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**Management Consulting – structure and
growth of a knowledge intensive business
service market in Europe**

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1 Introduction

The globalisation of contemporary capitalism is bringing about at least two important implications for the emergence and significance of business services. First, the social division of labour steadily increases (ILLERIS 1996). Within the complex organisation of production and trade new intermediate actors emerge either from the externalisation of existing functions in the course of corporate restructuring policies or from the fragmentation of the production chain into newly defined functions. Second, competitive advantages of firms increasingly rest on their ability to innovate and learn. As global communication erodes knowledge advantages more quickly, product life cycles shorten and permanent organisational learning results to be crucial for the creation and maintenance of competitiveness. Intra- and interorganisational relations of firms now are the key assets for learning and reflexivity (STORPER 1997). These two aspects of globalisation help understand why management consulting - as only one among other knowledge intensive business services (KIBS) - has been experiencing such a boost throughout the last two decades. Throughout the last ten years, the business has grown annually by 10% on average in Europe. Management consulting can be seen first, as a new organisational intermediate and second, as an agent of change and reflexivity to business organisations.

Although the KIBS industry may not take a great share of the national GDP its impact on national economies should not be underestimated. Estimations show that today up to 80% of the value added to industrial products stem from business services (ILLERIS 1996). Economic geographers have been paying more attention to KIBS since the late 1970s and focus on the transformation of the spatial economy through the emerging business services. This market survey is conceived as a first step of a research programme on the internationalisation of management consulting and as a contribution to the lively debate in economic geography.

The management consulting industry is unlimited in many ways: There are only scarce institutional boundaries, low barriers to entry, a very heterogeneous supply structure and multiple forms of transaction. Official statistics have not yet provided devices of grasping this market and it may be therefore, that research and literature on this business are rather poor. The following survey is an attempt to selectively compile existing material, empirical studies and statistics in order to draw a sketchy picture of the European market, its institutional constraints, agents and dynamics. German examples will be employed to pursue arguments in more depth.

2 Management Consulting: an unbounded industry

2.1 A brief genealogy of consulting

Management consulting has its roots in the industrial revolution of the late 19th century (KUBR 1986). Due to the expansion of factories, increasing division of labour and rising complexity of work organisation, scientific management emerged as a way of organising work efficiently. Mostly independent and experienced experts from backgrounds such as accountancy, engineering, law and banking acted as “efficiency experts” in optimising different fields of corporate operations (AHARONI 1997). Hence, at the turn of the century, business consulting was a largely individualised expert system of experienced, self-employed professionals.

A consulting market was only established in the USA through the *Glass-Steagall Banking Act* in 1933, when the American Congress passed a law to legally split banking in investment and deposit-taking functions. This Banking Act was an attempt to moderate bank business through the separation of commercial from investment banks (MCKENNA 1995) and banks were subsequently forced „to hire outside consultants to render opinions on the organisation of a bankrupt company or the prospects of a newly-formed public company“ (MCKENNA 1995: 55). The market had opened and the business began to institutionalise: By 1940 the amount of firms had quadrupled compared to only one hundred firms until 1930. McKenna recognises this particular regulation as crucial for the international development of management consulting: „Since other countries did not legislate the separation of commercial and investment banking, the institutionalisation of management consulting never happened outside the United States.“ (MCKENNA 1995: 57).

Consequently, the development of management consultancy in Western Europe had to be induced by a transfer of North-American management know-how which happened during the 1960s. Gerybadze distinguishes three phases: (1) Transfer of American consulting techniques to Western Europe (1960 until 1974), (2) differentiation of national consultancy markets and institutions (1975 until 1989) and (3) restructuring within the European management consulting (GERYBADZE 1991).

2.2 Definition and delimitation of management consulting

Management consulting forms part of a variety of business services (KEEBLE/SCHWALMBACH 1995: 2). Broadly defined, business services address private and public organisations and offer services in support of corporate or public

operations and functions. In order to exclude services like cleaning etc. which is also business oriented, a more precise denomination is suggested: knowledge intensive business services or *KIBS* (STRAMBACH 1993, WOOD 1991). These comprise a variety of activities like legal consultancy, accounting, tax consultancy, auditing, advertising, market research, technical services and, of course, management consulting (HERMELIN 1998). In terms of the official classificatory statistics, management consulting and other services are aggregated to group 74.14: "Business and management consultancy activities" in the NACE Rev. 1 directory of business groups. But management consulting (MC) is not at all uniformly defined: There exists no standardised definition in the European Union and it proves impossible to delimit clear boundaries of this industry. Many firms acting on the MC market do offer services on other markets and in turn, many firms offering other business services have been diversifying into the MC market. Hence, management consultancy is primarily a market rather than a clearly defined industry or set of inclusive actors (HOFMANN/VOGLER-LUDWIG 1991). Any approach to surveying the market and describing its structure and dynamics numerically is doomed to ambiguity. This unboundedness may be a major reason for the scarcity of research on MC, especially within economic geography.

If the business is not an industry but a market, then the market has to be specified via its transactions: consulting. In a functional specification consulting can be defined as "any form of providing help on the content, process, or structure of a task or series of tasks, where the consultant is not actually responsible for doing the task itself but is helping those who are" (STEELE 1975: 3). Management consulting in particular can then be defined as "... the rendering of independent advice and assistance about management issues. This typically includes identifying and investigating problems and/or opportunities, recommending appropriate action and helping to implement those recommendations" (FEACO 1991). Another way of defining management consulting and emphasising its professional character is proposed as following: "Management consulting is an advisory service contracted for and provided to organisations by specially trained and qualified persons who assist, in an objective and independent manner, the client organisation to identify management problems, analyse such problems, recommend solutions to these problems, and help, when requested, in the implementation of solutions" (GREINER/METZGER 1983: 7).

2.3 The institutional arena

According to McKenna (1995) the process of institutionalisation of the business was initiated by the Banking Act of 1933. The change in bank legislation separated banking from consulting and the regulatory framework caused the emergence of a market niche. But to what extent has the business been professionalised? In recent years the market has been expanding overwhelmingly. The annual turnover and employment rates increased dramatically all over Europe, but the institutional regulation of the business is lagging behind. In a narrow sense of the word, management consulting is not really a profession (ITTERMANN/SPERLING 1998).

In contrast to professions like legal consulting, accounting, auditing and tax consulting, management consulting is not subject to any regulatory framework. The business is not protected by any educational or professional standard. There are no obligatory licensing standards, qualification requirements or codes of conduct which could be sanctioned. Most courts in the United States, that had to treat negligence cases against business consultants were unable to rule them a malpractice as there were simply no standards to judge them against (UNITED NATIONS 1993: 20).

The scarce regulatory framework certainly is a characteristic of the relative youth of the consulting market. But its consequences are evident. On the one hand, incumbent firms or single consultants do not face any regulatory barriers to entry and trigger remarkable dynamics in birth and death rates of consulting firms. The market again is rather unbounded. On the other hand, the deficit of sanction mechanisms against malpractice increases uncertainty and intransparency for the users of consulting. When a client cannot rely on qualification, competence and service standards the supply loses transparency. When, furthermore, malpractice cannot be sanctioned because of the lack of regulation, the client is uncertain about whom to contract without risking disadvantages.

One reaction to this under-determination of the profession has been the establishment of professional associations of management consultants. Today, many countries have national associations and even transnational head associations as the FEACO have been established (*Fig 1*). Their major purpose is to accelerate the formal institutionalisation of MC as a profession. Their instrumental goals are to gain the confidence of management circles and to foster good reputation for their member firms (KUBR 1986: 101). The main tasks of the professional associations can be characterised as follows: to develop a common body of knowledge, to determine minimum qualification criteria (education and experience), to define, control and sanction a code of professional conduct, to support communication, to enhance the

exchange of information and experience within the industry and finally, to market the business and inform on the range of services supply of its members (KUBR 1986: 101).

Fig 1. Associations of Management Consultants in Europe

Country	Association
Austria	Vereinigung Oesterreichischer Betriebs- und Organisationsberater (VOB), Wien
Belgium	Association belge des conseils en organisation et gestion (ASCOBEL), Bruxelles
Denmark	Den Danske Sammenslutning AF Konsulenter I Virksomhedsledelse (DSKV), Copenhagen
Finland	Liikkeenjohdon Konsultit (LJK), Espoo
France	Chambre syndicale des sociétés d'études et conseils (SYNTEC), Paris
Germany	Bundesverband Deutscher Unternehmensberater (BDU), Bonn
Ireland	Association of Management Consulting Organisations (AMCO), Dublin
Italy	Associazione Fra Società e Studi di Consulenza di Direzione e Organizzazione Aziendale (ASSCO), Milano Associazione Professionale dei Consulenti di Direzione e Organizzazione Aziendale (APCO), Milano
Netherlands	Raad van Organisatie-Adviesbureau, Amsterdam
Norway	Norsk Forening AV Radgivere i Bedriftsledelse, Sandvika
Portugal	Associação Portuguesa de Projectistas e Consultores (APPC), Lisboa
Spain	Asociación Española de Empresas de Ingeniería y Consultoras (ASEINCO), Madrid
Sweden	Svenska Organisationskonsultores Förening (SOK), Stockholm
Switzerland	Association suisse des conseils en organisation et gestion (ASCO), Zürich
United Kingdom	Institute of Management Consultants (IMC), London Management Consultants Association (MCA), London
Head associations	
Europe	European Committee of Consulting Engineering Firms (CEBI), Brussels Fédération européenne des associations de conseils en organisations (FEACO), Paris

Source: Kubr (1986)

Despite the proliferation of associations, the membership remains voluntary. The national associations often represent only a minority of established firms but never cover the whole industry of a country. Two examples demonstrate the situation: First, the German association, *Bundesverband deutscher Unternehmensberater e.V.* (BDU), consisted of only 462 member firms in 1995 (5.5% of all firms) and accounted only for 17% of the total national turnover (BDU 1995). Second, the European

Federation of Management Consulting Associations (FEACO) accounted for only 31% of all employed consultants in 1997 (FEACO 1997)

Nevertheless, these associations promote voluntary certifications in order to guarantee established codes of conduct, qualification standards and comparable competence for their members. Certified firms are expected to be more reliable and reputable and in the long run, the certification is hoped to operate as a competitive advantage over non-certified firms. However, in spite of this intention, the market leaders in particular negate membership: “some executives in the larger firms shake their heads sadly at the mention of greater involvement in professional associations. They see them as a threat to their own competitive position, a waste of time or simply something for the smaller consultants with whom they have little in common” (JACK 1992). Conversely, seven years after Jack’s survey, the *Management Consultants News* reports for the UK that “IBM has become the first of a flood of major consultancies to have its training programmes certified by the Institute of Management Consultants” (1999). Once a majority of big firms has opted for certification, the whole industry may step further towards a profession.

3 Management Consulting as product and process

3.1 The use of management consulting

What is consulting used for? Do successful firms need consultancy for their business or do primarily unsuccessful companies seek help in hiring a consultant? One common answer used to be that consultants act as external experts and sell their expertise to rather passive and receptive client firms. Fig 2 seems to support this view on a superficial level. The BDU carried out a survey in 1995 in order to elucidate the primary motives for client companies to hire external consultants. 1,600 firms in 12 European countries were asked. Two thirds of the client sample declared that consultancy mainly serves as a knowledge resource for low competencies within the organisation.

Fig 2. Reasons for hiring a consultant

Reasons for contracting a consultant	N = 1600 Clients
Lack of experience in certain problem area	66%
Impartiality of external viewpoint	49%
To learn from other firms	48%
Need for new ideas	46%
Change of established routines and attitudes	37%
External confirmation of management policy	30%

Source: BDU (1995: 43)

But this reading of the figures has to be challenged. The fact that 50% of the clients opt for consultancy in order to learn needs to be set in a context of reciprocity. As consulting is largely an interactive process of co-producing a problem to a solution, the function of consulting has to be seen as a way of mutual learning for both parties. Wood (1996) demonstrates that a client's competence is strongly associated with his or her propensity to contract external consultants: "Generally, consultancies tend to reinforce the strategic strengths of experienced rather than compensate for the weaknesses of the inexperienced" (WOOD 1996: 656). In other words: the more competent a firm, the more likely it is to hire a consultant. This finding invites for a re-reading of the above presented survey: client firms may well contract a consultant in order to improve on certain operations, but these firms are already well ahead in terms of their existing competence. They seek a kind of long-term sparring relation

with consulting firms in order to maintain these advantages. In fact, many big enterprises maintain very durable relationships with consulting firms, although they are successful on their markets (KUBR 1986). This in turn implies that consultants profit from their assignments as well. Tordoir argues that at the beginning of a new product life cycle, the consultant depends on the client who first identifies a problem, and subsequently disseminates this new service product to other clients (TORDOIR 1994). Willke's conclusion from this observation is a paradoxical constitution of the consultant's body of knowledge: Consultants learn from a business reality, that they principally ought to teach (WILLKE 1998: 123) Accordingly, consulting can be regarded as a process of benchmarking in which a consulting service always recurs on a best practice generated either by a certain client or by a client-consultant collaboration at first.

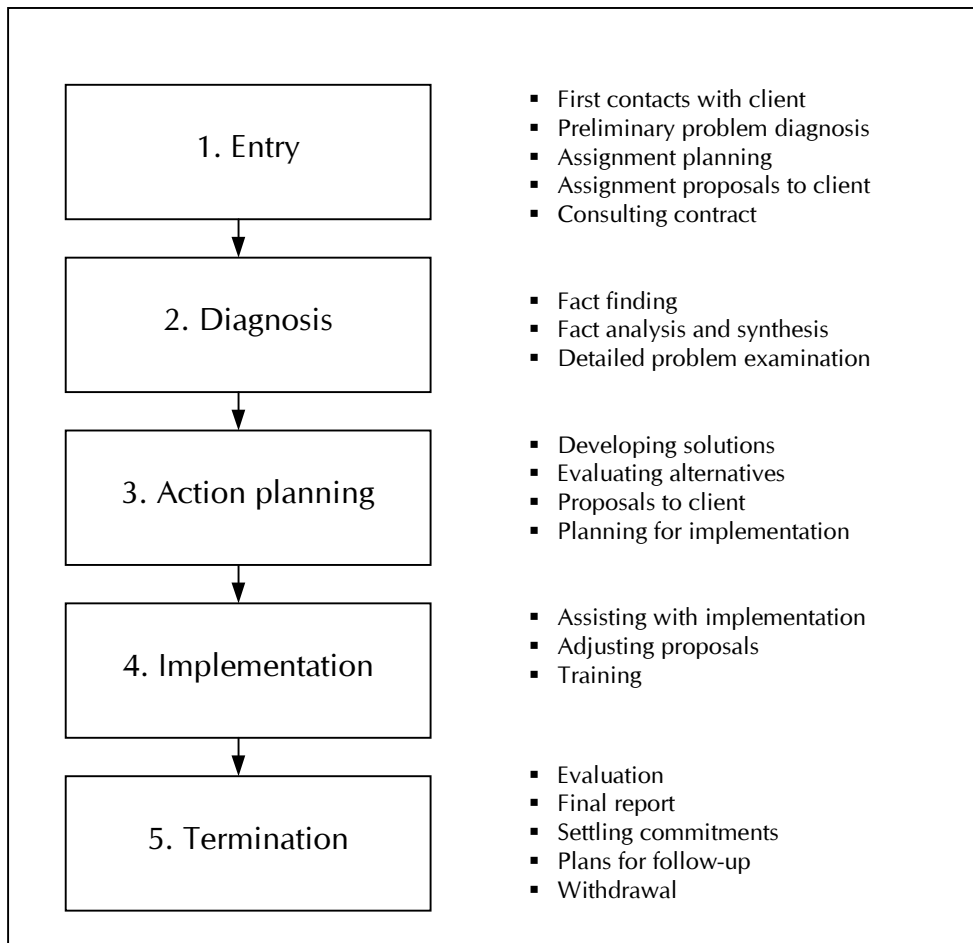
3.2 The process of consulting and consultant roles

Consulting may take very different forms as the problems which client firms formulate may largely vary. Kubr classifies five principal demand motives for consulting: (1) provision with special knowledge and skill, (2) complementation of capacity on a temporary basis, (3) impartial outside reflection of the business, (4) legitimisation of management decisions and (5) learning through consulting (KUBR 1986: 6-8). Due to the institutional under-determination of the profession pointed out in chapter 2, it is hard to find consistent classifications of the range of consulting services. These classifications differ between consulting firms, associations, and countries. Nevertheless, when client problems and consulting services are structured according to particular characteristics, a clearer definition of service areas can be obtained. Let's first focus on the client side and the kinds of problems they perceive.

The problems that may lead firms to consult external help can be classified in three categories. Problems are *corrective* if a current state of performance is minor to the performance in the past under identical conditions. The problem then is restoration and its solution can be labelled "trouble-shooting". *Progressive* problems characterise the demand for improvement on the current state without necessarily undergoing crisis. Strategic, organisational and operational changes might be targeted in order to improve future performance. *Creative* problems, represent the least specified tasks for the consultant. Consultants are contracted in order to develop future perspectives for already successful firms (KUBR 1986: 8-10). The formulation of a problem initiates

the consulting process. After having established a first contact, a mutual diagnosis and definition of the problem is pursued (*Fig 3*). Already at this early stage, the problem, analytic strategy and solution are defined and negotiated on the basis of reciprocity.

Fig 3. Phases of the consulting process

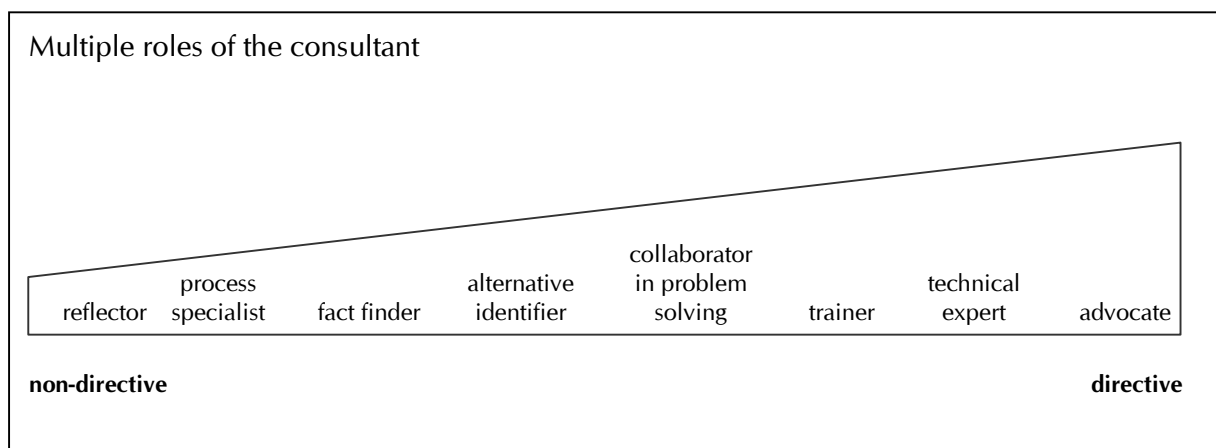


Source: Kubr (1986: 14)

The type of problem agreed on at the beginning predetermines the roles a consultant takes during the process of consulting. Diagnosis, action planning, implementation and termination depend largely on the extent to which the consultant is asked to intervene.

The consultant exerts a *resource role* when he provides technical expertise and acts on behalf of the client. This role is more external and less contingent on the interaction between client and consultant. In the *process role*, the consultant acts as an agent of change, intervening in the corporate dialogue. Instead of providing expertise and information, here, he provides methodology in order to make the client solve the problems themselves. The various forms of action within the process role can be conceptually organised along a continuum of directive vs. non-directive roles. In the *directive role*, the consultant takes a leadership position and guides the solution measures. In the *non-directive role*, the consultant generates propositions and leaves the decision to the client (Fig 4). These roles imply different “spheres of influence” (KUBR 1986: 47).

Fig 4. Directive/ non-directive role continuum of a consultant



Source: Kubr (1986: 46)

Another way of organising the role continuum from Kubr is to discriminate observable and self-ascribed approaches to consulting or according to Walger's (1995) terminology, *consulting philosophies*. He applied a typology of four distinct approaches to the German speaking consultancy market: (1) report consulting, (2) expert consulting, (3) organisation and personnel development, and (4) systemic consulting. In the biggest survey since 1982 on management consulting firms in Germany, Austria and Switzerland, Walger/Scheller (1998) found that only 1.7% of the surveyed firms subscribed to a *report-consulting philosophy*. This is because many alternative institutions such as think tanks, research institutes or market research organisations compete in this segment and often draw on more profound expertise for certain problem areas. Also accountancy firms and tax consultants offer report services. In contrast, *expert consulting* represents the single dominant

philosophy, mentioned by 84.7% of the consultants. They comprehend themselves as expert systems that employ standardised tools to solve defined classes of problems and treat the client as non-interactive partners. Later on this report it will be shown that the predominance of this approach results largely from its disposition for firm growth because the reduced interaction with the client and the opportunity to standardise consulting techniques allow an easy and more ubiquitous application (see chapter 4). Two trends are observed: First, the majority of firms within this philosophy pursues a functional specialisation in particular problem areas, and, second, nearly half of these firms consider themselves as implementers. They take operational responsibility and thus blur the boundary between consulting and management (WALGER/SHELLER 1998: 64). 11.4% of the firms pursue a *philosophy of organisation and personnel development*. This approach is not as easy to standardise as the expert-consulting approach, because much depends on the personality of the consultant. Interaction with the client is reflexive and hence, highly contingent on the consultants role-playing. A young and non-established approach is *systemic consulting* (WIMMER 1995). Only 2.2% of the firms subscribe to this philosophy with larger regional proportions in Switzerland and Austria. Systemic consulting focuses on the client as a learning organisation and aims at its members to use consultants for reflection upon their company. This form of consulting is highly interactive and very contingent upon the charismatic qualities of the consultant.

Altogether, these attempts of classifying distinct forms of consulting remain rather conceptual. They serve well to help understand the many ways consultants intervene in a client business. But statistics on the importance and use of more concretely defined service products refer to so called service lines.

3.3 Service lines

The range of consulting service offered to organisations can be represented from three different perspectives: (1) regionally, (2) functionally and (3) sectorally. These perspectives often correspond to the way large consulting firms modularise their competencies. They build expert bodies of knowledge which focus on regional markets, functional operations and industry specific expertise. A breakdown of consulting services by regions or countries is subject to the discussion of internationalisation and will be treated later on (chapter 4). The functional distinction of service lines is more difficult to assess. Firms as well as professional associations display different typologies in their annual reports and public statistics do not exist. Figures 5 and 6 give an example of the variety of functional services. But despite the

inconsistent systems of monitoring the transactions, both figures show that information technology, corporate strategy and personnel and organisation development clearly represent the core activities of the consulting business.

Fig 5. Market volume by functional service lines in Europe in 1995 (I)

Functional service line	Market share in %
Information technology	43.8 %
Corporate strategy	14.4 %
Human resources	14.3 %
Operations	13.3 %
Finance and administration	5.4 %
Marketing and sales	3.8 %
Other services	5 %

Source: Alpha Publications (1996)

Fig 6. Market volume by functional service lines in Europe in 1995 (II)

Functional service lines	Market share in %
Corporate strategy and organisation development	26.8 %
Human resources (+ executive search and interim management)	14.1 %
Financial & administrative systems	11.5 %
Information technology – systems development/integration	11.2 %
Production & services management (including technology, Logistics, R&D, quality control)	10.2 %
Information technology consultancy	9.5 %
Marketing & corporate communication	6.7 %
Project management	6.6 %
Economic and environmental studies	3.4 %

Source: FEACO (1997)

The third classificatory system of services is less divergent. Alpha Publications provide a market breakdown by client sectors and reveal that European wide the

service sector is the largest clientele for consulting services (see *Fig 7*) (TORDOIR 1994: 323). While this is certainly true for Europe, the German economy delivers different results. According to the BDU survey (1995) and Walger/Scheller's study (1998) most contracts stem from the manufacturing sector, especially consumer goods (21.6%), capital goods (18.9%) and chemicals (11.9%).

Fig 7. Market breakdown by client/industry sector in Europe 1995

Consulting services by sector	\$ billion	Market share in %
Private sector services	4.575	38,5
Banking, finance, insurance	2.780	23,4
Distribution	654	5,5
Telecommunication	796	6,7
Transport (rail, air, sea and post)	345	2,9
Manufacturing	3.897	32,8
Capital goods and vehicles	1.473	12,4
Consumer goods and consumables	1.545	13,0
Other (chemicals, pharmaceuticals)	879	7,4
Public sector services	2.174	18,3
Local & regional government	665	5,6
Central government	903	7,6
Health care and non-profit organisations	606	5,1
Utilities	832	7,0
Other	404	3,4
Total	11.882	100

Source: Alpha Publications (1996: 15)

3.4 Spatial dimension of the consultant-client interaction

Traditionally, the relationship between service provider and client is characterised by co-presence because services are generated in an interactive context and are not storable or transportable in contrast to goods. Spatial proximity seems to be a crucial constraint on the geography of the consulting business. This common notion of proximity constraints has been tackled in the geographical debate on knowledge intensive services. Some empirical studies argue in favour of proximity by demonstrating a correlation between regional market size and structure and industry size and structure (HERMELIN 1998). Conversely, numerous studies reveal that

proximity between client and consultant is only a minor, sometimes negligible condition (TORDOIR 1994; STRAMBACH 1993; DANIELS ET AL. 1992; WOOD 1996). Evidence is drawn from the fact that many clients of consulting firms are located outside the region and that client-consultant relations span long distances. More than half of the fees in KIBS are gained from extra-regional assignments as a European study by RESER (*Réseau European Services et Espace*) has assessed. A significant share of the business is therefore traded across regions which implies a positive feedback for regional growth. This finding applies to all types of firms. Large, medium and small consulting firms contribute to this export basis effect of a region (DANIELS ET AL. 1992: 1740). This observation suits the findings of the European Commission from 1989. Clients do not have strong priorities concerning the proximity of their service suppliers. Only 13% of a surveyed sample declared proximity a key condition for contracting management consultancies (*Fig 8*). In comparison to other knowledge intensive business services, management consultancy experiences the least space constraints of all.

Fig 8. Importance of spatial proximity of a service supplier for the client

Services	Proximity of the supplier is ...		
	very important %	important %	less important %
Personnel recruitment	37	36	26
Engineering	36	32	31
Data proc./software	29	46	24
Marketing/advertising	32	29	38
Management Consulting	13	28	58
Business services	28	33	38

Source: European Commission (ed.)(1989): The efficiency of business services used by manufacturing industries, MRB-Study. – Brussels/Luxembourg; quoted in HOFMANN/VOGLER-LUDWIG (1991: 20)

Why is this the case? Tordoir argues that the spatial structure of business relations depends on two variables: the modus of interaction and the frequency of interaction. Proximity is important in the case of *sparring relations*, when consultant and client have intensive and frequent face-to-face contact. Sparring consultants are often located close to their clients and mostly small and medium sized firms (TORDOIR 1994: 330). In the case of highly specific but infrequent interaction spatial dislocation is more common and MC firms usually tend to locate in urban centres independently of their clients. These relations are *jobbing relations* (TORDOIR 1994: 331).

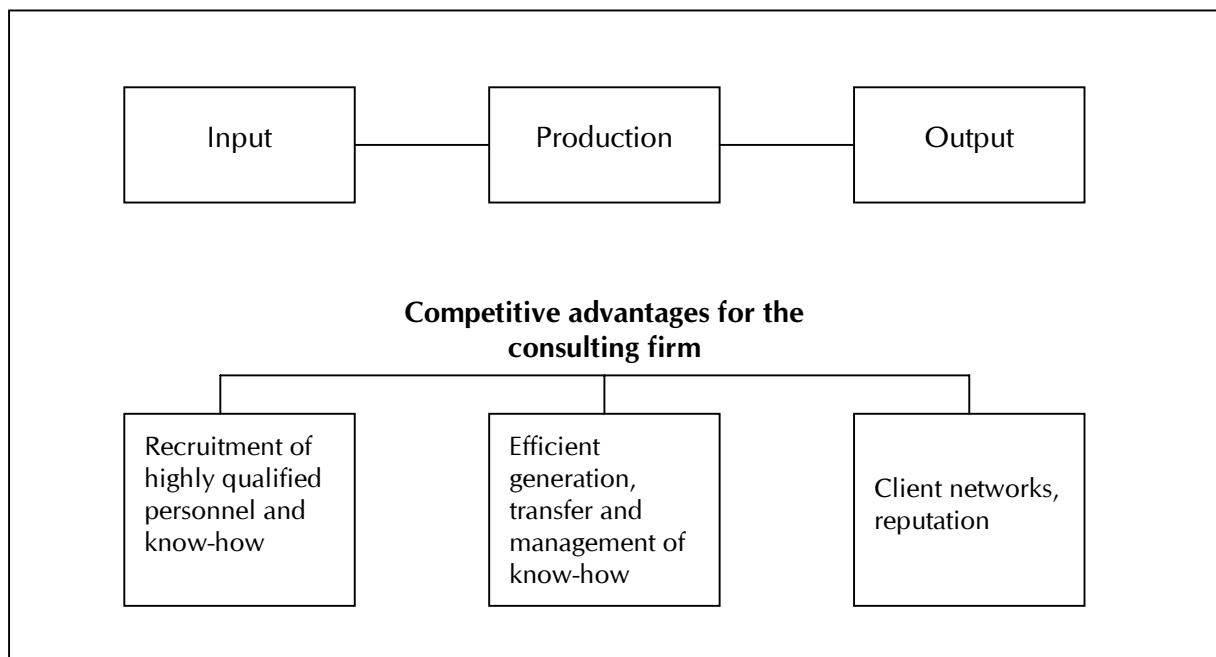
Illeris classifies by the degree of standardisation and specificity of services rather than by interaction (ILLERIS 1994). First, *back offices* perform routines which are insensitive to spatial proximity as they can easily be transferred via modern telecommunication. Second and in contrast, *customised services* are less standardised and more interaction sensitive. These services are very sensitive to proximity because they are relatively inexpensive and not very specific so that transport costs prevail. Third, *highly specialised services* are very specific and although they are most dependent on face-to-face communication they are insensitive to spatial proximity because the value of the service outweighs the cost of transport (ILLERIS 1994). Consequently, only fully standardised and very specific and costly services span geographical distance: the former because of telecommunication support, the latter because of relatively negligible transport costs. According to Illeris's classification, management consultancy corresponds to highly specialised services which are indeed transferable through space and thus not very much dependent on proximity.

3.5 Factors of competition

What are the specific factors of competition and where are the sources of competitive advantage in management consulting? According to an analytic subdivision of the enterprise, competitive advantages can be discussed for both the input and output sides as well as for the production side of the firm (*Fig 9*). First, the most important factor on the input side evidently is know-how, i.e. human capital. Consulting firms may ensure competitive advantage if they exert successful recruitment policies. This implies a proactive recruitment policy in universities and business schools. The increasing growth potential of the consulting market causes qualified labour to become an ever more scarce resource. Indeed, many firms spend significant portions of their revenues for recruitment presentations and personnel advertising. Since universities cannot satisfy the labour market any more, more and more consulting firms invest large amounts of money in contact weekends where already employed people are attracted to change employers (WIRTSCHAFTSWOCHE 1999). Second, the production side comprises the generation, organisation and transfer of expertise. Knowledge advantages are extremely volatile because they are incorporated in qualified people. By changing jobs and communicating expertise, this knowledge disseminates and the advantages erode. Consequently, permanent learning and innovation are crucial factors of enduring competition (GERYBADZE 1991: 31). Therefore key sources of expertise are: close contacts with clients, intra-firm

research and the provision of highly qualified staff are indispensable for the core competence of the business. Firm growth and the expansion of capacity allow for the constitution of own research centres, such as the *McKinsey Global Institute*, for instance. Here, knowledge is permanently improved and managed. Besides, consulting firms may initiate knowledge management systems, which aim at codification of individual expertise so that knowledge can be gathered and used within the company. The firm becomes less susceptible to losses of knowledge when employees leave the firm.

Fig 9. Competitive advantages of a consulting firm

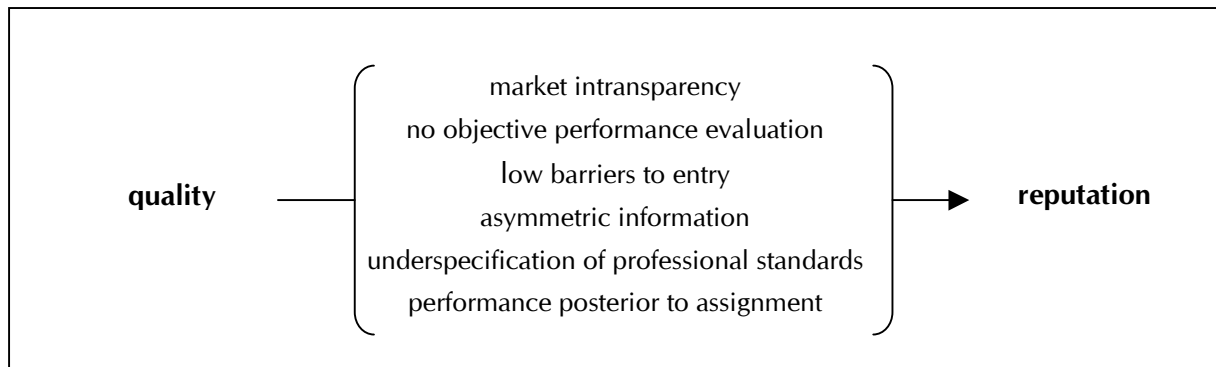


Source: Gerybadze (1991: 30)

Third, the output side is ruled by comparative advantages to competitors and newcomers on the one side and proximity to clients on the other. There are basically two ways of competing with other firms: quality and price. Quality is an extremely difficult variable to assess. There is a fundamental difference between goods and some services on the one hand and knowledge intensive business services on the other: Producers take the risk for the production of goods because the consumer can see, compare and often test the goods prior to purchase. But concerning professional business services, the client takes the risk because the product will only be generated after the agreement is signed (TORDOIR 1994: 325). Clients of business services do not purchase ready made products, instead they contract a service producer or 'servuctor' (BARCET 1991) in order to perform a service in subsequent

cooperation. In short: the quality of a management consultant cannot be assessed prior to an assignment. Furthermore, as the profession is so little institutionalised and as entry barriers are so low, a great many different suppliers compete in this market. The supply market is therefore intransparent and uncertainty is high for the client. Finally, the result of a terminated consulting assignment can often not be measured. Performance evaluation is a highly subjective procedure with few objective criteria to refer to. In consequence to the under-institutionalisation of the business, the lack of standards and the very nature of knowledge intensive business services, an alternative institution is required to reduce uncertainty: reputation (*Fig 10*) (GERYBADZE 1991; BECKER/SCHADE 1995; KUBR 1986; ITTERMAN/SPERLING 1998; HOFMANN/VOGLER-LUDWIG 1991). If a future performance of a consultant cannot be evaluated, reputation is used to draw conclusions from the evaluation of previous performance. And the act of objectively assessing the quality of a service is transferred to subjectively constructing a socially communicated evaluation. Hence, reputation indicates quality and becomes a key factor of competition on the output side. As mentioned earlier, many consultants draw the majority of their assignments from repeat clients. For example, *Roland Berger & Partner* drew 77% of their assignments from repeat clients in 1996 (Roland Berger & Partner 1996).

Fig 10. Reputation as a substitute for quality



Kaas/Schade's (1995) German study on 232 client firms in 1993 empirically confirms this argument. They report that competitive advantages can be gained especially in the after-sales management. Many consultants underestimate the importance of post-consulting activities to stabilise existing client relations. The fact that half of the client sample maintained enduring relationships to consulting firms and that conversely nearly 60% of assignments are drawn from repeat clients support the significance of client-relationship management (KAAS/SCHADE 1995). The authors

found that measures to enforce trustful and reputable relations such as implementation control, success evaluation and employee training were not pursued sufficiently. In conclusion, although the consulting business largely depends on the social institution of reputation and trust, many consultancies have not yet taken the measures to ensure existing relationships more intensively. Following the results of their survey, Kaas/Schade argue that consulting firms should realise the importance of regular client-relation management (1995: 1083).

Reputation indicates competence and secures client networks. In turn, this implies rising barriers to entry for newcomers. Keeble/Schwalmbach (1995) reveal that a significant share of young firms and start-ups already maintains a majority of repeat contracts. This is surprising because entrants in other industries and markets do not normally begin with a defined set of clients. But this finding clearly supports the importance of enduring client relation-management and reputation. Only if reputation has not been built, price will be the competitive factor for small and medium sized firms (HOFMANN/VOGLER-LUDWIG 1991). Nevertheless, the BDU statistics display slightly different results (*Fig 11*).

Fig 11. Criteria for the selection of consultants

Criteria for the selection of consultants	N = 1600 Clients
Industry specific experience	42%
Price	42%
Quality of consultant/team	40%
Ability to identify problem	33%
Performance quality	28%
Reputation of the consultancy	26%
References/recommendation	20%

Source: BDU (1995: 43)

A sample of 1,600 clients did not regard price as a minor criterion for contracting a consultant. 42% indicated that the costs of a consulting service are a key competitive factor. In contrast, reputation seems to be of negligible importance. But a careful reading of these figures is suggested. 'Quality of consultant', 'ability to define a problem' and 'performance quality' score high in evaluation but according to the above presented argument, they are very hard to assess objectively prior to an assignment. Hence, these criteria are rather virtual and empirically represented by the reputation and recommendation of a potential supplier.

4 Market, actors and dynamics

4.1 The market volume in Europe

The first widely published survey on the global management consulting industry reported a market volume of \$25.3 billion world-wide in 1991 (UN 1993: 12). More than half of the fees were gained in North-America (55-60%), a fact that emphasises the primacy of American consulting firms. Since then market growth has speeded up tremendously. The *Kennedy Information Research Group* measures a global annual growth rate of 16% for this decade. Global revenues have doubled between 1991 and 1995 and they are forecasted to double again by the end of 1999 (*Fig 12*).

Fig 12. Global Management Consulting Industry Revenue

Year	Revenue
1991	\$ 25 billion
1995	\$ 51 billion
1996	\$ 62 billion
1997 (estimated)	\$ 73 billion
1998 (projected)	\$ 85 billion
1999 (projected)	\$ 98 billion
2000 (projected)	\$ 113 billion

Source: Kennedy Research Group (1999) and United Nations (1993)

Accordingly, the FEACO reports a European market volume of 25 billion Euros in 1998 and annual growth rates of 15% on average (*Fig 13*).

Fig 13. Estimated consulting market volume in Europe

Year	Revenue (estimated)
1995	13.7 Euros
1996	16.6 billion Euros
1997	19 billion Euros
1998	25 billion Euros

Source: FEACO (1995; 1996; 1997; 1999)

Fig 14 provides an overview of the national market shares within Europe. The differences between the estimations of the market size reveal that the statistics rest

on different classifications and confirm the overall problem of delimiting the industry. The FEACO estimates the total market volume in Europe at 19 billion Euro (FEACO 1997). The national shares of the European market are estimated below in Fig 14.

Fig 14. Estimations for the European market of management consulting

	FEACO 1997 <i>(in 1997)</i>	Alpha Publications 1996 <i>(in 1995)</i>	BDU 1991 <i>(in 1989)</i>
Europe	19 billion Euro	ca. 12 billion Euro	15.7 billion Euro
Germany	43.9%	24.9%	27.3%
Great Britain	21.2%	23.4%	24.4%
France	8.4%	13.2%	8.3%
Spain	5.5%	4.7%	5%
Netherlands	5%	5.9%	1.7%
Italy	3%	7.1%	3.8%
Norway	2.9%	-	2.4%
Austria	1.9%	-	4.4%
Belgium	1.9%	-	1.6%*
Switzerland	1.7%	-	11.2%
Denmark	1.5%	-	1.1%
Finland	1.3%	-	0.7%
Poland	0.5%	-	-
Russia	0.4%	-	-
Greece	0.4%	-	0.2%
Hungary	0.1%	-	-
Slovenia	0.1%	-	-
Bulgaria	0.1%	-	-
Sweden	-	-	6.3%
Portugal	-	-	0.8%
Ireland	-	-	0.7%
Rest of Europe	-	20.8%	-

*incl. Luxemburg

Source: Kipping/Armbrüster (1999)

The dominant markets are Germany, the UK and France. Although Germany represents the largest market in absolute figures, the share of revenues in the GDP are highest in Britain. In 1989, the German BDU carried out a large pilot survey to draw a more reliable picture of the European market. 21,336 questionnaires were

sent and 11,922 (55.87%) valid responses returned (KEEBLE/SCHWALMBACH 1995: 6). The survey reports data on the number of firms, employment rates and turnover. 85% of the firms were located in the three biggest markets, Germany, Great Britain and France. Altogether, 130,000 employees worked in these firms, which represents 0.09% of total employment and 0.15% of employment in European services. In 1999, the concentration of the business in the core countries has decreased from 85% to 75%. From the total of about 200,000 management consultants in Europe 62,500 are based in Germany, 35,000 in the UK, 32,000 in Italy, 16,000 in Spain and 15,400 in France (FEACO NEWS 1999).

Concerning the age distribution of European firms, the FEACO assesses that one third of the consulting firms are less than 10 years old, about one third between 11 and 19, and one third older than 20 years. In comparison to this distribution, Portugal, Spain, Denmark and Germany have an above average share of young firms (Keeble/Schwalmbach 1995: 12) indicating their comparable youth and market dynamics.

4.2 Actors on the supply market

The world-wide and European-wide growth rate of the business is astonishing. Many individual firms exceed the average growth rate of 15% by as much as 30 or more percent. The unboundedness of the business, its youth and its low barriers to entry as well as the intensive dynamics of the market have given way to the formation of a heterogeneous supply structure of actors. Organisations from very different backgrounds and sectors migrate into the management consulting market and form a heterogeneous marketplace. These firms differ in size, organisational form and spatial reach and their engagement in the market can be interpreted as a response to the growing market potential. Many authors have attempted to classify the range of competitors according to their main characteristics (KUBR 1986; ALPHA PUBLICATIONS 1996). A commonly agreed scheme of actor groups is subsequently suggested:

Large multifunctional, multinational consulting firms. These firms normally employ several hundred to and excess of one thousand consultants and offer their services in an international branch office network. They predominantly serve large clients and are able to offer a diversified range of competencies. They might be labelled as full-service management consulting firms and have a significant degree of diversification across various service lines. They act as global players and most of them are US-based (see Appendices). Apart from these pure management consultancies another

group can be identified. Management advisory services represent dependent or independent divisions of major accounting firms. Especially the Big Six accountancy corporations started to diversify their services from the 1970s onwards in order to participate in the promising consulting market. They are Coopers & Lybrand and Price Waterhouse (who merged in 1998 to build PriceWaterhouseCoopers), Arthur Andersen, KPMG, Ernst & Young and Deloitte & Touche.

Internal consultants. Large corporations have established internal consulting divisions because of their demand for specific competencies and in order to offer this competence to external clients and, hence, participate in the consulting market. Big manufacturing companies as for instance Porsche, Volkswagen, BASF and Siemens in Germany founded internal divisions of consulting for technological and organisational support (ITTERMANN/SPERLING 1998; FAZ 1998). Some divisions of major corporations even spun out of their core firms to act as independent consultancies as for example ABB Consulting from ABB, Daimler/Chrysler, Lufthansa, IBM or Mannesmann. The same happened in the banking sector. Either banks acquired consulting firms, with the most prominent example in Germany being the purchase of Roland Berger by Deutsche Bank, or they established and spun out subsidiary firms as in the case of Deutsche Industrie Consult from Westdeutsche Landsbank, Dresdner Management Consult from Dresdner Bank (ITTERMANN/SPERLING 1998). Competition thus gets tougher because first, ever new spin-outs nourish the supply market and second, internal consultants gain growing respect by clients in terms of specific expertise, quality, attitude and efficiency of their services (FAZ 1998). Apart from the internal divisions of banks and manufacturers other non-traditional service suppliers proliferate on the market: such as suppliers of computer and communication equipment, computer software houses, commercial and investment banks, brokers, insurance companies. Altogether these new agents form a very heterogeneous group of competitors (KUBR 1986: 28-33).

Small- and medium sized consulting firms. Organisations ranging between two and one hundred consultants are classified as SME consultancies. According to Kubr (1986) three technical profiles prevail among this group of actors: (1) generalists for SMEs on a local scale, (2) specialists in one or two functional domains such as strategy, personnel administration or sales management, and (3) specialists in one or two industries such as urban transport, printing industry or insurance, for instance.

Sole practitioners. This is the most abundant organisational form of consultancy activities. Self employed consultants dispose of highly specialised expertise and offer personalised and flexible services to mainly smaller firms. They are often informally

connected with other colleagues and join into teams in order to acquire larger assignments (KUBR 1986).

Consulting professors. Academics and researchers increasingly tend to get involved into part-time consulting and thus also participate in the market. The boundary between consulting and science blurs increasingly as the relation between consulting firms and universities, most importantly Business Schools becomes more and more intensive. It is not accidental that the consulting boom of the late 1950s coincides with an intensive foundation of Business Schools in Europe. All the European countries have well established schools that improve and enforce the creation of new management theories and techniques¹. More importantly even, they educate highly qualified personnel that are so crucial for the growth of the consulting industry. Many so called management gurus work as consultants and professors at the same time².

4.3 Management consulting and growth

The enormous market potential and the continuous growth rates of the 1990s reflect growth imperative for most consulting firms. This imperative results from various reasons: First, a consulting firm must expand in order to maintain promising career paths for its employees and rising returns for its partners or shareholders. This is a compelling factor as the personalised expertise and client relations are the single most important competitive factor of a consultancy. Gerybadze assesses a threshold of 20% annual growth on average (GERYBADZE 1991). Second, most attractive clients are large corporations which offer very complex and specific problems that require flexibility and a diversified as well as specialised body of knowledge. Hence, large consulting firms are needed to staff specific projects. And third, growth raises the propensity of staying in the market because the birth and death dynamics in the industry are very volatile (KEEBLE/SCHWALMBACH 1995).

Though growth is a key requirement for a successful market position, there are major constraints to simple expansion. One controversy refers to the possibility of

¹ Alcan founded the *Centre D'Etudes Industrielles* (CEI), Nestlé financed the establishment of the *Institute pour l'Enseignement des Methodes de Direction de l'Enteprise* in Lausanne (IMEDE) in 1972, where the latter subsequently fused with the former to constitute the *International Institute for Management Development* (IMD) in 1990; In the UK Lord Frank 1963 initiated the foundation of the *London and Manchester Business Schools*; In Spain the *Escuela Superior de Administración y Dirección de Empresas* (ESADE) was founded in 1962 and the *Instituto de Estudios Superiores de la Empresa* (IESE) was inaugurated in 1964 (UN 1993: 6).

² To name only some of the most famous gurus pursuing both, scholarly and consulting roles: Peter Senge, Peter Drucker, Michael Porter and Michael Hammer (Die Zeit 1996)

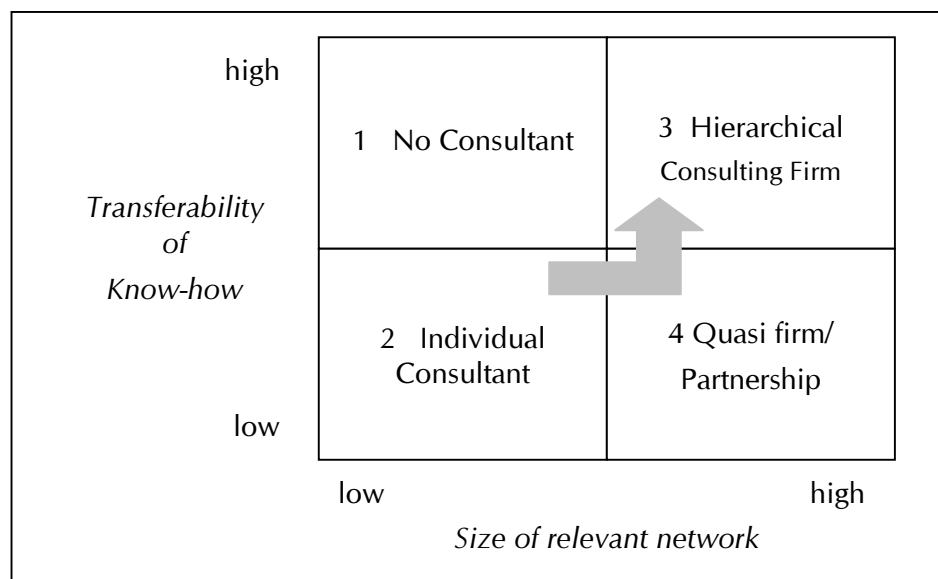
economies of scale. Economies of scale describe the decreasing production costs per unit that accompany the increasing scale of production. But scale based cost savings are hard to apply to a business which defines itself as situation specific problem-solving service. Only if the production of consulting services could be standardised and sold uniformly would scale savings be possible. This is certainly not the case with management consulting and therefore firms need to pursue a different strategy in order to exploit economies of scope. Economies of scope rest on sets of indivisible inputs which can be employed and combined to different outputs. As explored in chapter 3, the best way to gain economies of scope is the philosophy of expert consulting (WALGER 1998), i.e. pursuing a strategy of modularization of tools and techniques. Employees of a firm are trained to work with standard procedures and by staffing projects with a multitude of specialised tool experts, most problems being defined within the paradigm of expert consulting can be solved on the basis of combined sets of tools and expertise. Of course, this standardisation is costly and requires systems of knowledge management within the firm to generate and maintain a clearly defined body of knowledge and competence (WILLKE 1998). But once modules are defined and developed they offer the opportunity to market them as corporate products being separate from the individual consultants' influence and represent potential carriers of corporate reputation³ (WALGER/SHELLER 1998: 45f.).

Earlier this chapter, a classification of competitors by firm size was suggested. Regarding their organisational forms they may be conceived as stages of an organisational transformation towards growth. Becker/Schade have developed an explanatory model in order to account for the coexistence of heterogeneous organisational forms within this industry (BECKER/SCHADE 1995). At the same time the model suggests a growth logic for consulting firms. The basic idea is that different organisational forms adjust to different environments within the business rather than different forms representing comparable adjustments to one environment. But how do organisational forms adapt to specific market contexts and which are these contexts? A two-dimensional matrix builds the framework for four idealised environments: (1) no consulting, (2) single consultants, (3) partnerships, and (4) hierarchical consulting firms/corporations. Each environment is dependent on the combination of transferability of specific knowledge and the size of the potential client network. While transferability of knowledge represents a product component, the client network corresponds to the demand market.

³ One example of a successful and reputed tool is the two-by-two matrix of the Boston Consulting Group.

If transferability of knowledge is high and the user clientele is small enough to maintain communication, there is no space for a consultant to operate (context 1). But if knowledge is rather tacit than explicit and hence, more difficult to disseminate, the space for consultancy opens. Depending on the size of the client network and the ability of the consultant to network efficiently, i.e. to acquire and maintain client relations, different forms of organisational forms emerge. If the clientele is small or a consultant's acquisition policy is weak, consultants usually operate individually (context 2). When market size or acquisition rate expand, small firms institutionalise in order to implement a division of labour: the form of a partnership allows for specialisation towards acquisition and consulting. Partnerships usually operate without hierarchy and are legally defined long term forms of cooperation (context 3). The environment in which large hierarchical consulting firms can operate crucially depends on the transferability of knowledge. Here, growth is contingent on the ability of a firm to enhance knowledge transfer within this firm, i.e. to standardise consulting techniques and exploit economies of scope. Becker/Schade coin the term "industrialisation of consulting" referring to a sort of mass production in consulting services (context 4) (BECKER/SCHADE 1995).

Fig 15. Determinants of the evolution of organisational types in consulting



Source: complemented on the basis of BECKER/SCHADE (1995: 345)

The grey arrow in Fig 15 indicates the typical growth mechanism in the framework of service production and market size. In sum: growth is contingent upon the quality of

client acquisition and client relation management on the one hand, and the ability to standardise multiple products by fragmenting competence into complementary modules. The different strategies of corporate growth are pursued in more detail in the subsequent paragraph (4.4). At this stage it is important to notice that the market development is subject to an antagonistic tendency. On the one hand growth favours market concentration, on the other hand, the massive market potential attracts ever new incumbent entrants and thus creates a volatile and vivid competitive environment. Both processes have to be considered in some more depth.

World-wide, the 40 largest corporations concentrate between 59% (United Nations 1993: 12) and 70% (HOFMANN/VOGLER-LUDWIG 1991: 14) of the volume of transactions. In Europe the concentration rate of the 20 largest firms is estimated at 45% (ALPHA PUBLICATIONS 1996) although calculations from their own data reveal a figure of 56.6% (*Fig 16*). In the case of the United Kingdom, a concentration rate of 80% can be drawn from the Alpha figures in 1995. Estimations for the German market diverge remarkably: Hofmann/Vogler-Ludwig calculated a concentration rate of 50% for the 20 biggest actors in 1990. While Alpha reports a turnover share of 56% in 1995, others assess a far minor rate of 19% for 1998 (FRETSCNER ET AL. 1998: 24). These different estimations disclose very different data sources, so that the remarkable divergence does not help much in assessing one single reliable concentration degree. Nevertheless, this multitude of calculations and estimations suggests a strong tendency towards concentration on all geographical scales: national, European and global.

Fig 16. National turnover concentration in selected European countries in 1995

Country	National revenue National currencies in billion	Top 20 revenue National currencies in billion	Concentration rate
Germany (DM)	4.380	2.464	56.3%
France (Francs)	8	4.489	56.1%
Italy (Lira)	1324	748.8	56.6%
United Kingdom (Pounds Stirling)	1.82	1.4667	80.9%
Spain (Pesetas)	69.4	47.291	68.1%
Netherlands (Guilders)	1.170	0.9925	84.8%
Europe	11.9	6.722	56.5%

Source: own calculations from Alpha Publications (1996) data

The counter force against market concentration is to be found in the massive start-up dynamics. Again, as management consulting is not a legally licensed profession and as market revenues are predominantly gained by the upper market segment, data on small and medium sized firms are extremely scarce. Consequently there are no consistent data available for the European market. Instead, an exemplary study of the British market was carried out in 1990 by the *Small Business Research Centre* (SBRC) at Cambridge University. The study focused on small and medium sized consulting firms which were analysed via three different data sources: (1) data of the Business Statistics Office on the amount and turnover of management consultancies, (2) a databank of 833 management consultancies which had been compiled by the Institute of Management Consultants, and (3) 60 interviews with small firms, which were randomly selected from this very databank (KEEBLE/SCHWALMBACH 1995). The survey proves the general experience of management consulting undergoing the largest increase of firms (117.8%) compared to all other services (13.8% on average) between 1985 and 1992 (KEEBLE/SCHWALMBACH 1995: 21). The researchers argue that this tremendous growth rate mainly results from the lively start-up activities of small and medium sized firms: "small firms (...) accounted for 98% of the total net growth of management consultancy business" (KEEBLE/SCHWALMBACH 1995: 22). It is important to notice that the net growth refers to the number of establishments and not to the share in market revenues. The dynamics of start-ups is confirmed by the fact that 57% of the surveyed firms had established after 1980 and 37% even after 1985. But the high rate of start-ups is compensated by a comparably high rate of mortality. One third of the firms which existed in 1985 had exited the market by 1990. Mortality and firm size resulted to be strongly correlated and all surviving firms are characterised by strong growth rates. This observation both stresses the necessity to grow in order to survive and therefore supports the overall concentration trends, and proves the volatility of the lower market segment.

Although the SBRC study emphasises the significant contribution of small firms to market growth, its development has to be set in context. As the above Fig 16 displays, the UK has one of the most concentrated markets in Europe and this is consistent with the finding that whereas older firms dominate the age structure in the UK, the Netherlands, France and Belgium, many young firms can be found in Spain, Portugal, Denmark and Germany (KEEBLE/SCHWALMBACH 1995: 12). Hence, the birth and death dynamics of SMEs can be expected to be even more vivid in these countries.

What is the implication of this antagonism? As one group of actors pursues corporate growth and increases its market share in a continuous process of concentration,

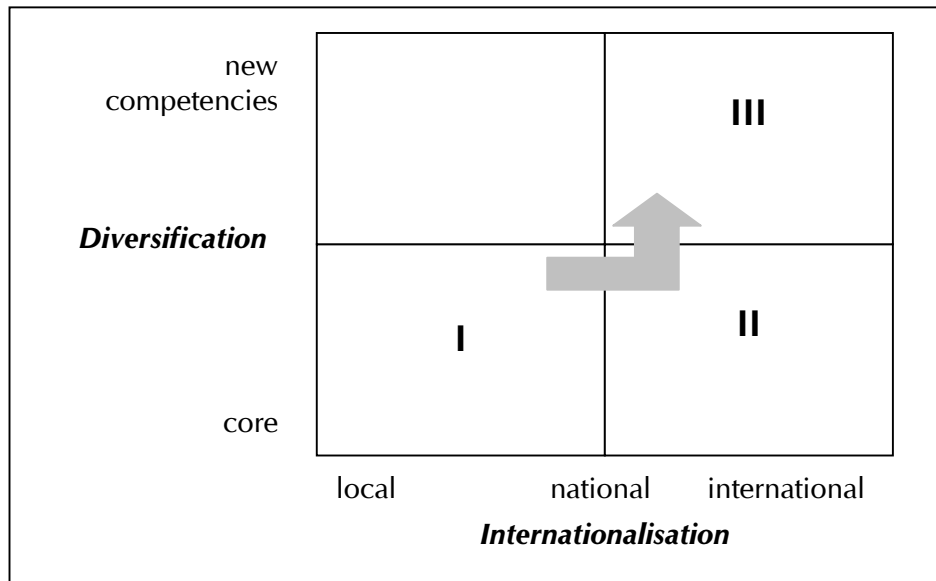
another group of actors is subject to volatile conditions of survival. As most authors argue, the business is not likely to get perfectly concentrated. Growth is limited because of missing economies of scale and very low institutional and financial barriers to entry (HOFMANN/VOGLER-LUDWIG 1991). Hence, if the antagonism persists, the most likely implication is a segmentation of the market in an upper and lower segment. As far as the surveys convey the tendencies of market development, this segmentation appears correct. In their survey on the German consulting market in 1998, Walger/Scheller confirm a previous study from 1982 (ELFGEN/KLAILE 1987) which found that small consultancies had 76% of their transactions with small clients (less than 10 million DM), whereas bigger consultancies drew 76% of their assignments from client corporations with more than 10 million DM (WALGER/SHELLER 1998: 48).

4.4 Internationalisation

Growth has been demonstrated to be a key factor for success on the consulting market. There are at least two distinct strategies which can be adopted: Diversification and internationalisation. Analysing the past development of the business Gerybadze proposes an empirical model for typical firm growth in which internationalisation precedes diversification (GERBADZE 1991). Fig 17 illustrates that regional market expansion has been the preferable device of experiencing growth because existing core competencies could simply be sold more often before new competencies had to be generated and marketed.

Diversification is a predominant trait of larger consulting firms and serves the distribution of market risks as well as the strategy of offering "one-stop-shopping". Complex client problems can thereby be solved by integral service packages from the same suppliers. This is one way of increasing turnover. Gerybadze (1991) identifies another motive for diversification: It is only possible to achieve a high productivity of knowledge if the staff faces the opportunity to treat multiple problem areas. Both, the knowledge base and the attractiveness of the firm to employees rise when services are diversified.

Fig 17. Growth strategies of consulting firms



Source: modified on the basis of GERYBADZE (1991: 39)

In terms of growth strategies the focus is directed towards the internationalisation process of management consultancy. Why is internationalisation so abundant? First and as mentioned before, because regional growth offers market expansion with existing competencies. And second, because the ongoing process of globalisation creates new demands by the international client corporations. Consulting firms follow their clients as they need to obtain international market knowledge and experience in order to satisfy the clients' demand (WOOLDRIDGE 1997).

Various strategies of internationalisation can be opted for: Consulting firms can (1) enforce international trade relations, (2) initiate or join cooperative networks, and (3) set up own subsidiary offices by means of mergers or acquisitions or by founding own offices.

Regarding international trade, empirical surveys would suggest that there is no internationalisation. In 1990, more than 85% of the revenues resulted from national business which seems to indicate a low degree of transnational trade in consulting services. However, this impression misleads because the internationalisation process unfolds as a process of affiliation and establishing networks of cross-border cooperation (HOFMANN/VOGLER-LUDWIG 1991). Consequently service trade is better comprehended as intra-firm transaction rather than market trade. Fig 18 demonstrates that the top tier American based multinationals draw up to 70% of their revenues from non-American countries.

Fig 18. International Revenues of Multinational Consulting Firms

Company	Percent of 1995 management consulting revenues coming from non-domestic revenues
Boston Consulting Group	68 %
Arthur D. Little	66 %
Gemini Consulting	61 %
McKinsey & Co.	60 %
Price Waterhouse	59 %
Marakon	52 %
Andersen Consulting	49 %
Bain & Co.	47 %
KPMG Peat Marwick	45 %
A.T. Kearney	43 %

Source: Wet Feet Press (1996: 10)

Hence, turning the perspective from trade towards transnational organisation of the companies, the latter strategies of internationalisation appear to be far more relevant. Either firms set up establishments abroad, which may be a subsidiary, partnership or through mergers and acquisitions or they join cooperative networks which imply less financial involvement (HOFMANN/VOGLER-LUDWIG 1991). As available data on the financial and organisational integration of European management consultancy firms is scarce, a complete picture of the process cannot be drawn. Nevertheless, a BDU report from 1990 reveals the international involvement of German firms in Europe and displays their access strategies on these markets (*Fig 19*).

Fig 19. Internationalisation of German Management consultancy in Europe 1990

Target Country	Foreign establishments	Cooperation/network	Total
Andorra	0	1	1
Austria	7	11	18
Belgium	2	6	8
Bulgaria	1	1	2
Czechoslovakia	1	2	3
Denmark	2	2	4
Finland	1	0	1
France	6	24	30
Hungary	1	5	6

Ireland	1	2	3
Italy	5	13	18
Luxemburg	1	0	1
Netherlands	1	12	13
Norway	1	1	2
Poland	1	1	2
Portugal	0	1	1
Soviet Union	0	1	1
Spain	8	13	21
Sweden	14	7	21
Switzerland	1	4	5
United Kingdom	3	24	27
Total	57	131	188

Source: BDU (1990) quoted in Hofmann/Vogler-Ludwig (1991)

A more recent study of the German and to a lesser extent of the Swiss and Austrian markets provides more detailed information: Most service firms have international client experience (*Fig 20*). 75% of the tri-national sample reported international experience in the West European countries with an even higher proportion in Switzerland and significant activities of Austrian firms in Eastern Europe.

Fig 20. German speaking consulting firms with international experience in %

<i>Regions</i>	<i>Individual consultant</i>	<i>2-4 consultants</i>	<i>5-9 consultants</i>	<i>10-49 consultants</i>	<i>50 or more consultants</i>	<i>Total</i>
Western Europe	63.3	75.4	86.7	77.6	78.3	76.7
Eastern Europe	14.3	35.9	41.3	40.8	69.6	37.3
North America	6.1	22.5	20.0	25.0	60.9	22.7
South America	4.1	13.4	12.0	11.8	43.5	13.4
Asia	6.1	16.2	14.7	14.5	47.8	16.2
Australia	0	12.0	10.7	11.8	34.8	11.5
Africa	0	11.3	13.3	15.8	39.1	12.9

Source: Walger/Scheller (1998: 61)

The comparatively low number of firms with offices abroad hints at the fact that only a minority of consultants acquires assignments from foreign clients (*Fig 21*). The

majority of firms assists domestic clients in defining marketing and supply strategies or identifying foreign business partners. The authors therefore conclude that internationalisation is a phenomenon of limited significance so far (WALGER/SHELLER 1998: 59).

Fig 21. German speaking consulting firms with international offices in %

<i>Regions</i>	<i>Individual consultant</i>	<i>2-4 consultants</i>	<i>5-9 consultants</i>	<i>10-49 consultants</i>	<i>50 or more consultants</i>	<i>Total</i>
Western Europe	4.1	6.3	9.3	19.7	52.2	12.3
Eastern Europe	2.0	1.4	2.7	5.3	30.4	4.4
North America	0	1.4	1.3	2.6	26.1	3.0
South America	0	0.7	1.3	0	13.0	1.4
Asia	0	0.7	2.7	0	13.0	1.6
Australia	0	0	1.3	1.3	8.7	1.1
Africa	0	0	1.3	0	0	0.3

Source: Walger/Scheller (1998: 61)

There is a certain ambiguity in these findings. Most firms in the MC market have international experience but international trade is low and only a few firms have subsidiary offices abroad? What then does internationalisation mean for management consulting? According to Gerybadze (1991) American consulting firms internationalised the same way, Walger/Scheller conclude from their survey: International consulting initially means domestic business relations in foreign countries. When American consulting firms began to internationalise in Europe in the 1960's they did this mainly to follow their domestic client companies. Possibly this is exactly what happens with European consultancies today. Their first step towards new regional markets is to assist domestic clients abroad. Especially the smaller sized firms might be found at this stage of internationalisation. But once having established abroad, consulting firms may begin to acquire foreign clients and subsequently improve their market position abroad. This next stage reflects the situation of the large American consulting firms today. They have world-wide office networks and draw significant shares of their revenues from non-American markets⁴. The significantly higher share of large firms with international office locations

⁴ Compare Fig 18 earlier this section

compared to all other categories in Walger/Scheller's data (*Fig 21*) supports this notion. Hence, it can be hypothesised that the process of internationalisation unfolds as a series of stages in which a consultancy first cooperates transnationally to serve a domestic client, sets up an office abroad when collaboration is intense and finally builds up foreign business relations in the new market. This reasoning, of course, is preliminary and subject to empirical testing but it might serve as a guidepost for research on the internationalisation of consulting services.

5 Prospect for economic geography research

This paper is an attempt to shed some light on the market of management consulting services. It has been shown that the MC business is a very dynamic market. It is characterised by, first, a great heterogeneity of suppliers, second, a wide variety of transactions that are not uniformly defined, and third, by a tendency towards market segmentation due to the antagonistic development of market concentration on the one hand and high birth and death rates on the other. These dynamics have various causes. The fact that the demand for consulting has increased tremendously over the last twenty years represents a huge market potential for many service suppliers and is the main cause for competition in this field. Management consulting implies a high degree of uncertainty for clients. There are basically two reasons for this uncertainty: First, management consulting as well as most other knowledge intensive business services is performed posterior to the contract and therefore risk is shifted towards the client. The client cannot assess quality or adequacy of a service in advance and needs to trust in the supplier's competence. Second, the degree of formal institutionalisation, i.e. legislation, professional standards, certification, sanction mechanisms etc, is very low and hence institutional barriers to entry are minimal. The lack of quality control and standard references increases the likelihood of dealing with inadequate service suppliers and represents a further risk for the client.

This institutional and transaction based uncertainty translates into the importance of informal institutions such as trust and reputation. It has been argued earlier that reputation is a key factor of competition and that business relations are to a large extent repetitive and long lasting. Consequently, management consulting is a locally, institutionally and culturally contextualised business. Growth, competitiveness and market success depend on a firm's ability to create long lasting and trustful networks of business relations. In contrast to the lack of formal institutional or cost based barriers to entry, business relations that are based on trust, reciprocity and reputation may operate as significant barriers to entry.

The enormous market potential of management consulting fosters growth and internationalisation. However, considering the informal institutional constraints, internationalisation cannot be expected to unfold in an unproblematic manner. When informal social institutions operate as barriers to entry and when competitiveness is dependent upon (business-) cultural, institutional and local contextuality, it is difficult for foreign firms to establish offices in new markets and acquire a local clientele. Empirical data have supported this expectation. International trade as well as international office networks are infrequent for consulting firms, except for multinationals. Nevertheless, most firms have gathered international experience in consulting either by transnational co-operation or by accompanying domestic clients abroad. So far, there is little knowledge about the mechanisms and strategies of internationalisation of MC firms.

Traditional economic theory does not help much in analysing the process of internationalisation because the consulting market is not primarily cost driven and the market itself is not transparent. Instead a *social economy* perspective promises to be useful by focussing on how business relations are socially organised and coordinated. Recent advances in economic sociology have stimulated a social turn in economic geography by emphasising the importance of social institutions (culture, conventions, trust, reputation) for economic relations. Especially the embeddedness argument (GRANOVETTER 1985) and social network theory (BURT 1995) offer concepts to grasp the enabling and constraining forces of social institutions in business relations. Economic geography can make a contribution to the *social economy* perspective by providing a spatial perspective on the social organisation of business relations. It may ask how local socio-economic contexts and local competitiveness are bridged trans-locally in order to relocate elsewhere. This question is essentially about the nexus between the global and the local as well as about the way organisational relations are organised and communicated. Management consulting seems to be an exemplary economic activity to analyse the embeddedness of business relations and the mechanisms of dis-embedding and re-embedding the socio-economic institutions that are so fundamental to competition.

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7 Appendices

Fig 22. The 50 largest management consulting firms world wide in 1999

Rk.	Company	Headquarter
1	Andersen Consulting	Chicago, IL, USA
2	PricewaterhouseCoopers	New York, NY, USA
3	Ernst & Young	Cleveland, OH, USA
4	Deloitte Consulting	New York, NY, USA
5	CSC	El Segundo, CA, USA
6	KPMG	New York, NY, USA
7	McKinsey & Company	New York, NY, USA
8	Cap Gemini	Paris, France
9	Mercer Consulting Group	New York, NY, USA
10	Arthur Andersen	Chicago, IL, USA
11	A.T. Kearney	Chicago, IL, USA
12	Towers Perrin	New York, NY, USA
13	Booz-Allen & Hamilton	McLean, VA, USA
14	IBM Consulting	Somers, NY, USA
15	American Management Systems	Fairfax, VA, USA
16	Keane	Boston, MA, USA
17	Hewitt Associates	Lincolnshire, IL, USA
18	Sema Group	Paris, France
19	Logica	London, UK
20	The Boston Consulting Group	Boston, MA, USA
21	Watson Wyatt Worldwide	Bethesda, MD, USA
22	DMR Consulting Group	Montreal, PQ, Canada
23	CMG	London, UK
24	Aon Consulting	Chicago, IL, USA
25	Cambridge Technology Partners	Cambridge, MA, USA
26	Arthur D. Little	Cambridge, MA, USA
27	Bain & Company	Boston, MA, USA
28	Debis Systemhaus	Berlin, Germany
29	PA Consulting Group	London, UK
30	Woodrow Millimam	Seattle, WA, USA
31	Origin	Eindhoven, The Netherlands
32	Telcordia Technologies (formerly Bellcore)	Morristown, NJ, USA
33	Buck Consultants	Secaucus, NJ, USA
34	Metzler Group	Chicago, IL, USA

35	Roland Berger & Partner	Munich, Germany
36	Technology Solutions Comapny	Chicago, IL, USA
37	Whittman-Hart	Chicago, IL, USA
38	CTG	Buffalo, NY, USA
39	CBSI	Farmington Hills, MI, USA
40	Renaissance Worldwide	Newton, MA, USA
41	Hay Group	Philadelphia, PA, USA
42	Mitchell Madison Group	New York, NY, USA
43	Perot Systems	Dallas, TX, USA
44	INS	Sunnyvale, CA, USA
45	McGladrey & Pullen	Schaumburg, IL, USA
46	CIBER	Englewood, CO, USA
47	Monitor Company	Cambridge, MA, USA
48	First Consulting Group	Long Beach, CA, USA
49	Horwath International	New York, NY, USA
50	Hagler Bailly	Arlington, VA, USA

Source: Consultants News estimates, quoted from KENNEDY RESEARCH INSTITUTE (1999)

Fig 23. Top 30 Management consulting firms 1995 in Europe

	Company	Fees (\$ million)	employees	Fee per consultant (\$1,000)
1	Andersen Consulting	1366	10961	125
2	McKinsey & Co	580	1180	492
3	Ernst & Young	576	3200	180
4	Coopers & Lybrand	546	3607	151
5	KPMG	411	2650	155
6	Gemini Consulting	321	720	446
7	Oracle Corporation	308	1772	174
8	Deloitte & Touche	285	2026	141
9	The Boston Consulting Group	280	640	438
10	Price Waterhouse	238	1423	167
11	PA Consulting Group	230	1150	200
12	Roland Berger	227	530	428
13	A.T. Kearney/EDS	200	660	303
14	Unisys	189	1300	145
15	SAP AG	188	1500	125
16	Bain & Company	170	430	395
17	Booz-Allen & Hamilton	170	450	378
18	Bossard Consultants	170	760	224
19	AMS Management Systems	139	600	232
20	Arthur D. Little	128	432	296
21	CMG	124	680	182
22	Sedgwick Noble Lowndes	120	400	300
23	Watson Wyatt	107	600	178
24	IBM	96	600	160
25	Hay Group	91	326	279
26	Towers Perrin	90	268	336
27	Sema Group	82	530	155
28	Mummert & Partner	80	445	180
29	Kienbaum & Partner	66	200	330
30	Mercer Mgt. Consulting	61	250	244
	Top 30 firms	7639	40290	190

Source: Alpha Publications (1996)

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