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Book review of "The world’s newest profession: Management consulting in the twentieth century"

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The World's Newest Profession: Management Consulting in the Twentieth Century.
Christopher D. McKenna. New York: Cambridge University Press, 2006. 370 pp. $30.00.

Management consultants are a significant social and economic force. Few people, whether as citizens or members of organizations, will have escaped the impact of their interventions. A survey revealed that 97 percent of the top 200 companies in the U.K. and U.S. have used management consultants. The spectacular growth of the industry in the last fifty years is evidenced by the fact that somewhere in the region of 80 percent of firms currently operating were established after 1980. The ratio of consultants to managers, as this book demonstrates, has grown from one to a hundred in 1965 to one to thirteen in 1995. In this clearly written and insightful book, McKenna seeks to answer the question of how "the leading consulting firms come to achieve such a dominant economic and cultural position" (p. 7) by the end of the twentieth century.

In chapter 1, he begins his exploration of the origins of consulting by questioning existing explanations that have focused on macroeconomic factors. Consultants exist, he argues, due to a Coasian "economics of knowledge" whereby consultants "provide their clients with a cost-effective means to acquire managerial skills, techniques, and processes at a lower cost than the equivalent internal studies of the same problem" (p. 13). The economics of knowledge explains the underlying demand for outside knowledge but not the predominance of a particular group of agents through which it is transmitted. His argument is that this is determined by key institutional changes in the 1930s and more recently in the 2000s. In the 1930s, the Glass-Steagall Act (1933) not only separated commercial and investment banking but also prohibited a range of occupational groups, including bankers, lawyers, accountants, and engineers, from engaging in consultation activities. This regulatory upheaval created a jurisdictional vacuum that independent consultants filled.

Chapter 2 questions the orthodox view that consultants emerged from Taylorist firms. McKenna argues that Taylorism suffered a precipitous decline in the 1920s arising from the inherent inflexibility of its "one-best-way" model and general antipathy toward it. He points out that modern management consultancy emerged from the cost accountants who had grown in number in response to the management audits mandated by the newly formed Securities and Exchange Commission. As a result of the separation between auditing and consulting, the smaller and more focused cost accountants, such as James O. McKinsey & Co., pursued management consulting. In contrast, auditors such as Peat, Marwick, Mitchell & Co. and Arthur Andersen and Co. decided to remain accountants. McKenna therefore argues that it is the forced withdrawal of the large accountants and bankers as a result of regulatory changes that enabled a small number of firms to dominate the market for consulting advice.

The next three chapters recount detailed stories of the use of consultants by a range of client organizations, including Lukens Steel, the American federal government and a range of nonprofit organizations. Each of these chapters involves micro case studies of consultants transferring knowledge to clients. The broad argument is captured when McKenna argues that "At a cost of less than 2 percent of Lukens' annual net income, management consultants represented a cost-effective means to guard against the serious structural, strategic and technological changes that might have otherwise blind-sided the firm and its executives" (p. 79).

In chapter 6, McKenna argues that by the 1960s, management consulting had institutionalized, with Booz Allen & Hamilton, Cresap, McCormick and Paget, and McKinsey and Co. becoming the "big three." Indeed, 1960 marked these firms' apogee, and their character at this time has come to define the public's enduring perception of consulting. These three consultancies were larger than the largest law firms but smaller than the bigger accountancy firms. Their revenues ranged from $2.1 million to $12 million. They each had offices in Chicago, New York, San Francisco, and Los Angeles. Their consultants were well paid, with some partners earning more than the chief executive officers of some of the largest companies. Their cultures were homogenous: primarily men recruited from a small number of Ivy League universities with a conservative dress code. McKenna's point here is that these firms were characterized by strong internal cultures that acted as a key strategic asset. So when McKinsey internationalized in the 1960s and 1970s, it "chose to Americanize its international staff, not internationalize its own, American culture" (p. 164). As he argues in chapter 7, this was initially tremendously attractive, because European firms were keen to acquire American "know-how." As a consequence, "American management consulting firms served as the primary institutional conduits for the transfer of American organizational models to Europe" (p. 166). For McKinsey, the focal case study for the chapter, this meant decentralization and multidivisional models. By restructuring many European organizations in the mid-1960s, its London office had grown to become its second largest office, and half its revenues came from outside the United States. So influential was the firm that '"to McKinsey' came to mean the complete restructuring of the firm" (p. 181).

By the 1970s, however, the market for such consultancy had dried-up because most large European firms had been decentralized. The combination of the diminishing power of the American model and a recession following the oil crisis resulted in a sharp decline in demand for consultancy. This book argues that McKinsey responded by turning inward and offering itself as a consultancy product. It codified and commoditized its culture into a "corporate culture" package. In this respect, McKinsey's aim was to "remake their corporate clients in the image of other successful organizations" (p. 195). In this case, it was McKinsey itself. As chapter 8 explains, although McKinsey had lost ground to Arthur Andersen and Co. and the Boston Consulting Group, by the 1980s it had regained its competitive edge with the introduction of

corporate culture supported by its own copyrighted models. But as McKenna points out, a greater reliance on more ephemeral (i.e., fashionable) ideas creates greater levels of uncertainty for clients and consultants. If a firm does not ride the successive waves of fashionable ideas, its livelihood is threatened.

Chapter 9 explores the implications for the consulting industry of, first, a liability crisis in the 1980s and then Enron. As a result of a number of legal judgments determining that directors were personally liable for the decisions they took, the "management audit" of the 1930s was resurrected, with the consequence that consultants moved from selling knowledge to selling legitimacy. In essence, McKenna argues that executives were protected from negligence claims and could demonstrate "informed business judgement" if they could prove that they had followed the advice of a recently commissioned consultancy report. This situation not only "resuscitated the dormant logic" (p. 228) of the 1930s "management audit" but fueled an expansion in demand for consulting work that drew in the large accounting firms, which were keen to develop consultancy divisions to subsidize their loss-incurring audit businesses. By 1992, revenues from consulting in the Big Six accounting firms were larger than fees from auditing, and by 1998, the then Big Five employed more than 62,000 consultants and billed more than $12 billion annually. But the combination of auditing and consulting, particularly within a single client, created suspicions of potential conflicts of interest. This came to a head when it was revealed after the collapse of Enron, the then seventh-largest American corporation, that its auditor—Arthur Andersen—had billed Enron more in consulting than audit fees. The resultant outcry led to the Sarbanes-Oxley Act (2002), which recreated the legislative framework of the 1930s by banning accounting firms from offering management consulting services to audit clients. Once again, regulatory intervention restructured the consulting industry as the large accounting firms divested themselves of consulting and other services.

The book ends with a discussion of the professionalization project within the industry. McKenna concludes that even if management consultants had "not yet attained full professional status within society, they had achieved both internal stability in their firms and durable institutional demand for their services" (p. 249). Thus the setbacks on the path toward full professional status have done little to slow the overall development of management consultancy.

For this reader, the book suffers from three main deficiencies. It is difficult to sustain the claim that it represents a comprehensive and broadly based understanding of the emergence of the consulting industry when so many of the chapters are focused on the actions of a very small number of initially U.S.-based firms. One consequence of this is that alternative patterns of development in other countries are glossed over. Indeed, McKenna undermines his critique of the influence of Taylorist consultancies on the emergence of the industry in chapter 2 when he writes that these firms "continued to dominate the market for organizational advice in Europe through the 1950s" (p. 169). Why was this the

case? Second, the book has very little to say about the emergence of the consultancy firms once attached to the large accountancy or information technology firms. Why do these firms now dominate the consultancy market? The book also lacks theoretical punch. The argument that the industry has oscillated between offering clients legitimacy and knowledge could have been more strongly integrated into the general narrative. The chapter on the "economies of knowledge" completely overlooks the consulting literature that has drawn explicitly on the ideas of Coase and transaction cost economics. Despite these limitations, however, this is a fascinating book whose accessible and clear writing style should ensure a wide readership. The footnotes provide a wonderful resource for any student of management consulting and knowledge-intensive firms. Its broad sweep and rich detail mean that it is destined to become a key text in this area.

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