges. It was not the industrial engineers but accountancy firms like *McKinsey & Company* that seized the new opportunity of organization consultancy.

Information Technology

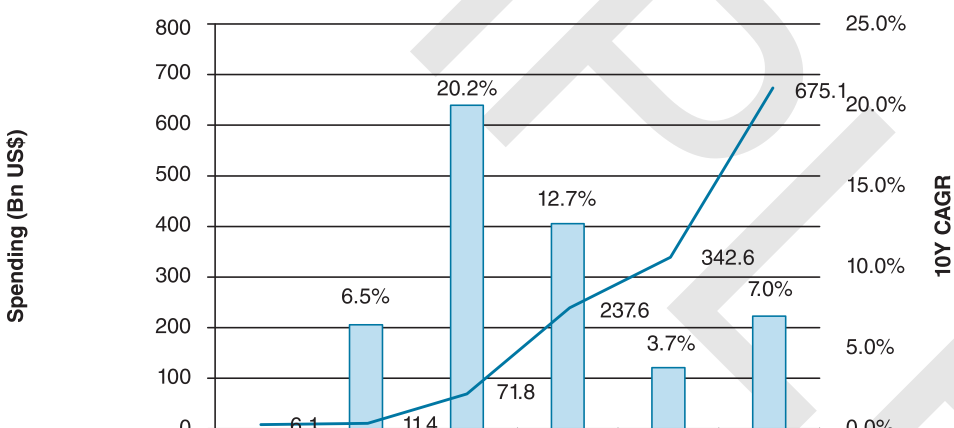
In the 1950s, IT became a consultancy practice with the increasing popularity of the so-called mainframe computers (mainly *IBM*). Managers who bought these computers needed expertise on various topics including using computers and developing software. Computer manufacturers like IBM were the natural candidates to provide such expertise but U.S. anti-trust regulations prohibited IBM and other manufacturers from entering the new field of IT consultancy. In the 1960s, "*The Big Eight*" accountancy firms, among which the predecessor of Accenture, entered IT consultancy. Only in the 1990s did the U.S. regulators allow IBM to enter IT consultancy. IT consultancy was not limited to U.S. players. In the 1960s, new consultancies focused on IT also emerged in Europe (like *Cap Gemini*) and India (such as *Tata Consultancy Services*).

Strategy

In the 1960s, consultancy also extended to strategy. At that time, the large multi-divisional corporations struggled to manage their portfolios of related and unrelated businesses. It was *The Boston Consulting Group* (BCG) that developed the first analytical tool for portfolio management: the BCG matrix. This popular tool marked the emergence of strategy as a new field of management consultancy. In the early 1970s, an alumnus of BCG, Bain, set up his strategy firm: *Bain & Company*.

Globalization

Some consultancy firms, like Accenture, Cap Gemini, and Tata Consultancy Services, began to offer "*managed services*" in the 1980s (managers delegate their non-core functions, like back-office functions, to third parties that manage their services on their behalf). Business and management consultancy originated in the U.S. In the 1950s, consultancy became popular in Western Europe as well. In the 1980s, markets for products and services became increasingly global. With the globalization of the economy, consultancy grew into a worldwide industry. In the 1990s, business process reengineering (BPR) became particularly important for consultancy. BPR was about improving business processes and managers hired consultants en masse to implement BPR. During the 2000s, consultancy focused on "digitalization" and "end-to-end digital transformation" as digital technology arose as a disruptive force in most industries. Figure 1.2 shows the development of the consultancy industry since the 1970s. Important growth drivers during that period were the development of new consultancy areas and the international adoption of consultancy.



	1972	1982	1992	2002	2012	2022
10Y CAGR		6.5%	20.2%	12.7%	3.7%	7.0%
Spending	6.1	11.4	71.8	237.6	342.6	675.1

Year

Figure 1.2 The size and growth of the worldwide consultancy market

Source: Kennedy Intelligence, LLC

Notes to Figure 1.2: Bn US$: Billion United States dollar.

BUSINESS AND MANAGEMENT CONSULTANTS PROVIDE ADVICE

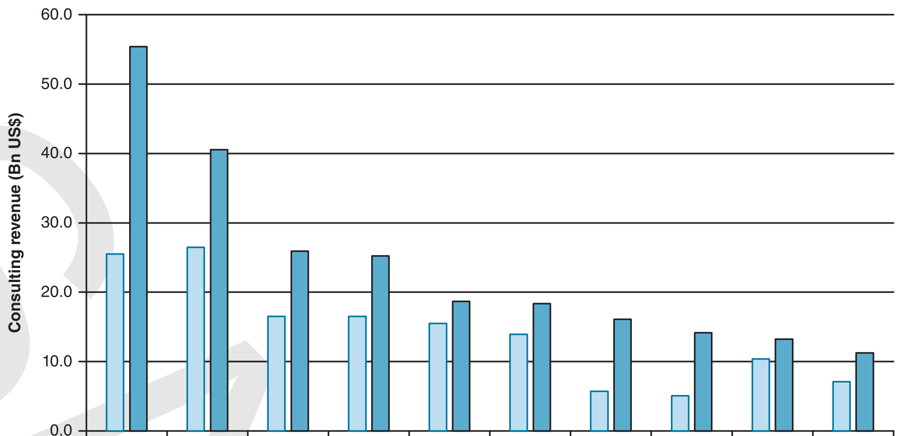
Business and management consultancy focuses on managers of (profit or not-for-profit) organizations and the professional advice concerns the organization (not advice on personal matters). In the following, we will not speak of managers but of “clients” when we mean the people who hire consultants. In this chapter, we focus on advice aimed at solving a client’s *problem* to improve a client’s performance, but in later chapters, we also pay attention to advice on taking advantage of a new *opportunity* to improve a client’s performance. An example of a problem is a client with an increasing revenue but also with increasing losses. The client needs advice on how to solve the profitability problem. Another example of a problem is a client which is confronted by the digital disruption of its industry. Consultants advise the client on the use of digital technologies to fundamentally change the way the company creates value for its stakeholders. Consultancy is not only about advice on how clients may improve their profit or shareholder value. Clients may also face environmental, social, and governance (ESG) problems. The consultants advise organizations on how to become more sustainable and responsible for creating long-term value for all stakeholders (instead of only creating shareholder value).

Consultancy is not only about advice on how to solve a client’s *problems* to improve that client’s financial or ESG performance. Consultancy is also about advice on how a client may seize *opportunities* to improve that client’s financial or ESG performance. The deregulation of a market is an example of an opportunity for clients. For example, the deregulation of the telecom, rail transportation, and postal delivery markets in various countries provided opportunities for private providers to enter these markets. A client may want advice from consultants on how to benefit from a market regulation to become more profitable. A new technology, such as artificial intelligence (AI), is another example of an opportunity for clients. A client may want advice from consultants on how to use AI to become more successful.

The Structure of the Business and Management Consultancy Industry

The top ten largest providers of business and management consultancy achieved a combined consultancy turnover of 241 billion US dollars in 2022 (see Figure 1.3). The world market that year amounted to 675 billion. The top ten therefore had a market share of 36 percent. Most providers of business and management consultancy are not that large at all. Worldwide data on the other (below the top ten) consultancy providers is not (publicly) available, but data from the U.S. Bureau of Labor Statistics shows that there were 330,000 management consultancy providers active in the United States in 2023 (we note that this source does not include IT consultancy in its definition of consultancy). As many as 76 percent of these management consultancy providers had fewer than ten employees. Collectively, these 330,000 providers had approximately 1.5 million employees. On average, a provider had just under five employees. The structure of the management consultancy industry in the United States is characterized by a small number of large providers and many small players. We note that we should not extrapolate these analytical findings about the United States to the world.

Notes to Figure 1.3: Bn US$: Billion United States dollar; only *consultancy* revenue of multi-product firms.



	Accenture	Deloitte	PwC	EY	IBM	KPMG	Capgemini	Tata Cosultancy Services	McKinsey & Company	BCG
2018 Revenue	25.8	26.7	16.9	16.8	15.6	14.0	6.1	5.5	10.5	7.5
2022 Revenue	55.4	40.7	26.0	25.3	19.1	18.6	16.3	14.6	13.5	11.7

Figure 1.3 The world's ten largest consultancy firms

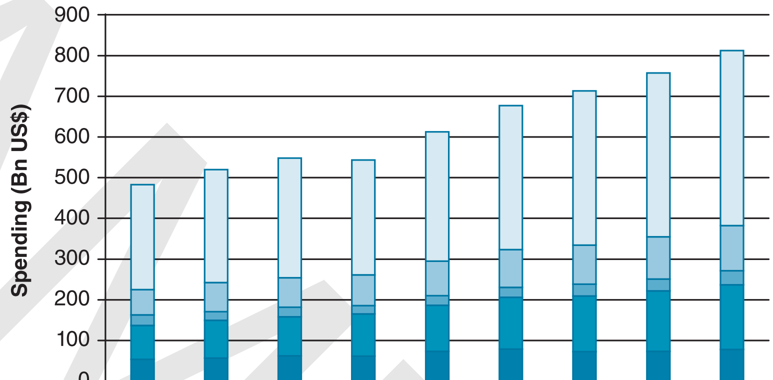
Source: Kennedy Intelligence, LLC

Advice Areas

What matters do consultants advise on? What are the most common areas of advice? Some consultants specialize in a single topic, like strategy, while other consultants advise in multiple areas, like finance and risk management, marketing and sales, and IT. The well-known major international consultancy firms, like *Accenture*, "*The Big Four*" *(Deloitte, EY, KPMG, and PwC)*, and "*MBB*" (the acronym of *McKinsey & Company, BCG*, and *Bain & Company*) are active in many advisory areas. On the websites of these consultancies, the advisory areas are often labeled as "capabilities" or "services." The consultancies offer various functional services separately. However, the nature of the client's problem may require a multi-disciplinary solution. For example, a strategy project about a client's competitive disadvantage may have many dimensions, such as marketing, operations, and logistics. In such a project, consultants will combine the different functional services to solve this complex problem.

Client Functions

The functional areas of advice mirror the functions of a client's organization. Consultancy spending varies per client function (see Figure 1.4). What explains these spending differences between functions? The size of the functions (in terms of budget, personnel, and assets) plays a role. But also, the strategic importance of functions. For example, customer-centric features are key to a client's financial results. This high-impact nature of these functions drives the demand for advice. Functions with little distinctive capacity, such as general and administrative operations, must above all be efficient. The efficiency orientation also creates a need for consultancy specialized in reducing costs. A function's need for rapid adjustments to market changes also causes demand for advice. The complexity of functions is another driver of demand. With the rising complexity, the need for specialized technical expertise (from consultants) increases. The international scope of functions also has a positive influence on consultancy demand. The extent to which functions are sensitive to innovation and other changes is another driving force behind consultancy spending. The more important innovation is the greater the need for consultants. Furthermore, functions that are subject to strict regulation and compliance need expertise (and advice) in these areas.



	2017	2018	2019	2020	2021	2022	2023e	2024f	2025f
Operations	257.01	276.08	290.44	284.32	317.54	353.1	374.38	400.81	430.16
Customer	65.87	70.38	72.87	73.46	82.49	91.16	97.36	104.58	112.57
Organization	21.5	22.28	23.86	22.25	23.46	25.69	26.51	27.77	29.41
Risk	84.98	90.83	98.68	104.37	113.31	127.74	137.19	148.57	161.3
Strategy & Corporate Finance	53.62	57.49	60.07	60.09	73.58	77.46	73.92	74.27	77.13

Year

Figure 1.4 Consulting spending by client function

Source: Kennedy Intelligence, LLC

Notes to Figure 1.4: e: estimate; f: forecast; Bn US$: Billion United States dollar.

Advisory Models

How do business and management consultants provide advice? Building on a categorization of former Harvard Business School professor *David Maister*, we distinguish between two sources of advice, namely: consultants' experience and consultants' cognitive problem-solving capabilities.

Consultants' Knowledge

The advice can be based on the consultants' knowledge. First, the consultants have previously solved this type of problem for other clients. Therefore, the consultants can rely on their own experience. Second, the consultants have access to other sources of knowledge, like knowledge about analogical cases of non-clients or knowledge obtained through the consultancies' non-client studies of functions or industries. We distinguish between two forms of knowledge: tacit knowledge and codified knowledge.

Tacit Knowledge

Tacit knowledge is about the experience, intuition, and subconsciousness of experts. It is a type of knowledge that is hard or even impossible to articulate. An example of tacit knowledge is driving a car. The enormous effort of companies to develop autonomous cars shows how hard it is to codify the knowledge required for car driving. A consultancy example is the knowledge about how people interpret things, make decisions, and interact with each other. Consultants acquire this tacit knowledge through years of working experience. This is why Maister labels this type of consultancy as "*gray hair consultancy.*"

Codified Knowledge

Codified knowledge is explicit knowledge that can be expressed as an algorithm. An algorithm is typically associated with computers. However, it is a step-by-step procedure of problem-solving that can be used without computers. A recipe for pancakes, for example, is also an algorithm. It is a series of instructions on how to bake pancakes. Codified knowledge can be stored in different formats.

First, consultants can write down algorithms in procedures or playbooks. Therefore, Maister calls this form of consultancy "*procedural consultancy.*" An example is the maturity model. This model is a kind of grading rubric to assess a client's practice, like digital capabilities, on a scale of increasing levels of performance. A maturity model allows consultants to: (1) assess the performance of a client's practice; (2) set (new) performance goals; and (3) optimize that practice. Consultants may use a digital maturity model to assess a client's current digital capabilities and identify areas for improvement.

Consultants may program some codified knowledge into computer algorithms. The resulting computer software can generate advice. Because this type of consultancy is based on software, which is a (digital) asset of consultancy firms, this type of consultancy is labeled "*asset-based consultancy.*" An example of a digital consultancy asset is diagnostic software that, in combination with the consultancy's (proprietary) benchmark databases (also assets), identifies performance improvement opportunities for clients. The consultancy firms offer the software in their clouds. Clients can subscribe to this software and use this instrument to conduct their analyses and develop solutions. This software offers, as it were, a "do-it-yourself" consultancy for clients. An example is a risk management software package that assesses clients' risks and current risk management practices, identifies areas for improvement in risk management, and makes recommendations based on best practices.

Consultants' Cognitive Problem-Solving Capabilities

Consultancy advice can also be based on the consultants' strong analytical and creative skills. Because these cognitive skills are the source of advice, Maister termed this form of advice "*brain consultancy.*" Brain consultancy is required when the client's problem is so new that the consultants have not seen this type of question before. The new problem differs so much from past problems that the consultant's experience with past problems does not apply to this new problem. An example from the late twentieth century before the rise of the Internet is the question of how clients should respond to the Internet. At that time, it was not yet clear what the implications and influence of the Internet were. Many thought that the Internet would lead to a revolutionary new economy with new economic laws until the "dot.com crash" or the bursting of the dot.com bubble on stock markets in 2000. Cryptocurrency is a later example of a new phenomenon where consultants could not fall back on their experience.

Consultancy-as-a-Service Versus Consultancy-as-a-Product

We distinguish between "consultancy-as-a-service" delivered by people (a solo practitioner or a team of consultants delivers the services (provide some advice) and "consultancy-as-a-product" delivered by IT (see Figure 1.5). Brain, gray hair, and procedural consultancy are all service models. Consulting firms send one or more consultants to the client to conduct a project. Traditionally, consultants worked at the client's premises. Nowadays we also see that consultants may use IT, like Teams or Zoom videoconferencing, to work remotely. The asset-based consultancy works differently. Instead of consultancy firms sending people to the client, clients go to the consultancy's cloud for access to the consultancy's software and data.

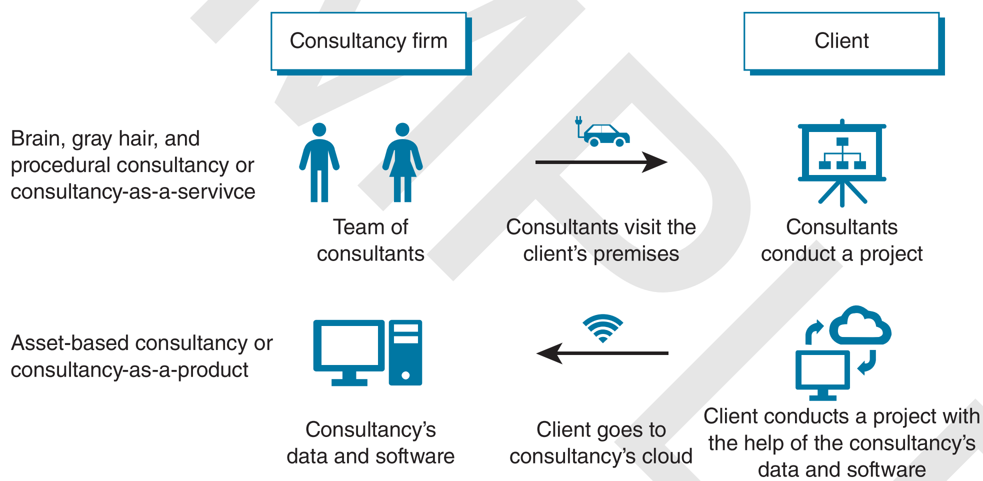


Figure 1.5 "Consultancy-as-a-service" versus "consultancy-as-a-product"

Nature of Problem and Advisory Models

When do consultants use which model: brain, gray hair, procedural, or asset-based consultancy? If a client's problem is *known* to the consultants, the consultants will use their experience. Examples are common problems like operational efficiency improvement or post-merger integration. Consultants are not going to reinvent the wheel. Depending on whether the consultants' experience is tacit knowledge, instructions in written procedures, or algorithms programmed in software, consultants will use, respectively, gray hair, procedural consultancy, or asset-based consultancy. Only if a client's problem is *unknown*, consultants cannot fall back on their experience.

Examples are "new-to-world" problems like unprecedented pandemics and industry disruptions by revolutionary new technologies. Then consultants must use their cognitive capabilities to create a new solution. In this situation, the client needs brain consultancy.

However, if a client's problem has both new and familiar aspects, consultants can combine the advisory models: they use cognitive capabilities for the new aspects and experience for the familiar aspects. For example, how can a client benefit from artificial intelligence (AI) to improve the efficiency of operations? AI is new but operational improvement is familiar to consultants. Figure 1.6 provides a comparison of the four advisory models.

	Brain consultancy	Gray hair consultancy	Procedural consultancy	Asset-based consultancy
Client's problem	New to the consultancy firm	Familiar to the consultancy firm	Familiar to the consultancy firm	Familiar to the consultancy firm
Consultancy offering	Service in the form of a project	Service in the form of a project	Service in the form of a project	Cloud-based digital product
Consultancy financial compensation	Client hires one or more consultants for a period	Client hires one or more consultants for a period	Client hires one or more consultants for a period	Client subscribes to a cloud-based digital product (pay per use or pay per period)
Required knowledge for solving the problem	Needs to be developed	Is in the minds of the experienced consultants	Is codified in the consultancy firm's procedures or playbooks	Is codified in the consultancy firm's computer algorithms
Required qualifications of consultant	Large need for cognitive capacities	Large need for relevant experience	Smaller need for cognitive capacities and no need for experience	No consultants required because digital product

Figure 1.6 Four advisory models

WHY SOME MANAGERS WANT ADVICE: WHO WANTS ADVICE?

Management consultancy exists by the grace of managers who hire consultants. Without managers, there is no demand for management consultants. Who are these hiring managers and why do they hire consultants instead of doing the consultants' work themselves?

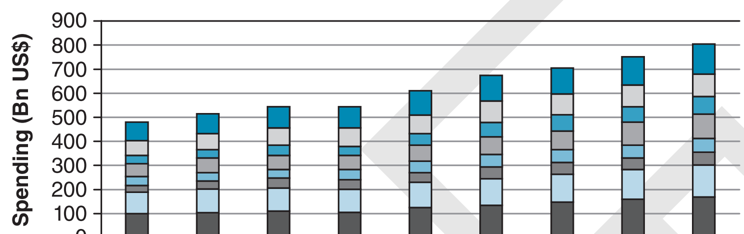
Managerial Positions of Consultancy Clients

A consultancy client can be top managers (board-level or C(chief)-suite executives) but also middle and lower managers, such as first-line or frontline managers. A client does not necessarily have to manage a team of subordinates but can also be responsible for a product or program without managing any personnel. It is not just managers who hire consultants. Works councils may also seek advice from consultants and investors can also hire consultants to, for example, vet a company in their portfolio. Three important requirements to qualify as a consultancy client are:

- Responsibility for business results (that require advice)
- Mandate for decision-making (to implement the advice)
- Budget for consultancy (to pay for the advice)

Client Industry

Consultants' clients can be in all industries of the economy. In addition to the private sector, the public industry can also use consultants. Figure 1.7 reveals substantial differences across consulting spending per industry. Why does spending vary by industry? The consultancy demand will depend on the industry's size. How many participants does an industry have and how large are these organizations? However, the characteristics of an industry can also determine the level of consultancy expenditure. The complexity of the business drives the demand for consultancy. The same applies to the scale of business activities, as greater interests are at stake, the demand for advice will increase. The degree of internationalization of an industry also has an influence. Internationalization leads to questions for consultants like: "How can my company best internationalize?" "How should I respond to international competitors entering my home market?" Fast and furious dynamics of an industry are also a source of consultancy demand. An example is industry disruptions such as the digital revolution. Existing players in an industry must find an answer to the new players that disrupt the industry. The intensity of competition in an industry is a driver of consultancy demand. The more intense the competition, the greater the demand for advice to win or survive. Financial pressure and organizational crises create a need for restructuring, consolidation, and reorganization. These are difficult and sensitive operations for organizations (generally mass layoffs) but also specialist areas of consultants. The frequency and scale of mergers and acquisitions (M&A) in an industry can be another reason for consultancy demand. Companies may need consultants for due diligence research to assess potential transactions and for post-merger integration processes after successful transactions. Finally, strict



	2017	2018	2019	2020	2021	2022	2023e	2024f	2025f
Technology, Media & Communications	77.62	83.27	87.7	89.44	96.79	106.09	111.16	118.13	126.47
Public Sector & Infrastructure	59.15	63.88	69.86	74.04	79.99	87.75	87.22	89.41	93.67
Resources	37.59	40.3	42.45	38.53	47.64	58.3	63.48	69.72	76.58
Manufacturing	50.66	55.54	59.24	57.62	67.75	75.66	82.27	90.31	99.49
Life Sciences	35.49	38.1	40.02	41.47	46.8	49.53	51.08	53.7	57.14
Healthcare	33.34	35.42	37.97	39.25	42.16	45.95	48.37	51.45	54.97
Financial & Professional Services	87.87	92.64	96.95	99.32	107.32	114.59	117.59	122.19	127.47
Consumer	101.14	107.92	111.73	104.56	121.93	137.93	148.2	161.1	174.8

Year

Figure 1.7 Consultancy spend by client industry

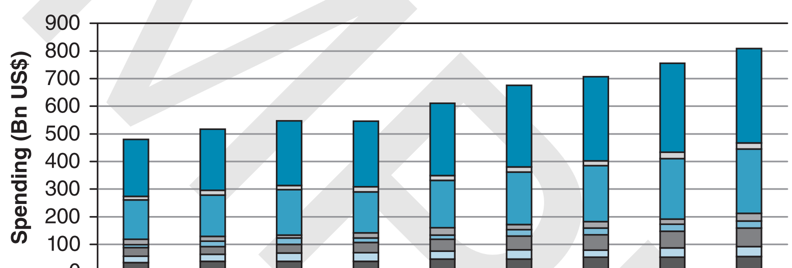
Source: Kennedy Intelligence, LLC

regulations (like compliance) but also deregulation and privatization (new “rules of the game”) can stimulate the demand for consultancy.

Notes to Figure 1.7: e: estimate; f: forecast; Bn US$: Billion United States dollar.

Client Geography

The international segmentation of business and management consultancy shows significant differences between the different geographical areas (see Figure 1.8). The consultancy market is not evenly distributed across countries. The size of a geographic area’s consultancy spend depends on a combination of factors. First, the economy plays an important role. The level of economic development, competitive intensity in the business environment, and the presence of large enterprises influence the demand for consultancy. A second influencing factor is culture. Openness to outsiders and appreciation for external expertise are important conditions for consultancy. Institutions also play a role in the size of consultancy expenditure. The complexity of legislation and regulations stimulates consultancy demand. The size of the government and the public industry also matters as they can be major clients of consultancy. Finally, historical factors play a role. The demand for management consultancy arose due to the Second Industrial Revolution and the historical roots of industrialization lie in North America and Western Europe.



	2017	2018	2019	2020	2021	2022	2023e	2024f	2025f
North America	209.46	222.21	233	235.91	261.85	292.92	304.55	321.16	340.62
Latin America	14.54	15.34	15.66	15.34	17.24	19.61	20.94	22.68	24.78
Western Europe	141.6	150.67	158.27	153.52	173.38	189.33	200.66	214.79	230.66
Eastern Europe	14.11	15.45	17.26	17.32	20.51	21.7	23.45	25.78	28.59
Central Asia & Middle East	16.63	17.75	18.38	17.49	19.52	21.65	22.7	24.07	25.59
Southern APAC	28.7	32.08	35.35	35.92	41.83	48.3	52.9	58.62	65.33
Greater China & Mongolia	20.81	23.95	26.83	27.22	30.28	31.79	31.85	33.46	36.04
Japan & South Korea	37.1	39.62	41.17	41.78	45.77	49.83	52.31	55.45	59.06

Year

Figure 1.8 Consultancy spend by client geography

Source: Kennedy Intelligence, LLC

Notes to Figure 1.8: e: estimate; f: forecast; Bn US$: Billion United States dollar.

Size of Client

The size of a client organization (in terms of revenue, budget, number of employees, or size of assets) may vary. Clients can be small or medium-sized organizations. Clients could be start-up businesses or even potential entrepreneurs who want advice on their business plans. Investors can also hire consultants for the due diligence of an investment candidate. Typically, clients are large private or public organizations. With the size of the organization, the size of the problems and the value at stake (What is the impact of the problems on the organization's results?) increases. Large stakes justify (large) budgets for consultancy.

Why do They Want Advice?

Why should managers hire consultants to advise them on what they should do? Are managers not supposed to know what to do? After all, managers are hired by the owners of the companies to manage their organizations. The owners may expect that managers know what to do in most cases. Managers are assumed to be able to manage their organizations under *normal* circumstances. But there are exceptional cases that justify calling in consultants.

Solving Non-Routine Problems

We distinguish between routine problems and non-routine problems of clients. Routine problems are common challenges that are part of the client's day-to-day management. The client can solve routine problems using familiar procedures. In contrast, non-routine problems are unusual and, therefore, lack familiar procedures. Hence, non-routine problems require the more analytical and creative problem-solving approaches that are the hallmark of consultants.

Routine Problems

Managers should be able to analyze and solve *routine* problems. One example is resource allocation. Allocating people, budget, and any assets among organizational units, like departments or businesses is a routine task for managers. People management is another example of routine work. Motivating employees, retaining talent, managing any underperforming employees, and resolving any conflicts between employees is routine work for managers. Customer management is a third example. Ensuring customer satisfaction, managing customer expectations, and managing any customer complaints are routine tasks. However routine problems can transform into non-routine problems due to societal changes. For example, staff recruitment is a routine task. However, due to demographic development, talent is becoming scarce. A war for talent is emerging, meaning that talent recruitment is no longer a routine task.

Non-Routine Problems

But sometimes, managers also face non-routine problems. We outline three categories of causes of non-routine problems. First, *organizational crises* can cause non-routine problems. An example is that for some reason, an organization has run into major financial difficulties that threaten its survival. Consequently, the organization is teetering on the brink of bankruptcy. What should the organization do? Another example is an activist investor initiative. Activist investors are demanding a replacement of the leadership or a restructuring of an underperforming listed company. How should the leadership react? Second, *industry disruptions* can be a cause of non-routine problems. An industry disruption is a significant and often rapid change in an industry that fundamentally changes how business is conducted in that industry. How should an incumbent industry player respond? Disruption can be driven by various factors. One driver is *technological* advancement or disruptive innovation. In the 2010s, manufacturers of internal combustion engine cars had to respond to the industry disruption because of the successful introduction of an electric car by *Tesla*. A present (2024) example is the rise of artificial intelligence (AI). An upcoming example is quantum computing: a new generation of computers that, thanks to quantum mechanics, is capable of much greater performance than traditional computers. Another driver of disruption is *regulatory* change. Regulatory change requires compliance. An example is environmental regulation in response to the planet's sustainability challenges, such as obligations for companies to reduce and ultimately eliminate carbon (greenhouse gas) emissions. Third, so-called "*black swans*" can be a cause of non-routine problems. Black swans are unforeseen exceedingly rare events with a large societal impact that were predictable in hindsight. Examples are the 2020 COVID-19 pandemic, the 2011 nuclear disaster of the meltdown of the reactors of the Fukushima power plant in Japan, and the 2008 global financial crisis.

Client's Barriers to Solving Non-Routine Problems

Some (not all) managers cannot solve these non-routine problems. Why may that be so? We distinguish between three possible explanations: newness, rareness, and complexity. These non-routine problems are *new or rare* for these managers. Newness and rareness can have two consequences for managers. First, because of newness and rareness, the managers lack experience and problem-solving capabilities. The managers have no or insufficient personnel or in-house *experience*. These problems have never occurred during the tenure of these managers and if they happened before these managers were appointed it was so long ago that the employees with experience of the problem have now retired or are working elsewhere. For example, managers face a global economic crisis or an M&A wave in their industry. Second, because of newness and rareness of problems, the managers have no or insufficient in-house *problem-solving capabilities*. These problems are too infrequent to justify hiring people and developing the required in-house capabilities. Another explanation besides newness and rareness, is the complexity of problems. These non-routine problems are *too complex* for these managers. The complexity of the non-routine problems exceeds that of the routine problems to which management's problem-solving capabilities are tailored. The problem-solving capability of management is therefore inadequate to solve these non-routine problems. This is true even though managers are increasingly better educated in business. Nowadays, many managers have an MBA diploma from (leading) business schools. As a result, managers also know management theories and frameworks, like SWOT, PESTEL, and Porter's Five Forces.

Non-Routine Opportunities

We acknowledge that the reasons for hiring consultants do not always need to be negative. Managers may also face new, non-routine *opportunities* for which they lack the capabilities to create a plan to take advantage of them. An example is international expansion. The client may not be aware of an opportunity for international expansion, or the client may not know *how* to expand internationally. For example, a European multinational wants to invest in the African continent but has insufficient knowledge of this geographic market. Consultants may be aware

Figure 1.9 [cartoon] Some clients only call their consultants when things really go wrong

of the possibilities for international expansion and can advise the client on how to make the best possible use of these international opportunities. Another example is merger and acquisition (M&A) opportunities. The client may not be aware of an opportunity for M&A, or the client may not know *how* to: evaluate M&A opportunities; make an M&A deal; or integrate the merged organizations after the deal. Consultants may be aware of candidates for M&A and can advise the client on how to make the best possible use of these M&A opportunities.

Consultants can Solve Non-Routine Problems

Solving the non-routine problems of their clients is the daily routine of consultants. These non-routine problems are not just frequent tasks for consultants, but they are a reason for the existence of consultants. The added value of consultants is largely in solving the non-routine problems of clients.

Insider Blind Spots

Sometimes, managers cannot even spot a new problem. The reason for this failure is that these managers are blinded by the narrowing of vision that comes with working in the same organizational or industry environment for a (very) long time. Over time, these long-term incumbents or insiders develop a reference frame or mental model of how things are in their organization and industry. This frame enables them to manage usual matters and routine problems very efficiently. However, their "theory of the business" works against them when new unexpected developments occur that do not fit into this logic. Their narrow view based on the past prevents them from (correctly) spotting new problems. These managers may even deny the new problem as the facts do not fit their theory of the business. For example, industry disruptions are often initiated by newcomers or outsiders as the established order in the industry does not see the new developments in time because they have blinders on. An illustration is that electric cars were not developed initially by one of the established superpowers in the automotive industry but by newcomer Tesla.

Consultants can Remove Blind Spots

Because of the blind spots that plague insiders, the insiders need outsiders such as consultants for the necessary broadening of their views. Consultants look at the client's organization and its industry from the outside. As a result, consultants as outsiders can make clients aware of the limitations of their narrow field of view. Consultants work for multiple client organizations. Functional specialist consultants may work for multiple industries, whereas industry specialists in consultancy firms can use the vision of colleagues specializing in other industries. Therefore, consultants may have experience in industries that are ahead of the client's industry in terms of industry disruption and other relevant developments. For example, book retail was among the first industries that adopted e-commerce whereas grocery was among the later industries. Equipped with the best-practice experience from book retailing, consultants could help their clients in groceries to anticipate then upcoming e-commerce developments in their industry.

Company Politics

In some cases, the various managers in the client's organization cannot agree on the problem or the solution to the problem. Blind spots and diverging views on a situation can hinder those involved from reaching a shared conclusion about problems or solutions. In addition to these cognitive obstacles, conflicting interests, and beliefs of those involved can also prevent a joint definition of problems or solutions.

When problems arise, there is a natural tendency among those involved to whitewash their case and blame someone else. For example, when a company's sales decline, the sales manager may blame the R&D manager for not having developed a competitive product. The R&D manager in turn may blame the sales manager for not being sufficiently able to sell their product. When selecting possible solutions, those involved tend to choose solutions that best suit their interests and beliefs rather than solutions that are best for their organization. For example, in response to declining sales, the sales manager requests more account managers, whereas the R&D manager wants a larger budget for product innovation. However, the best solution for the company may be a price reduction as the real problem of the company is that the price of their product is too high compared to the competition, causing customers to switch to competitors' products that are more attractively priced.

Consultants can Navigate Company Politics

The external position of consultants and their orientation toward evidence-based, objective problem-solving makes them suitable for tackling the client's political problems. We define political problems in terms of different parties or people with conflicting interests, values, and beliefs who use their power to get their way. The consultants can fulfill the role of an independent mediator between the warring parties. Due to their independence (no interest in the client and not taking sides in political conflicts) and objectivity (focus on the facts), they can contribute to the resolution of a political conflict and the formation of a consensus. Clients can hire consultants to function as independent and neutral outsiders to bring the warring parties into contact with each other and then align them. But we must not forget that the consultants are hired and paid by the client. The client is not an organization but a (top) manager in an organization. Consultants are therefore not completely neutral referees unless their client expressly wants it that way.

However *opportunistic* managers can also hire consultants as a *political weapon* to be used against their opponents in the organization. These opportunists can abuse their consultants to reinforce their definition of the problem and their desired solution. Opportunistic clients can also use consultants as a *rubberstamp* to justify the decisions that these clients want to make. The reputation of prestigious consultants helps to legitimize the opportunistic client's problem definition and solution. Opportunistic clients can refer to the consultants: "This solution (for example a merger) is the recommendation of consultancy firm 'Aurelius Strategos' (fictional name for an elite consultancy)." Such practices are unethical for both the client and the consultant. Relatedly, clients may hire consultants to function as *scapegoats*. An opportunistic client wants a solution that is not in the interest of some stakeholders. The client hires consultants to take the blame for that unpopular solution. The opportunistic client blames the consultants: "I did not want this solution (for example a reorganization with mass layoffs), but it is the inevitable outcome of the extensive research that consultancy firm 'Aurelius Strategos' (the fictional elite consultancy) has carried out for us over the past three months." Clients can also choose prestigious consultants to show off these consultants. Hiring prestigious (elite) consultants contribute to a client's *prestige*. The client can brag to his network of peers and friends: "Consultancy 'Aurelius Strategos' works for me!" Perhaps this manager himself wanted to work for "Aurelius Strategos" in the past but was not hired at that time. Now the roles have been reversed. He does not work for the consultancy, but the consultancy works for him. Clients may also hire consultants for other personal reasons. For example, a client hires consultants and expects these consultants in return to introduce her to the consultants' network of business leaders, for example for a new position or new relationships. Consultants with high ethical standards will not accept this kind of role if they are aware of the clients' opportunistic intentions. Figure 1.10 visualizes the official and unofficial (opportunistic) reasons that clients may have for hiring consultants.

Process Consultancy

Sometimes clients do not want a solution from consultants for their problem, but they want to solve the problem themselves with the support of the consultants. We distinguish "content consulting" and "process consulting." Content consulting means that the consultants develop a solution ("content") for the client. With process consulting, the consultants offer a problem-solving process to the client. The client uses the process to develop a solution itself. The consultant facilitates the process.

Another scenario is that clients want to solve the problem themselves but do not need a consultant for the problem-solving process because they already know the process. These clients only have a shortage of good people to do the problem-solving. Therefore, they hire consultants to provide the necessary people for the duration of the problem-solving project. This is a form of secondment and is also called "body leasing."

Consultancy in the Absence of Problems

Clients can also hire consultants if they have already developed a solution to their problem themselves. In that case, clients want an assessment or a *second opinion* from the consultants.

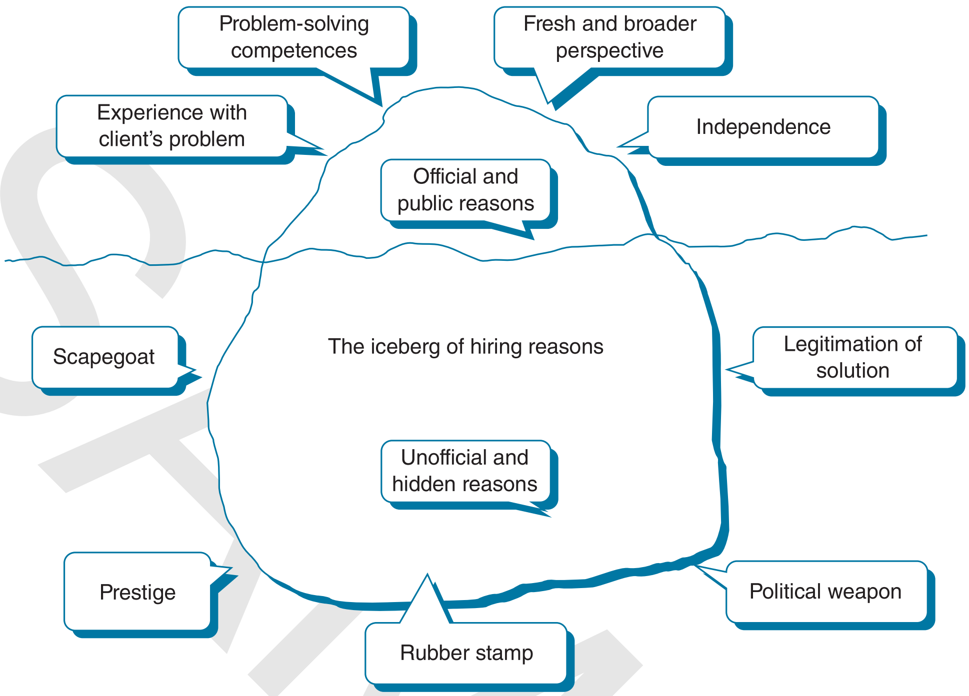


Figure 1.10 Official and unofficial reasons for hiring consultants

Furthermore, clients can request the services of consultants in cases where there are no problems. Clients may need to evaluate strategy or business operations from time to time and reflect on the policy pursued. Are we doing it right? Are we still on the right track? Consultants can organize an offsite retreat for the client's management team to guide this strategy *review* or audit. Clients may also need a *benchmark*. There are no acute problems, but the client wants to know how their organization performs compared to the best-performing competitors. How well are we doing compared to the best practice? Consultants can perform such benchmarks for their clients.

MANAGERS MAY SET UP AN INTERNAL CONSULTANCY

We have an answer to the question of *why* managers need advice in some cases. The next question is whether managers should get advice from *external* consultants or whether they should set up an *internal* consultancy department. This is the well-known "make-or-buy decision:" *make* the advice in-house (by internal consultants) or *buy* external advice (from external consultants).

Conditions for Internal Consultancy

When should managers set up an internal consultancy? We discuss three important reasons: (1) a frequent and large need for advice; (2) rare or secretive operations; and (3) a strong or closed organizational culture.

A Frequent and Large Need for Advice

Frequency is a condition for internal consultancy. The need for consultancy projects must be frequent to justify the hiring of permanent internal consultancy staff. For infrequent projects, the client is better off with external consultants. The size of advisory projects is another condition for internal consultancy. The frequently needed advisory projects must be large enough to justify the fixed costs of an internal consultancy unit. If consultancy projects reach a break-even volume in terms of the number of consultants and the number of weeks or months, it becomes economical to set up an internal consultancy. This is the logic of a break-even analysis.

Rare or Secretive Operations

If a client's operations are rare or different from other organizations in an industry or society, then it is not economical for external consultants to justify specialization in that client's operations. This is another break-even analysis. A specialization in a specific client industry is associated with fixed costs. The specialization must generate a certain revenue to cover all costs. Below this lower revenue limit, the specialization is not profitable. Moreover, if the client's business is rare then a specialized consultant would become too dependent on that single client. An example of rareness is an organization that is a monopolist in its sector. For example, a company is the only manufacturer of space rockets for launching and orbiting satellites on a certain continent. It is not attractive for consultancy firms on that continent to specialize in space rocket firms if there is only one single potential client.

If a client's operations are highly secretive, then the client will minimize the use of outsiders to avoid any risk of leakage. For example, certain ministries or government services work with such state secrets and other confidential matters of national importance that they cannot afford to collaborate with outsiders and certainly not with foreign parties. We do not want to accuse consultants of leaking state or trade secrets or other confidential or sensitive information of their clients both in the public and private sectors. Ethical consultants will never do that. If they work for competing clients (governments or private companies), they will set up so-called "Chinese walls" within the consultancy firm to avoid any exchange of confidential information or other conflicts of interest. Chinese walls in a consultancy firm are internal procedures and controls to prevent conflict of interest when the consultancy firm serves multiple clients who have competing interests and confidential knowledge. For example, a consultancy firm works for two rival banks but has a separate consultancy team for each client and these teams operate completely independently and do not exchange any sensitive client information with each other.

A Strong or Closed Organizational Culture

A strong, distinguishing organizational culture of a client makes it hard for outsiders like external consultants to understand and engage with the people inside the client organization. Consultants are not part of the "club" and will face insurmountable resistance from the client's staff. A closed culture means resistance to outsiders and a related "not-invented-here syndrome" prevents the acceptance of any advice by outsiders. Then managers and subordinates will not be open to collaborating with external consultants.

Advantages of Internal Consultancy

The choice for an internal consultancy is often a weighing of the advantages and disadvantages of an internal consultancy. We first discuss the most important benefits of internal consultancy. First, as insiders, internal consultants will have deep *knowledge and understanding of the client's organization and its culture*. Moreover, as insiders, they will also have deep knowledge of the people in the client organization. Second, as permanent staff, internal consultants will be able to *develop relationships* and networks. Unlike external consultants, internal consultants will not leave the organization after the closure of a project. Over time, internal consultants can build a social network within the client organization with informal relationships. Third, as internal consultants are "one of us" they will easily *gain the trust and acceptance* of the people in the client organization. Fourth, internal consultancy will generally have lower hourly rates than external consultancy. Fifth, internal consultancy is an *attractive place for developing talent*. It provides a good entry position for "high potentials" as it offers a lot of variety and exposure to various aspects of the business. Therefore, internal consultancy can provide a steep learning curve for new talent.

Disadvantages of Internal Consultancy

However, internal consultancy is not without disadvantages. We discuss the main disadvantages. First, internal consultants are *not truly independent*. They are part of the client hierarchy. Their ties to the organization may diminish room for independent advice. Especially if internal consultancy is a temporary position for high potentials, the future transfer from the internal consultancy to "the client side" of the organization may lead to anticipated dependence on the internal client. If an internal consultant knows that she will be placed in a commercial department of the client organization within one year, this may be a factor in the back of her mind if she must advise such a commercial department as an internal consultant. Second, the scope of an internal consultancy is relatively narrow as they work for only one organization whereas the large external consultancies may work for a variety of organizations, often in a variety of industries. The narrow scope of an internal consultancy can contribute to a *narrow view* compared to external consultants. Therefore, some successful internal consultancies decide to also work partly for external clients. They combine internal and external consultancy. An example is *Porsche Consulting*. Third, the scale of internal consultancy is relatively small as they work for only one organization whereas the large external consultancies work for many organizations. The smaller scale contributes to slower and more limited *development of knowledge and capabilities at the organizational level compared to external consultancies.* An internal consultancy generally lacks the scale to set up a training program that is comparable to the large external consultancies. But by also providing external advice, internal consultancies can also achieve some economies of scale. Fourth, internal consultancies typically have *less access to (top) talent* than the leading external consultancies. They are less attractive than the top-tier external consultancies in terms of, among others, learning curve, pay, career path, and prestige. However internal consultancies may offer a better work–life balance and a better prospect of long-term employment continuity. Fifth, the reputation of internal consultancies will be weaker than elite external consultancies. The internal consultants will have *less prestige* to legitimize the management decisions of their clients. Moreover, as internal consultants are part of the client's hierarchy, they have *less authority* than external consultants. Internal consultants are subordinates of top management. To what extent will top management be willing to follow the advice of subordinates?

Combining Internal and External Consultancy

"Make-or-buy" suggests a choice between *either* internal consultancy *or* external consultancy. However, the client may also consider a combination of both types of consultancy as internal and external consultancy may complement each other. The client may have the best of both worlds; they may combine the advantages of internal consultancy with the advantages of external consultancy. Clients may hire external consultants only for those projects and those parts of projects where externals have an advantage over internal consultants. For the other projects and for other parts of projects where internal consultants have an advantage, clients use internal consultants. It is not only clients who may benefit from combining external and internal consultancy. Internal consultants may also benefit. When internal consultants collaborate with external consultants on a project, they may learn from their external counterparts and develop their knowledge and capabilities further.

We distinguish between three critical success factors for combining internal and external consultancy. One factor is a clear division of roles and responsibilities between internal and external consultants. For example, does one party have overall control of the project, or do both parties share control? Relatedly there must be a clear coordination of the work of both types of consultants. Who does what? In the case of collaboration, the two types of consultants must agree on deliverables and ways of working. Finally, clear communication between the two types of consultants is a success factor. For example, frequent meetings are a good way to communicate and coordinate activities.

Figure 1.11 [cartoon] Some clients want consultants to be the bad guys so they can play the good guys

BUSINESS AND MANAGEMENT CONSULTANTS EXPAND BEYOND ADVICE

So far, we have limited ourselves to the *advisory* services of consultants. However, consultants can offer more services. Figure 1.12 visualizes the expansion of consultants' services beyond advisory services. The figure suggests a separation between the different services. In practice, consultants can integrate the various services into a single project. This bundling of services is the strength of consultancies with a wide range of services. For example, the solution to a client's strategic problem may consist of a new strategy that also requires new capabilities and a new IT infrastructure.

Advice About the Implementation of the Solution

Implementation is ensuring that what has been planned is done. Implementation, or execution as it may also be called, is doing something in a planned way. Solution implementation is putting a recommended solution (the advice) into effect. Advice consists only of words. An implementation means action. Only actions can lead to results. That is why implementation is so important for clients. Clients may ask consultants for advice on *how* to implement a solution. The request may involve the same consultant as the advice. The consultants will also diagnose the client's implementation challenges and design an implementation plan or roadmap. But clients can also ask another consultant for the implementation. Advice and implementation require different capabilities. Individual consultants often must specialize in one area. However, larger consultancy firms have both specialists for advice and specialists for implementation. They can be a "one-stop shop" for clients.

Support the Implementation

We discuss two types of services related to the implementation of a solution. One type is *managing* the implementation. Consultants may set up and run a project management office

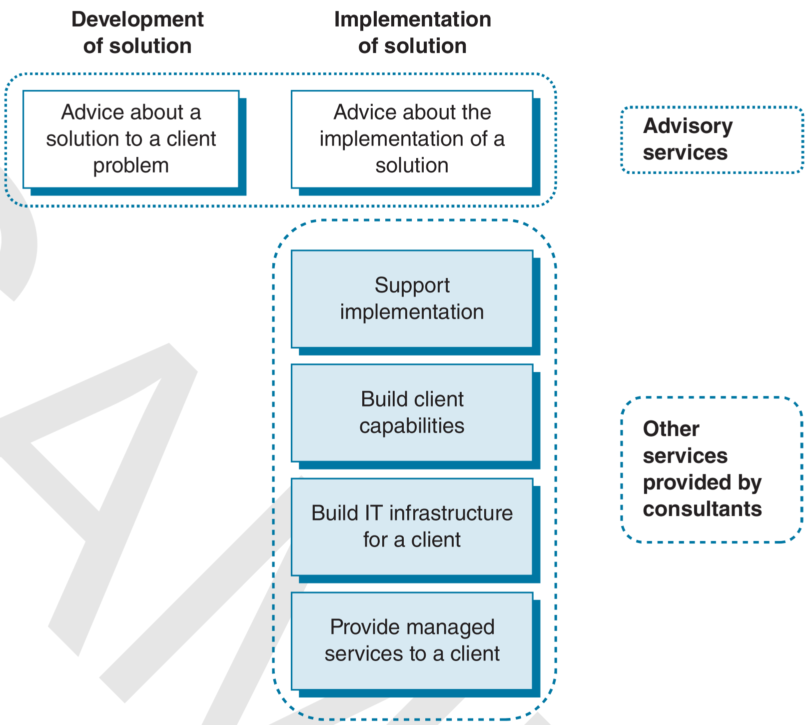


Figure 1.12 Overview of services provided by consultants

(PMO) on behalf of the client (whereby consultants function as project managers). The other type of service is *doing* the implementation work. Consultants fulfill (some of) the implementation tasks. For example, consultants may develop job profiles for new client staff positions that are required for the solution. The consultants may work shoulder-to-shoulder with the client's employees to implement a solution (consultants function as "hired hands").

Build Client Capabilities

To work with a new solution, the people in the client organization may need to strengthen their skills or even need new skills (for example to work with AI). This may concern leadership skills, but also functional skills such as marketing, operations, and IT. Consultants can help client employees develop these skills by offering training and coaching to individuals. Moreover, consultants can build organizational capabilities by training (large) groups of people in the client organization on how to collaborate to fulfill a role together.

Build IT Infrastructure for Clients

A new solution may require an adjustment of the client's IT infrastructure or perhaps even the development of a new infrastructure from scratch.

An IT infrastructure is comprised of three components: (a) hardware: computers, data storage, and computer networks; (b) software: operating systems, enterprise software platforms, and digital applications; and (c) facilities for the management and maintenance of the hardware and software. Some consultants can take the IT infrastructure development and maintenance off the hands of clients. Clients can outsource this work to such consultants.

Provide Managed Services to Clients

In the late 1990s and early 2000s, business process outsourcing (BPO) gained popularity among client managers. The logic behind BPO is that organizations delegate their non-core functions to third parties that manage their services on their behalf (the managed service provider) so that they can better focus on their core functions, namely, the functions on which they can create the most added value and best differentiate themselves from the competition. Some consultants played an important role in this transition to focus on the core business and outsource the non-core. These consultants not only advised on BPO but also started providing managed services to clients.

We identify three examples of managed services provided by consultants. One example is IT. Consultants may offer to provide, for example, network management, security management, and cloud services. HR is another example. Clients may delegate, among others, the administration of payroll and employee benefits to consultants. Our third example is accounting. Consultants may take over a client's processes like bookkeeping and the management of accounts payable and receivable.

WHY SOME MANAGERS WANT MORE THAN ADVICE

Advice is valuable but clients ultimately want to see results. Results require implementation of the advice but implementation can be difficult. That is why some managers ask consultants not only to advise but also to implement their advice.

Implementation

Why should clients use consultants for the implementation of a solution? We discuss some main arguments. First, clients may hire a consultant for implementation if clients lack the implementation capability. A lack of such capability is justifiable if implementation is a non-routine challenge for them. Implementation means a change of a client's routines or their daily, business-as-usual, activities. For consultants, implementation can be routine. As "change agents," they have *strong capabilities for implementation and managing the resulting change.*

Second, clients may hire consultants for implementation if clients cannot get "buy-in" from their organization which is the willingness to support an implementation. Managers and subordinates in the client organization may resist the required change. Consultants may *overcome such resistance and mobilize the client's personnel*. Two main reasons for people's resistance to implementation are cognitive biases and company politics. Cognitive biases of people in the client's organization mean that these people do not see or deny the need for a new solution. They have blind spots that prevent them from seeing the problem and the need for a solution. Consultants with strong social and communication skills can demonstrate the case for change to open these people's eyes and mobilize them for the necessary change. Company politics are about conflicting interests within an organization and the informal use of power to influence decision-making to promote one's interests, often at the expense of the general interest of the organization. An example of company politics is that people inside the organization with vested interests in the status quo or present situation resist the necessary change. Consultants with a strong reputation and the necessary authority can highlight a so-called "burning platform" to create a sense of urgency to mobilize these people to support the implementation. A burning platform is an indicator of an urgent problem that signifies to stakeholders that the status quo is no longer sustainable, and fast change is inevitable. The term refers to a burning oil platform in the middle of the sea: staying on the platform is no longer an option.

Third, clients may hire the same consultants for solution development and solution implementation to seize two benefits. One benefit is that the integration of solution development and implementation ensures a *smooth transition* from solution development to solution implementation. Another benefit is that integration ensures *clear responsibilities*. Clients prevent the developers of a solution blame the implementers and vice versa in the event of a failure.

Fourth, the *development of solutions* (particularly strategy) and the *implementation* of solutions have become *increasingly intertwined* in recent decades. In the twentieth century, strategy design and strategy implementation were often separated in time. It was a sequential, planning process. Back then, strategy consultants could limit themselves to formulating a new strategy for the client. Due to the increased turbulence of the business world, the planning approach has become less effective and the iterative or agile approach to strategy has become more popular. The agile approach consists of cycles of design and implementation. Design and implementation are then inextricably linked and can no longer be separated into an advisory project and a subsequent implementation project.

Fifth, in case of difficult or painful solutions, clients may hire consultants for implementation for informal, opportunistic reasons: putting the blame on the consultants and letting the consultants do the "dirty" work, like identifying redundant positions in an organization. In the case of *difficult* solutions, delegating the implementation to consultants can give opportunistic clients an additional advantage: they can *blame the consultants* if the implementation fails. But if things go well, opportunistic clients will claim success. If solutions are *painful* for stakeholders, then delegation of the implementation to consultants can give opportunistic clients an additional benefit: they can *let the consultants do the "dirty" work* and keep their hands clean themselves (client acting as the good guy while portraying the consultants as the bad guys). The opportunistic clients hide behind their consultants. The clients do not care if the consultants get a bad reputation among the staff because the consultants leave anyway after completing the dirty work. After the consultants have left, the clients have their good reputation intact to continue their good relationship with their staff.

Other Services

Why should clients use consultants for building capabilities and IT infrastructure? Why should they outsource (non-core) business processes to consultants? These are "make-or-buy decisions." Hence, please refer to the prior reasoning about setting up an internal consultancy.

Success

We discussed that various providers of business and management consultancies have supplemented their advice with additional services. Now we discuss what a successful service is. When is a consultancy project a success? A *narrow* definition of success could look like this. Successful advice is an effective solution to the client's problem that the consultants deliver on time and within budget. Success for the client is a resolution of the client's problem and a resulting improvement in the client's results. Additional benefits for the client may include learning from the consultancy and developing new valuable knowledge and capabilities as a result. Success for the consultancy is the financial result (profit) of the project, and the possible acquisition of new knowledge and capabilities because the consultants have learned from the project. Further success for consultants is developing or strengthening the client relationship and obtaining client testimonials and referrals. Finally, success for consultants also means strengthening their reputation through a successful project.

A *broader* definition of success broadens the perspective to *include all* stakeholders in a consultancy project. Employees of the client organization as well as the employees of the consultancy organization (consultants and other staff) benefit from the project or at least do not find it a nuisance or disadvantage. Examples of adverse effects of consultancy projects are that client employees lose their jobs (for example, due to a restructuring of the client organization) or consultants must work too long hours. Other stakeholders beyond the members of the client and consultancy organizations should benefit from the project or should at least not be disadvantaged. There are no adverse effects of the project on society or the natural environment. Examples of adverse effects are that the project leads to a deterioration of public health and pollution of the environment. These adverse consequences of consultancy projects bring us to the next topic: the ethics of consultancy.

Ethics

Ethics is the set of moral principles that guide behavior. Moral principles are about what is good or bad behavior, or what is right or wrong. These principles are based on norms and values in a community. Societies have principles but so do professional groups. Management consultancy associations issue codes of conduct for their members. However, some consultants sometimes cannot resist the temptation to act unethically. We emphasize the use of the terms "some" and "sometimes" because we do not wish to give the impression that unethical behavior is widespread among consultants. However, just like in any other profession, there are always a few bad apples in the basket. We provide three examples of unethical behavior in consultancy. First, unethical consultants allow themselves to be tempted to conduct assignments for unethical clients. Consider, for example, client companies that offer polluting or addictive products or services. But it can also concern governments that are guilty of oppression and violation of human rights. Are consultants committed to helping these companies and governments support or even strengthen their unethical or illegal policies? Second, unethical consultants can recommend unethical solutions to ethical clients. They can develop recommendations that are good for the client but detrimental to the client's employees (solutions to business problems that affect the health and safety of employees) or the client's customers (solutions to business problems that affect the health and safety of consumers). Third, unethical consultants can harm their clients with their advice. For example, unethical consultants working for competing clients in an industry may use confidential or secret knowledge obtained from one client to provide advice to a competing client. Another example is a consultant who works for many clients in the same industry. An unethical practice is to advise all clients on the same competitive strategy. Such a cookie-cutter approach saves the consultant time but greatly contributes to uniformity in the industry and consequently intensifies competition without benefit to any client.

Ethical standards for consultancy are important for both the profession and the consultancy firms. We discuss a few important standards. *The integrity* of the consultant, or honesty and strong moral principles, is paramount. In addition, the *objectivity* and *independence* of the consultant are crucial. The consultant may not have any interests in the client or in other stakeholders that could influence the consultant's objectivity and independence. Consultants must avoid conflicts of interest. Third, the consultant must serve the *client's interests* and guard the *confidentiality* and *sensitivity* of client information. Fourth, the consultant must treat all stakeholders with *respect* and *fairness*. Related to this, the consultant must take *social responsibility*. Furthermore, the consultant must maintain *transparency* through clear and timely communication and documentation.

Figure 1.13 [cartoon] Consultancy as problem-solving

REFERENCES AND SUGGESTIONS FOR FURTHER STUDY

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