Towards the Consulting Readiness Index

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Abstract

The Consulting Readiness Index (CRI) is an attempt to assess the stage of development of a country’s management consulting sector by the analysis of indicators shown to vary in proportion to national management consulting markets. This paper outlines the logic applied and includes the key data leading to creation of the CRI.
How Developed is a Country’s Management Consulting Sector?

The Consulting Readiness Index (CRI) is offered as a means of helping determine the degree to which a country’s management consulting sector is developed and to provide pointers to the aspects which are potentially holding back development. The driver for this study is the International Council for Management Consulting Institutes (ICMCI), whose focus is to encourage the professionalisation of the sector and the quality of consulting work. For the ICMCI, a greater understanding of the factors that accord with strong management consulting markets can help with its understanding of the global dynamics in the management consulting sector and help focus support to the national Institutes of Management Consulting (IMCs).

There are a range of perspectives that indicate the degree to which a country’s management consulting sector is ‘developed’ or not. Numerical indicators, such as the financial value of the management consulting market in a country or the proportion of the working population in the country that are employed as management consultants, can be considered along with ideas like the presence and penetration of a management consulting professional body in the country. The main point of reference used in the business media to indicate the relative strength of management consultancy is the country’s spend in that activity – for example, the USA is the biggest management consultancy market in the world with management consultancy market revenues of over $63m in 2017 (Sourceglobalresearch, 2018).

Raw market size data would perhaps flatter larger economies and discriminate against smaller ones when considering how well the country’s consulting market is developed – the USA management consulting sector has a higher annual value than the Gross Domestic Product (GDP) of all but the largest 75 economies in the world, for example. To facilitate a fairer comparison and avoid a ‘size is everything’ position, the management consulting market size was considered in relation to each of two factors, the country’s GDP (2017 data) (The World Bank, 2018) and its population (2017 data) (United Nations, Department of Economic and Social Affairs, Population Division, 2017). The rationale for using GDP was that the proportion of GDP that was attributed to management consulting would indicate the relative economic importance of that activity to that country – and if it is important, the sector is probably taken more seriously and, as a consequence, becomes more developed. An alternative is to use a country’s population instead of GDP, so the degree to which a country’s management consulting market is developed is indicated by the financial value of the management consulting sector per capita, much in the way that GDP per capita is used as a proxy for the state of the country’s economic development. Both the GDP-based and population-based options in assessing the relative strength of a country’s management consulting sector have merit and this paper explores each in turn. Perhaps the ideal outcome would be if the same factors/conditions were found to relate to both.

Defining the Size of Management Consultancy Markets

Determining the size of national markets can be both difficult and contentious. There were two pitfalls the project sought to avoid, to help give this work as much substance
as possible. These were the pitfall of interpretation and the pitfall of consistency. ‘Management consultancy’ is a sub-set of the broader consultancy market and how such a term is interpreted might vary from country to country. How the size of a market might be calculated could also vary by country or by research project. This led to the decision for the CRI to use only market size data from a single source. In this way (assuming interpretive and methodological consistency within that source), the project was able to move forward with a means of offering meaningful comparison. With this as a key requirement, all the data on the national market sizes for management consulting firms were obtained from Source Global Research, a commercial research organization focusing on the consulting sector (Source Global Research, 2018).

A sample of fifteen countries was selected, the sample chosen to reflect different geographical areas, cultures, country sizes, and amount of management consulting. Figure 1 shows the size of the management consulting markets ($m) for the fifteen countries in the sample. It also shows the strength of the management consulting markets in terms of the proportion of a country’s GDP and as a per capita figure. Please note, the main role of the data from Source Global Research was to provide solid reference points for the creation of the CRI by ensuring that geographically diverse data were unified by common sector definition and data gathering methodology.

As stated above, a single source was used for the size of the management consultancy markets in each of the countries. This enabled a) consistency of interpretation of the term ‘management consultancy’, b) a consistent process by which the market size data were gathered, and c) a robust and independent foundation to the data. Without such consistency it would be hard to trust the comparability of the data – which is key to the creation of an index.

**Method**

The expectation was that, as an ‘index’, the CRI would incorporate a range of indicators with no single existing indicator being sufficiently robust or comprehensive to function as the CRI by itself.

The quest for insight into possible factors or indicators germane to the development/strength of a country’s management consulting sector involved desk research and engagement with the ICMCI’s community of Academic Fellows. Academic
Fellows are prominent researchers and thought leaders from around the world with an interest in the management consultancy sector. Most have professorial positions at universities or business schools and most have extensive publication records in the sector. The ICMCI has a community of around fifty Academic Fellows (Sturdy, A. J. and O'Mahoney, J., 2018). Input on behalf of the ICMCI Board, the sponsors of this work, was also provided – ICMCI Board members typically have prominent roles in consulting practices and insight into the global management consulting sector. Thirty-two factors were offered as potential components of the CRI.

Each of the thirty-two factors was then evaluated from two perspectives: reliability and validity. In this context, reliability meant the ability to gather data consistently across a range of geographies to enable meaningful direct comparison. If a factor was not considered to be reliable it was excluded from further study. A valid factor is one capable of shining a light on the relative strength of a country’s management consulting market. This means it varied in proportion with differences in the sizes of national management consulting markets. Validity was determined statistically by looking at the correlation between the factor and strength of a country’s management consulting market (by the GDP and per capita routes). Any factor of interest to the CRI needed to be both reliable and valid. There was also a third level of screening which involved de-prioritising any indicator which overlapped with or covered the same area as another indicator. This was to remove duplication and prevent factors being double or treble counted in the creation of the overall index. Where more than one indicator looked at the same area, we prioritised the indicator we judged to have the strongest provenance and the more comprehensive global applicability, recognising this project has a worldwide perspective. The Appendix shows the thirty-two indicators and the analysis of their relative reliability and their validity as a means of indicating variance in the strength of national management consulting markets.

Assessing Correlation and Testing Indicators

The assessment of each of the thirty-two possible indicators led to a group of indicators which are shown to vary in relation to the GDP-based perspective of the strength of the country’s management consulting sector and a group of indicators which are shown to vary in relation to the per-capita-based perspective of the strength of the country’s management consulting sector.

The analysis can be taken forward in three possible directions. First – to focus on the indicators linked to the GDP-based perspective. Second – to focus on the indicators linked to the per-capita-based perspective. Third – to focus on the indicators which appear in both groups. Prior to exploring these options, it is useful to note some of the reliable indicators that are shown to offer no illumination on the relative strength of a country’s management consulting sector.
Indicators of relevance

The valid indicators that relate to the strength of a country’s management consulting market are shown below. There are two validity (VAL) columns. The first refers to validity of the indicator with respect of the strength of a country’s management consultancy market as a function of GDP. The second refers to validity of the indicator with respect to the size of a country’s management consultancy sector per capita of population. Valid indicators are suggested as those where the mathematical correlation between the indicator and the strength of the consulting market showed a P value (or probability of significance) of 0.63 or over (P values shown in brackets, a perfect correlation is a P value of 1).

| Indicator                                | VAL (GDP) | VAL (pop) |
|------------------------------------------|-----------|-----------|
| GDP per capita                           | No        | Yes (0.76)|
| Hofstede: Individualism-Collectivism     | Yes (0.83)| Yes (0.83)|
| Hofstede: Long Term Orientation          | Yes       | No        |
| Global Talent Competitiveness Index (2018)| No        | Yes (0.83)|
| Int. Property Rights Index (2017)        | No        | Yes (0.67)|
| Index of Economic Freedom (2017)         | Yes (0.71)| Yes (0.83)|
| e-Gov Development Index (2018)            | Yes (0.66)| Yes (0.72)|
| Global Creativity Index (2015)           | Yes (0.81)| Yes (0.83)|
| Human Development Index (2015)           | Yes (0.63)| No        |
| Corruptions Perception Index (2017)      | Yes (0.65)| Yes (0.73)|

There are six valid indicators which correlate (P equal to or greater than 0.63) with the variance in the sample countries’ strength of the management consultancy market as a function of GDP. There are eight valid indicators which correlate (P equal to or greater than 0.63) with the variance in the sample countries’ size of the management consultancy sector per capita of population. Five of the indicators are valid in both interpretations of the relative development of the management consulting sector.

It is recommended these five are considered as the basis of the proposed Consulting Readiness Index, on the basis they apply to both interpretations of the strength of countries' consulting market. The five are:

**Hofstede: Individualism-Collectivism (IDV),** national culture measure. This index highlights the degree to which people in a society are integrated into groups (Hofstede, G, 2011). Individualistic societies have loose ties that, in the opinion of Hofstede, often only relate to an individual’s immediate family. In collective societies, these integrated relationships tie extended families and others into ‘in-groups’. These ‘in-groups’ are characterised by internal loyalty and mutual support, for example in the face of conflict with another group. IDV scores range from 0-100 with higher scores reflecting the more individualistic societies.

**Index of Economic Freedom (IEF)** (The Heritage Foundation, 2018). The Index of Economic Freedom was created in 1995 by The Heritage Foundation and The Wall Street Journal. It is designed to measure the degree of economic freedom within a country. This is based on twelve factors within four broad categories: the rule of law; government size; regulatory efficiency; and open markets. The index has a scale of 0-
100, with higher scores representing countries with greater economic freedom (each of the twelve factors are equally weighted to create the index).

**e-Government Development Index (EGDI)** (United Nations, 2018) This index is a United Nations creation and has its roots in the UN General Assembly Resolution 66/288 ‘The Future We Want’. This strand of the resolution takes an ICT focus and looks at the flow of information between governments and the public and recognizes the power of communication technologies to promote knowledge exchange, technical cooperation and capacity building for sustainable development. The index scale is 0-1 with higher scores representing countries with the more developed e-government processes.

**Global Creativity Index (GCI)** (Florida, R., Mellander, C., King, K.M., 2015). This is a four-dimensional ranking of countries. It combines individually ranked countries based on creativity, technology, talent, and tolerance in the overall score. The CGI is published by the Martin Prosperity Institute which belongs to the University of Toronto’s Rotman School of Management. The index ranges from 0-1 with higher score representing higher national creativity.

**Corruption Perceptions Index (CPI)** (Transparency International, 2018). This index has been published annually since 1995 by Transparency International. It ranks countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. The index uses a scale of 0-100 where 0 is very corrupt and 100 is very clean.

### Calculating CRI Using Multiple Indicators

Having identified indicators with the capability of illuminating the relative strength of a country’s management consulting sector, the next step is to combine a range of indicators to create a CRI. The proposition is: \( \text{CRI} = f (\text{IDV}, \text{IEF}, \text{EGDI}, \text{GCI}, \text{CPI}) \)

In this process it is important that no single indicator dominates to the point it distorts the overall picture. To facilitate this, the indicators were modified to give each the same scale and variance – the strongest point on the scale being +1 and the lowest point on the scale being 0. In this way the shape of the data’s distribution within that indicator is maintained and the power of each indicator’s ‘voice’ equalised such that they might be combined harmoniously. The five figures were then multiplied together to create the CRI. Testing the index shows the CRI has a correlation ‘P value’ of 0.90 when compared to the assessment of the strength of a country’s management consulting sector as a proportion of its GDP and a ‘P value’ of 0.93 when compared to the assessment of the strength of a country’s management consulting sector in respect of the size of the country’s population. In both cases of assessing the strength of country’s management consulting sector the CRI correlated to a greater degree than any single indicator in the index. This demonstrates the efficacy of the CRI, based on the assumptions around the determination of how strong a country’s management consulting sector is and the fifteen countries in this study.
Implications

This paper has developed, tested, and validated a Consulting Readiness Index (CRI) as a means of determining the relative strength of a management consulting sector, based on a sample of fifteen countries. The analysis raises some questions but hopefully also offers useful direction.

Moving the needle – as the CRI is an index of indexes, individual countries might be interested in the components within their CRI score to learn more about what factors might be particularly strong in the success of their local management consulting sectors and what factors might be applying the brakes to further progress. It might be within the power of the ICMCI/national IMC to lobby for changes or even make changes to help improve the conditions conducive to a strong management consulting sector.

Extend – the scope now exists to extend the CRI to all the counties around the world. This will give the ICMCI (and other interested parties) insight into those areas where the creation of a national Institute of Management Consulting (IMC) makes logical sense. With the penetration of the IMC sitting around 25% of countries, the potential is clear and the order of expansion more obvious.

Trends – all of the indices within the CRI are tracked over time, meaning they have value not only at a point in time, but also from the dynamic perspective. This means by looking at the direction of travel of the CRI, the ICMCI/national IMCs can become sensitised to the dynamics of the industry and recognise areas where management
consultancy is likely to be on the ascendancy. This means the ability exists to prepare and ‘push at the open door’.

**Further development** – the research drew attention to some potential indicators which, while methodologically reliable, had no relationship with the strength of national management consulting markets, in the way this project has defined. We also acknowledge the CRI may have been limited by indicators which were considered methodologically unreliable. The fact that a consistent and robust method of identifying the data was beyond the ability of this project doesn’t mean that a reliable way of generating data is beyond all possibilities – more resources and time would go a long way to resolving the reliability of the majority of these indicators. Also, if reliable methods were developed, this could well introduce new validity indicators – the population of MBA graduates per country; the government spend on management consultancy; and the number of management consulting courses at universities/business schools are perhaps strong candidates for consideration.

**Appendix**

The appendix shows the indicators studied. The reliability assessment (REL) is the degree to which the data can be gathered on the various countries around the world by a clear and consistent method. There are two validity columns (VAL). The first comments on the validity of the indicator with respect of the strength of a country’s management consultancy market as a function of its GDP. The second comments on the validity of the indicator with respect of the size of a country’s management consultancy sector per capita of population. Valid indicators are those where the correlation between the indicator and the strength of the consulting market showed a P value of 0.63 or more.
The dataset for these indicators across the fifteen countries is available from the lead authors on request, simon@consult.co.uk.
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