National Drivers of Management Consulting Use – A Note on New Research

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Abstract

This research note introduces newly published research which sets out a basic framework for exploring and explaining national variations in the use of external management consulting. It is based on an extensive search of secondary sources on consulting and on differences in the use of management practices more generally. It concludes by setting up a research agenda and dialogue with practitioners to examine the use and non-use of external consulting empirically in different countries.
Introduction

Readers of this journal will almost certainly be aware that the use of external management consultancy varies hugely – historically, across sectors and firms and, our focus here, cross-nationally. But many of us are sometimes guilty of giving the impression that it is a universal phenomenon. We may therefore reproduce the image presented by many of the large firms as global players, with offices in scores of countries, working with both local and multinational clients.

And yet, even a cursory look at market research reports gives a very different picture, at least in terms of fee income. Almost four fifths of management consulting fees are accounted for by North America (48%) and the European Union (30%) (Source Global Research, 2016). With nearly three-quarters of European consulting revenues stemming from only three countries (Germany, the UK, and France) (FEACO, 2017), this means that, along with the USA and Canada, around 70% of management consultancy fees worldwide are generated in only 5 nations – over double these countries’ share of global GDP. If we discount around 10% for ‘export’ or development-related business from this core, and accept that not all consulting is captured by the figures, it is still a huge level of geographical concentration. This picture has been evident for some time (Gross and Poor, 2008). Indeed, the market used to be even more concentrated (Sturdy, 2011). Our ability sometimes to forget this might stem from the fact that most of those researchers, practitioners, and journalists who study and/or write about consultancy tend to be based just where it is most active and visible. But our failure to make sense of national differences in the use of external management consultancy is less excusable. Even among the highest users, there is considerable variation. Germany, the UK, and France for example generate revenues, respectively, of $44bn, $27bn and $12bn (Marketline, 2015).

The question of how to explain national variations in the use of external management consulting was the focus of secondary research we conducted over a number of years – studying reports and literature from a wide range of academic disciplines, looking at consultancy and the related cross-national adoption of new management ideas and practices. This research has recently been published in the journal Management Learning (Sturdy and O’Mahoney, 2018). The following short paper aims briefly to introduce the basic framework we developed and raise new questions for empirical testing, exploration, and collaboration.

The Five Drivers of National Consulting Use

Notwithstanding the huge diversity within consulting itself, we focused on its use for advice, facilitation, legitimation, and as an extra resource (we excluded outsourcing). The study identified five key factors associated with the structure of different national contexts which shaped external consulting demand and supply - the economy, state, culture & ideology, education, and organisational relationships. We take each of these briefly in turn.
Of course, economic factors are crucial, not least in terms of who can afford consultancy, but also regarding patterns of economic growth or change and sector specialisms. This is confirmed and the main focus in market research reports. It is also evident in a Consulting Readiness Index being developed by the ICMCI (Haslam et al, 2018), although this is mainly concerned with the level of market development in a country. But the economy is only part of the story. Italy, for example, has a sizable and changing economy and yet makes up only 3% of the European market (Marketline, 2015). Even the type of economy countries have is not crucial – Germany and the UK for instance are the biggest buyers in Europe and yet represent quite different forms of capitalism.

The role of the state is also important. Firstly, as a user of external consultancy, the state can drive demand and attract new entrants. Again, this varies hugely, from 10% of the markets in France and Italy to 25% in the UK (FEACO, 2017). The state has also been important historically in regulating consulting (or more often, in not doing so) and in providing and regulating competing sources of external management expertise. The former is less evident today, although the professionalisation journey of consulting continues. However, the latter continues to be important, and the state can readily shape, often indirectly, who is allowed access to what can be a lucrative area of work.

The economy and the state are linked to other core drivers of business activity such as culture and ideology (see also Mohe, 2008). These are more difficult to isolate, but are reflected in the fact that consulting in Europe is based almost exclusively in the north. External consulting use can also be linked to individualism, in part, because this has been shown to correlate with openness to outsiders and their knowledge, while collectivists are more insular. Compare Japan with the US and UK for instance, which both have around twice the level of consulting use as a percentage of GDP. But care is needed. Recent research by Pemer et al (forthcoming) suggests that the opposite might be the case and that the cultural dimension of ‘uncertainty avoidance’ may also be linked (negatively) to consulting use.

Contrasting the USA and Japan is also relevant in terms of the management education system and the nature and distribution of management and consulting skills. A key factor here is the MBA (and related professional qualifications). One might expect that consultancy is most commonly used in countries where there are fewest management (MBA) educated managers, but, if anything, the opposite is true. MBAs and consultants tend to speak the same language and share knowledge domains, making potential clients more responsive to the consulting offer, although this might also be achieved through internal consulting options or other partnerships.

In both cases, the final factor shaping consulting supply and demand is also relevant – organisations and their networks. Although not impossible, consulting is notoriously hard to evaluate in terms of its outcomes. Not everyone agrees with this, but most recognize the centrality of relationships and trust between clients and consultants. Market entry costs may be low in external consulting, but reputation is priceless. As a consequence, consulting is most common where it has already become established in countries and their business and elite networks. This phenomenon of innovation more generally is evident historically and currently. For example, as multinational companies set up in new countries, they can act as a bridge for their consulting firms to follow them
and start to establish a wider reputation and market for themselves, complementing and/or competing with existing and emerging organisations and networks of management expertise.

Conclusion and the Need for Empirical Research

So why does it matter that consultancy use varies and is not as global as many imagine? For some, it may highlight how there is still work to be done to expand the industry and occupation further. For others, it alerts them to the fact that organisations can be advised and supported in different ways, using different sources of knowledge and expertise, including internal consulting, but also wider employee-based approaches; think tanks; industry associations and supplier/competitor networks; government sponsored organisations; and other professional services. It seems that each country has its own historically produced management knowledge regime comprising different and changing actors with different levels of prominence.

Finally, our framework suggests that there is much research yet to be done, empirically. In our research, we tested it out with the case of Japan, but more countries need to be included and, if possible, weightings considered for the different drivers. Perhaps most importantly, it needs to be sounded out with those who study or create national consulting markets for a living. We found market research organisations very reluctant, for commercial reasons, to discuss their own assumptions and methods of analysing national consulting markets. However, there is a real opportunity for a dialogue among consulting and (potential) client practitioners that is grounded in national contexts. For example, how can we make sense of nations where consulting use is increasing, declining, or surprising, and what about the non-use of consulting? How is consulting demand stimulated? How can we link the answers to these questions with other factors that are more specific to organizational decisions and sectoral issues? Our framework and research make a start and also remind those of us who see consulting as global to think again.

The research findings are available directly from Andrew.sturdy@bristol.ac.uk
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