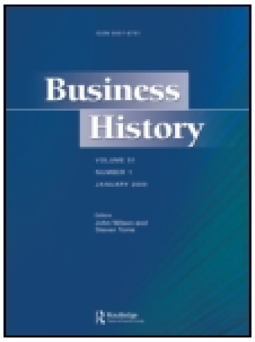

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Between Regulation, Promotion and Consumption: Government and Management Consultancy in Britain

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I

> It is very important to decide when to stop using the consultants, because you very easily get addicted, you very easily get used to these well trained, hard working people running around.[1]

During the 1990s there has been a considerable growth in the literature on management consulting which has paralleled – albeit with a slight time lag – the rapid expansion of consultancy services themselves.[2] It seems that, as time goes by, this literature is adopting an increasingly critical attitude towards consultants. This becomes already apparent when looking at the titles of some recent books on management consultants and gurus, including, for example, *The Witch Doctors, Dangerous Company, Con Tricks* or *Consulting Demons*.[3] The change becomes even more obvious when comparing earlier titles which were more positive, such as *The Business Healers*, or at least neutral, like *Management Gurus*.[4] Most of the authors of the recent books argue that consultants cost huge sums of money, but produce at best questionable, sometimes even disastrous results.

Some of them go even further by stressing that the use of consultancy services might result in a kind of addiction. Martin Ashford, for example, has highlighted the 'comforting experience' of hiring consultants, since they allow management to shy away from its own decision-making responsibilities and, if necessary, blame mistakes on somebody else. This, he argues, can easily lead to dependency: 'Weak managers, allowed to commission consultancy work, can all too easily become hooked on what is the management equivalent of smoking cannabis'.[5] Among the academic scholars, Alfred Kieser has reached similar conclusions ('consulting is addictive') by focusing on the fashion-driven nature of consultancy services. These fashions, so he argues, appeal to managers because they reduce their insecurity and provide them with the perception of control. But they are soon replaced by new fashions, which managers need to adopt again to maintain (or regain) their competitive advantage. Thus, he continues, 'managers who needed consultants to come to grips with the last fashion, in all probability, need consultants again in order to implement

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it. They have gained the impression that consultants are necessary to keep up with competitors who increasingly engage consultants. They have become dependent on consultants. Consultancies have made them marionettes on the strings of their fashions'.[6] These authors use the notion of addiction, which is normally applied to rather different phenomena, because of the – alleged – psychological dependency of managers on consultants and the – more implicit rather than explicit – assumption that the excessive use of consultancy services produces potentially harmful results for the clients. It is difficult to prove such claims. With a few exceptions (see the quotation above), clients are unlikely to admit that they have become 'addicted' to consulting. In this respect, it is important to distinguish between the frequent (almost indiscriminate) use of any kind of consulting and the long-term relationship between a client and a particular service provider. While the former can be considered 'addiction', the latter is sound business practice, at least in cases where the client is satisfied with the consultancy's services. Such a long-term, stable relationship is actually in the interest of both parties, namely because it reduces search costs for the client and sales costs for the consultant.[7]

At the same time, the claim made by the above authors that consultancy might have significant negative effects on their clients cannot be excluded. The danger of 'flawed advice'[8] is inherent in the nature of the consultancy service: it is intangible and consumed at the same time as it is produced, which makes it difficult to assess its quality beforehand, especially for new, inexperienced users.[9] This lack of experience with consultants is most likely to occur when consultancy services are new for a particular market or when the consultants are signing up new users, who have little previous experience. In these cases, some form of regulation might be necessary to prevent and, if not possible, sanction possible abuses.

This essay examines this situation for the case of Britain, analysing in particular the changing regulatory regimes and the role of governments with respect to the consultancy industry and their users. It focuses largely on the post-World War II period, when consulting became a more commonplace service in the UK and expanded its client base from the large firms to small and medium-sized enterprises (SMEs) and to the public sector. The essay is mainly based on the archives of the British Management Consultancies Association (MCA) as well as a large number of published documents. It consists of four main sections. In the following section, it outlines the rationale for possible government intervention and gives a short overview of the available regulatory mechanisms. The next section traces the evolution of the regulatory regime in Britain, showing that the government intervened very little, leaving it to the consultancy industry and its association, the MCA, to provide some form of quality control. The following section deals with the efforts of public authorities to promote the use of consulting firms among SMEs, examining the different initiatives and institutions set up to direct these efforts. The final section examines how government at different levels gradually became itself an important user of consultancy services – a process that accelerated during the Thatcher years and showed few signs of abating under subsequent governments.

II

Regulation is a very broad category of government activity and it is sometimes seen as encompassing virtually everything the government does. Some see regulation as 'the essential function of government' and claim that 'to examine government regulation is to examine the role and function of government itself.'[10] In this sense, to regulate is to govern. The basic goal of regulation by government is to shape or change the behaviour of individuals, groups and corporations.[11] It is one of the principal functions performed by governments in all industrialised countries. Regulation involves different degrees of coercion.[12] In its purest form, regulation involves delegated legislation (rules emanating from powers granted in existing statutes). But it is not only about the use of laws, mandatory rules and sanctions. Much regulation is done through inducements, using persuasion (or exhortation), subsidies or taxation where government tries to change the behaviour of businesses, citizens and groups.

Scholars have made numerous attempts to identify the governing instruments used by policy-makers and classify them into meaningful categories.[13] Instruments can be classified by arranging them along a scale according to the degree of coercion – or state intervention – they entail. The continuum starts with minimum or almost non-existent coercion (such as self-regulation) at one end and extends to maximum coercion (when something becomes illegal) at the other. In the case of smoking, for instance, governments have generally tried to alter public behaviour by using non-coercive instruments such as public campaigns that describe the harms caused by tobacco consumption. When the scientific evidence linking lung cancer to smoking became clearer, governments started to use more coercive measures, such as raising taxes on cigarettes, hoping that this would reduce smoking. Now that public opinion towards smoking is becoming less and less tolerant – at least in North America – governments are starting to make smoking illegal in public places.[14] In the face of mounting allegations that consulting might be as addictive and harmful as tobacco, can we see, in terms of regulatory approaches, a pattern similar to one observed in the case of smoking? This is the question we address in the following pages by looking at the history of management consultancy in Britain since the 1940s.

III

The origins of consulting go back into the second half of the nineteenth century, when independent 'experts' from a wide range of backgrounds, including engineering and accounting, began offering their advice to company owners and managers for a fee.[15] It became a recognisable and recognised business activity with the emergence of scientific management in the United States at the beginning of the twentieth century. Sole practitioners and a growing number of firms of industrial engineers or 'efficiency experts' soon began to install their different wage and bonus (or payment-by-result) systems in companies in the industrialised countries. Among the most well known consulting firms during the first half of the twentieth century were those founded by Harrington Emerson, Wallace Clark and Charles Bedaux. Most of these not only achieved a strong presence in the United States but also expanded to other parts of the developed world.[16]

In the UK, Bedaux became the progenitor of the emerging consulting industry.[17] Following work for the British subsidiaries of his American clients, Eastman Kodak and B.F. Goodrich, he opened an office in London in 1926, which started to work for a growing number of British companies. Subsequently, some engineers left the consultancy to establish their own firms. Most prominent among the consultancies they founded were

Production Engineering and Urwick Orr & Partners, both set up in 1934. In 1938, the British Bedaux consultancy changed its name to Associated Industrial Consultants (AIC), in order to escape from the negative publicity created by Bedaux's close association with the Duke of Windsor, for whom he had organised the controversial trip to Nazi Germany. During the inter-war period, the British government showed little interest in the activities of these firms, despite a number of strikes against the introduction of the Bedaux system.[18] In terms of revenues and employment, consulting was still a rather unimportant economic activity. By the end of the 1930s, none of the above-mentioned firms employed more than 50 consultants in the UK. Another reason for the lack of government intervention might have been the engineering background of these firms and their consultants, which inspired confidence and corresponded well to the predominant managerial ideology.[19]

The British government took an active interest in management consultants for the first time during the Second World War. In general, the government promoted private initiatives to increase productivity and production in war-related industries.[20] Since efficiency engineers and their firms could make an important contribution to the armament and war effort, management consultants did not have to join the armed forces. The government monitored the consulting firms closely, asking for periodic information on staffing levels and type of assignments, and, apparently, also prohibited an increase in the number of consultants employed beyond the 1940 levels.[21] But this did not prevent Ernest Button from leaving the former Bedaux consultancy AIC in 1942 to set up his own firm called Personnel Administration.[22] And neither did the government hesitate to release appropriate personal from military service for consultancy work in industries of strategic importance. Thus, when at the end of June 1944 the Anglo-Iranian Oil Company asked AIC to review the manning levels in its Abadan refinery, the consultancy requested a Colonel Hurry to be released from the army – a request which was indeed granted in August 1944.[23]

The expansion of consulting activities continued during the immediate post-war period, spurred by reconstruction and the efforts to close the productivity gap with the United States. Consequently, the industry underwent rapid growth. Thus, for example, from 1945 to 1951 Urwick Orr & Partners 'expanded from 40 odd consultants to round about 150.'[24] Expansion continued unabated during the 1950s, when revenues increased by more than ten per cent per annum 'after allowing for any increase in fees to offset the rising costs of high grade staff.'[25] But this growth also brought problems, namely due to the lack of well-trained and competent consultants. This became apparent from a round table discussion between three employers and three management consultants in 1953. One of the participants, the managing director of K&L Steelfounders & Engineers Ltd, Frank Rowe, who had considerable experience using consultants, put the potential and actual dangers resulting from the fast growth very clearly: 'management consultancy has had some black marks put against it by charlatan firms creeping in, and by even some of the most reputable management consultants having to use men to fulfil assignments who are not really good enough for the job.'[26]

These and similar problems might have been behind an attempt by the British Institute of Management (BIM), to increase market transparency and provide some form of quality control. The BIM had been established in 1947/48 to promote professional management in the UK and a closer involvement of workers and their representatives. Lyndall Urwick, a well known British management thinker and co-founder of one of the leading UK consulting firms, played an important role in these efforts – which had ultimately little results, especially regarding more co-operative management–labour relations.[27] One of the Institute's first initiatives was the establishment of a special committee, 'to investigate ways by which reliable information as to management and industrial consultants can be made available'. Apparently, the suggestions for such an initiative had come also from the government and were at least partially based on concerns about those selling themselves as management consultants lacking both competence and independence.[28] As a result, the BIM established a Register of 'approved' consultants. Consultancies that wanted to be included had to provide details about the qualifications of their staff and submit names of clients who were contacted and asked to assess the quality of the services received. Panel members also had to subscribe to a code of conduct.[29] This Register, initially reserved to BIM members, was later made available to the general public through a Management Consultancy Services Information Bureau.

The problems in the consultancy markets as well as the establishment of the consultancy Register were probably among the reasons why the leading British consultancies AIC, Urwick Orr, Production Engineering and Personnel Administration, also known as the 'Big Four', finally decided in 1956 to establish an industry body, the Management Consultants' Association (MCA). At the time, the Big Four accounted for over three-quarters of a total market estimated at £4 million and employing close to 800 consultants.[30] One indication of the link between the BIM initiative and the foundation of the MCA was the continued effort of the MCA to keep the consultancy Register out of the public eye. Thus, for example, in 1963 the Association complained about the reference made to the Register in the BIM's annual report and even threatened to withdraw its support for the Institute should this be repeated.[31]

The initial purpose of the MCA was threefold. First of all, it was a traditional pressure group, representing the industry towards government, lobbying especially for professional recognition. Previous research has focused largely on this representative role.[32] But the MCA also fulfilled a number of other roles. For example, it handled enquiries from potential clients, passing them on to its members. There are no detailed statistics available for this activity, but the number of enquiries received appears to have been fairly substantial. In any case, it seems to have been an important service of the MCA for its member firms – as becomes apparent from the thank-you letters sent by the consulting firms.[33] Last, but not least, the MCA also acted as a quality control mechanism, namely through its admission process. Both of these roles helped address potential abuses – and thus reduced the rationale for any government intervention.

The criteria for admission changed little over time.[34] The basic conditions were that the consultancy had to have been established in the UK for at least five years and have a minimum consulting staff of five. Most of the other requirements focused on the background or experience of the actual consultants: 80 per cent of them needed to be 'qualified', i.e. hold a degree from a recognised university or a professional qualification; their average service with the applicant had to be three years, with at least a quarter of consultants having five or more years of experience. The consultancy wishing to join the association also had to supply a number of client references, some of which were contacted by existing MCA members (usually by telephone) and asked whether or not they had been satisfied with the service provided.

Judging by the available documentation, the whole process was taken quite seriously. A good example is the case of Arthur Andersen. Its UK office first applied for membership in 1967, but was judged to be ‘only marginally qualified.’ In the trade-off between the representativeness of the MCA and the quality of its members, the membership committee came down in favour of the latter: in the case of Andersen, it was ‘agreed that although it was desirable to increase the membership of MCA in order to make it more representative, there was the equally important need to maintain the highest standards for admissions.’ The committee therefore decided to recommend to the MCA Council ‘that the applicants should be invited to re-apply for membership in two years time’.[35] Andersen indeed reapplied in 1969 and was admitted this time. As a result of its fairly strict admissions criteria, the number of MCA member firms grew only slowly.

This was judged to be necessary to keep the quality standards high. At the same time, it reduced the representativeness and the influence of the association and therefore made it less attractive for consultancies to join. During the first decade of its existence, the MCA therefore approached potential members directly and ask them to apply.[36] As a result, by 1965 the number of members had grown from the initial four to 11. One year later, it jumped to 18 members, when many consulting divisions of the large audit and accountancy firms joined the association. Many of these firms had provided consultancy-type services from the outset. After the Second World War, the demand for these services grew and the accountancies responded by setting up so-called management advisory departments.[37] Accounting-related firms were also largely responsible for another rapid increase in membership to 25 in 1973.

Seen from today’s perspective, the decision to admit these firms to membership already in the mid-1960s appears like a visionary step. As a matter of fact, the consultancy divisions of these firms were going to dominate the industry in the 1990s. At the time, this decision was apparently also driven by internal debates and outside pressures. On the one hand, a group within the MCA ‘had become increasingly unhappy about what it considered an unacceptable conflict of interest between the activities of a trade association and those of a professional association.’ On the other hand, the chartered accountants profession apparently wanted to have such a professional body for individual consultants. In 1962 therefore, the MCA decided to admit accounting-related firms and to create an Institute of Management Consultants (IMC). The latter was in direct response to a threat posed by accountants who were ready to start the IMC themselves, in competition with the MCA. The MCA created the IMC because its members were concerned that they would be embarrassed by the creation of such an institute if the MCA was not itself responsible for its formation.[38] Thus, at least at the beginning, MCA and IMC rather complemented than competed with each other. For a number of years they even shared offices. The MCA only admitted firms, whereas the IMC acted as the professional body for individual management consultants.

While the MCA increasingly concentrated on lobbying activities, the IMC took over much of the quality control function. Members of the Institute had to adhere to a voluntary code of conduct. From 1980, they had to pass a compulsory entry examination. In 1979, the Institute had launched its own professional register – with voluntary membership – in order to facilitate contact between consultants and potential clients and increase market transparency. Not surprisingly, only one year later the BIM, which had strongly opposed the creation of the IMC, closed its own Register – officially for budgetary reasons. The IMC also defined the standards of performance of its members – albeit less stringent than the ones required by the BIM Register – and, more recently, provided guidance on ISO9001 quality standards.[39]

The relationship between the MCA and the IMC soured during the 1970s, partially as a result of the decision by Personnel Administration, now PA, to leave the MCA in 1975. This decision dealt a severe blow to the association. PA had been one of its founding members and was at the time the largest consultancy firm in the UK. While one of the reasons was the consulting firm's desire to advertise its service – something the MCA Code of Conduct prohibited explicitly, the firm publicly highlighted the fact that the 'MCA has become bureaucratic and is in danger of stifling the competitive spirit between member firms'[40] Even worse for the MCA, the PA Chairman characterised the Institute of Management Consultants as a better vehicle to 'maintain and develop our professional standards' – thus introducing a rivalry between the two industry bodies, which had been discussing a possible merger a few years earlier.[41]

Thus, in the immediate post-war period the UK government helped establish some market transparency and quality control through the creation of a consultancy Register within the framework of the British Institute of Management. Partially sparked by this initiative, the leading British consultancies decided in 1956 to form the Management Consultants' Association. It not only acted as a trade association, lobbying on behalf of the industry, but also exercised some quality control through its admission procedures for new member firms. From 1962, the role of a professional body was gradually taken over by the Institute of Management Consultants, which the MCA helped found – albeit rather reluctantly. This clearly reduced the need for any public involvement and in 1980s the BIM consultancy Register was finally discontinued. In addition, the market situation in the UK and the possible need for publication regulation had already changed significantly.

From the late 1960s onwards, the consulting industry became increasingly dominated by American strategy and organisations consultancies such as McKinsey & Company or Booz-Allen & Hamilton. Based on varied origins, these had begun to concentrate on advice to top-level management during the 1930s, when they experienced a significant growth in the United States.[42] From the late 1950s, they expanded to the UK and from there to the European continent.[43] Rather than relying on industry-wide associations, they drew their 'professional' status from their own practices, which imitated those of law firms, as well as from the reputation of their client firms. In the UK, these clients included, in the case of McKinsey for example, not only many of the large private banks and industrial corporations, but also public institutions including the BBC, the Bank of England and the NHS. Most of these larger clients had become sufficiently experienced to assess the quality of consultancy services without the help of intermediaries such as the MCA or the IMC. The government therefore increasingly turned its attention towards small and medium-sized companies, where it tried to promote the use of consultancy services.

IV

The interest of governments in the promotion of consultancy services is not a new phenomenon. As seen above, the British government already favoured the use of consultants to increase production and productivity during the Second World War. In the post-war period, the British government sponsored a number of showcase assignments to demonstrate how improvements in efficiency could be beneficial both to the company and its workers. Thus, for example, between January and July 1947 the Labour Department of the Cotton Board paid for Production Engineering to carry out efficiency improvements in the Musgrave cotton spinning mill at Bolton in Lancashire.[44] Much of these efforts and attention focused on larger firms and sectors considered to be strategic.

By contrast, one of the employers in the above-mentioned round table discussion in 1953 had already underlined that 'there are a very large number of what I might call small or medium firms who would benefit enormously by the use of the skill developed by management consultants.'[45] Some European countries, namely Germany, had already developed public funding schemes to promote the use of consultancies by these firms in the 1950s.[46] In Britain, a first pilot scheme 'to encourage the wider use of consultants by smaller firms' was launched by the Board of Trade in June 1968. The Board of Trade offered to pay half of the consultants' fees up to a maximum of £5,000. More than 200 firms participated in the scheme and over two-thirds of them evaluated the outcome as positive in a subsequent questionnaire survey.[47] Despite this apparent success, it took almost two decades before these schemes were repeated on a much larger scale.

In 1988, the Department of Trade and Industry (DTI) launched the 'Enterprise Initiative', which provided financial support for the provision of management consulting services to raise the competitive ability of small businesses.[48] It was also felt that small firms' lack of experience of working with consultants militated against their use of this form of external help.[49] The Enterprise Initiative was part of DTI's 'new' industrial policy, which sought to reverse Britain's economic decline by stimulating a more efficient and productive market. This was to be achieved by emphasising the importance of management, education and technological innovations. Between 1988 and 1995, the DTI received over 138,000 applications from small businesses seeking financial assistance for the use of management consulting expertise. During this time, the government spent more than £300 million on the Enterprise Initiative.[50] Under the Initiative, which was later renamed the 'Consultancy Scheme', the DTI would pay up to £5 million a year for consultancy assignments carried out in the participating SMEs. This is why some argued in 1988 that 'management consultancy services have recently been given a considerable shot in the arm through the launch of the Enterprise Initiative to provide financial assistance for firms with a payroll of fewer than 500 to use the services of consultants in various areas.'[51]

V

The British government encouraged the use of consultants in private industry and also in its own sphere. But even if it became increasingly important during the 1980s, the government's use of consultants is not at all a new phenomenon. In Britain, among the earliest public sector users of consultancy services were local authorities and local or regional development offices. Already, in its *Annual Report* for 1966, the MCA had recognised the potential of work for the different levels of government. At the time, it estimated that at most five per cent of the MCA revenues were derived from work for central government. It also recognised that the potential was even higher in local government, which had over two million staff on its payroll – as compared to one million for the civil service. At the beginning of 1971, the MCA asked its member firms about their experience in local government work following a request from an Irish government department looking to hire a consulting firm.

The responses indicate that many of the major consultancies in the UK had considerable experience in this area. The P-E Consulting Group, for example, provided a detailed client list, which showed that it had carried out close to 90 assignments for local councils, especially during the second half of the 1960s. As stated in their covering letter, 'a large proportion of our work has inevitably been concerned with the productivity of manual workers' – i.e. similar to their work in the private sector.[52] PA Management Consultants, one of the largest British consultancies at the time, claimed to have worked 'for about 220 Local Authorities' in the UK 'in most areas of management' with the aim of 'making management easier and securing the better utilisation of resources of manpower, materials and money.'[53] Urwick Orr had carried out 150 assignments for over 70 local authorities during the 1960s.[54] The consulting arm of the accountancy firm Peat, Marwick, Mitchell & Co. had also worked for councils as well as the Post Office, namely on (computer-based) costing and accounting procedures.[55] Local government work carried out by another consultancy comprised reviews of information and information technology requirements, the organisation of planning and control activities or the development of job descriptions and incentive pay structures.[56]

Another frequent type of assignments were so-called 'economic studies', concerning mainly feasibility or cost-and-benefit studies for public investment programmes or industry-wide surveys. This type of assignment apparently received a boost with the formation of the National Economic Development Office (NEDO) in 1962, which commissioned a large number of industry-level studies.[57] Many of these dealt with declining industries and had considerable impact on their future development. Thus, for example, the Heath government commissioned a major inquiry into the competitive position of the shipbuilding industry from Booz-Allen & Hamilton.[58] Similar inquiries were carried out by Peat, Marwick, Mitchell & Co. on overseas orders by British shipowners (1961), the International Management and Engineering Group on the potential benefits to British industry of offshore oil and gas, and by PA Management Consultants on the British ship-repairing industry (1974).[59]

One of the most influential studies was the one commissioned in the mid-1970s by then Industry Minister Tony Benn on the British motorcycle industry. It was carried out by the Boston Consultancy Group. On the basis of its report entitled *Strategy Alternatives for the British Motor Cycle Industry* (London, 1975), the Wilson government decided not continue its subsidies for the industry, thus causing its final collapse. Many other consulting firms had a hand in this story, including McKinsey & Company, PA Management Consultants and Coopers & Lybrand, which all at one stage advised the industry leader BSA and were subsequently blamed for its downfall by some of those involved at the time – a claim difficult to prove or disprove, as with any consultancy intervention.[60]

Another government body which commissioned a significant number of studies from management consultants in the late 1960s was the National Board for Prices and Incomes (NBPI), complementing the work undertaken for the various sub-groups of the NEDO. The NBPI investigated proposals for wage and price increases and was drawn into the appraisal of management efficiency. This tended to concentrate at first on the management of labour but there were always studies of wider managerial efficiency and they became more numerous. At first, the NBPI relied on commercial management consultants but for a variety of reasons found limitations with this *modus operandi* and, while continuing to use commercial consultants, also created its own internal expertise, starting in 1968 but expanding considerably in the following year.[61]

The British consultancies made considerable efforts to tap into this potentially important market of work for government departments and institutions. They established specialist divisions and quite often recruited former civil servants to benefit from their government contacts. In March 1978, for example, Coopers & Lybrand formed an Economics and Public Policy Division and recruited Christopher Foster to head it. At the time, Foster was a professor at the London School of Economics, but had previously been a Director-General of Economic Planning at the Ministry of Transport and continued to advise government after entering academia. The MCA also recognised that these types of assignments provided significant opportunities to extend the scope of consultancy work. However, at least at that time, work for these kinds of clients was also fraught with considerable difficulties.

The minutes of a 'Mutual Interest Group Meeting on Work for Government, NEDO and the Nationalised Industries', held on 10 May 1977, highlight some of these difficulties.[62] Government departments were usually examined by an internal body, the Civil Service Department (CSD). This meant 'that there was little work to come from this source'. The same was true for the state-owned enterprises, some of which, namely the railways, had established their own consultancy services. The interest group members highlighted, however, that due to their specialised expertise these 'could not take the broader view of a professional consultant' and that therefore 'the services provided by MCA member firms were complementary to those of the consulting wings of the Nationalised Industries.' They agreed to produce a paper supporting this argument.

Other problems concerned the detailed operations of the relationship, for example the fact that NEDO usually refused to let the consultants conduct a 'preliminary study' or often changed the 'scope of a job during the assignment' or its time scale – but without additional payment. Most of these problems apparently did not have any solution, since, according to its Industrial Director, they 'were inherent in the NEDO system'. These difficulties and, even more so, the creation of internal consultancy department appear to have put a certain limit on the work for different types of government during the 1970s. And, after all, there were only so many declining industries to study.

As seen, many of the high profile assignments with public institutions and large government-owned companies from the 1960s onwards were carried out by the US consulting firms. Their work did not go unnoticed, and politicians were already being criticised for this at the time. Thus, in an article entitled 'McKinsey's Disease', the *Guardian* of 25 January 1977 reported on the work of the consulting firm for the NHS, highlighting 'the danger of politicians believing that management consultants know best.'[63] While prepared to defend McKinsey on this occasion, the MCA and the firms it represented had not always been very favourably disposed towards their competitors from the US. When the British Nuclear Energy Council (BNEC) retained McKinsey for an enquiry into its activities in May 1967, there was some discussion within the MCA about 'the possibility of representations being made in the right Government quarters to the effect that British firms should be allowed to quote on all proposed management consulting work which is to be paid for by British taxpayers' money and that overseas firms should only be chosen for such assignments if there is no suitably qualified British firm of consultants available.'[64] Apparently, they even brought the appointment of McKinsey by the Bank of England in the following year before Parliament.[65] Despite the high profile of these activities during the 1960s and 1970s, consulting to the government experienced a significant take-off only during the 1980s, as can be seen from Table 1.

The table clearly shows a significant increase in public sector spending for consultancy services during the 1980s, with a high point reached in 1990 both in absolute and relative terms. Public sector outlays remained high until 1995, when they saw a significant decline returning to the relative share held at the beginning of the 1980s. The absolute numbers are probably an understatement of the actual demand from the public sector, since neither the US strategy firms like McKinsey nor the myriads of small and individual consultancies are members of the MCA. Much of the increased public sector demand came from central government – at least in absolute terms.

The increase is also confirmed by more qualitative information. For example, in its application for MCA membership in 1983, Arthur Young McClelland Moores & Co. Management Consultants highlighted that 'work for government departments, development agencies and nationalised industries has formed an increasingly important part of the practice in recent years.'[66] And another consultancy noted in a brochure for its sixtieth anniversary in 1986 that the extent of public sector work usually 'reflected the complexion of the party in office: rising under Labour, falling when the Conservatives are in power. However, government's current commitment to privatisation, deregulation, efficiency studies, value-for-money and competitive tendering has led to a considerable increase in our public sector work in recent years.'[67]

This phenomenon was not limited to Britain. From the mid-1980s onwards, public officials in many countries significantly increased their use of management consulting services in trying to make the administration of government more 'business-like' as a way to increase efficiency and cost-effectiveness. As one European public official explains, management consultants entered 'public administration in a major way in the

TABLE 1
BREAKDOWN OF ANNUAL UK INCOME OF MCA MEMBER FIRMS, 1975–96
(in constant 1974 £million)

	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996
Overall Total	14.80	18.0	41.5	605.5	590.6	544.1	574.3	635.8	691.1	769.3
Private Sector	14.56	15.5	31.4	418.1	422.6	399.5	414.8	451.0	572.0	667.2
Public Sector	0.24	2.5	10.1	187.4	168.0	144.6	159.5	184.8	119.1	102.1
% of Total	***1.6***	***13.9***	***24.3***	***30.9***	***28.4***	***26.6***	***27.8***	***29.0***	***18.7***	***13.3***
of which:										
Central Government	0.16	1.2	5.2	77.4	73.9	64.2	71.7	85.0	66.2	58.2
% of Total Public	***66.6***	***48.0***	***51.5***	***41.3***	***44.0***	***44.4***	***45.0***	***46.0***	***55.6***	***57.0***
Nationalised Industries	0.0	0.41	1.7	44.7	13.8	7.8	6.9	21.0	7.2	6.4
Other Public Bodies	0.0	0.82	0.0	32.7	21.9	15.6	14.6	22.5	13.0	15.6
Local Government	0.08	0.12	3.2	18.0	37.3	18.0	15.4	24.0	14.5	9.9
Health Service	0.0	0.0	0.0	14.6	21.1	39.0	50.9	32.3	18.2	12.0

Sources: MCA Annual Reports 1997 and UK National Statistics, http://www.statistics.gov.uk/downloads/theme_economy/RP02.pdf; authors' own calculations.

1980s. Criticism had mounted against the bureaucracy on several fronts: its working methods, the qualifications of its employees, and its efficiency and rationality. Free and independent consultants were expected to show their worth, drawing from their experience and qualifications from the private sector to improve on the government bureaucracy.'[68]

Britain clearly played a pioneering role in this respect. This becomes obvious, when looking at the share of turnover of the members of the European Federation of Consultancies Associations (FEACO) in the public sector as a whole. In 1986, this was 28 per cent in the UK compared to only 10 per cent in Germany and France.[69] In Britain, the decision to rely on private consultancies was also driven by perceived inadequacies of the government's internal consultancy services, the above-mentioned Civil Service Department and the Treasury's Organisation and Methods branch. Thus, the big rise in consultants' work for the bureaucracy after 1980 is in part a replacement of public by private sector suppliers.

The attempts at making government more 'business-like' became a top government priority following the election of Margaret Thatcher. In 1979, Thatcher appointed Derek Rayner, the Chief Executive of Marks & Spencer, to advise her on ways of improving efficiency and eliminating waste in central government. Rayner was given *carte blanche* to bring the market disciplines, cost-consciousness and, most important, management techniques of the private sector to government. To do so, Rayner was supported by a small unit known as the 'Efficiency Unit,' based in the Prime Minister's Office. The Efficiency Unit had a small staff of career civil servants and management consultants.[70]

One of the most important reform policies that came out of the Unit's work was the Financial Management Initiative (FMI), which sought to decentralise decision-making to line departments and give managers responsibility for their own budgets.[71] To lead the FMI, the government created the Financial Management Unit (FMU) – a small organisation like the Efficiency Unit, located in the Cabinet Office. The FMU was created to provide the 'access to expert advice' that the FMI promised to give to managers, and this expertise largely came from management consultants who formed the majority of those recruited to work in the FMU. The FMU consisted of six civil servants and eight consultants, all from MCA member firms: Arthur Andersen, Coopers & Lybrand, Peat Marwick and Hay-MSL.[72] With the implementation of the FMI, 'the Management Consultancies Association (MCA) moved swiftly to consolidate its position by developing its network of contacts within the civil service.'[73]

In 1988, the government launched the Next Steps initiative, which sought to cut bureaucratic regulation as a way for 'improving quality of service to the customer.'[74] The Next Steps mobilised management consulting knowledge to help unleash the entrepreneurial spirit of the civil service. A Treasury guide on *Seeking Help from Management Consultants* was issued for those concerned 'with the use of consultants for such subjects as ... the development of information systems and the setting up of Next Steps agencies.'[75] Throughout the Thatcher–Major era, the British government not only encouraged the use of management consultants in private industry, but also in its own sphere.[76] Greater efficiency was the key motive at work. The government basically applied to the public sector the same logic that it promoted in private industry, and during the 1980s policy-makers increased their use of management consultants in their attempts at making the administration of the state more 'business-like.' Articles appearing in various issues of *Management Consultancy* noted that 'public sector consultancy is big business,'[77] and that government has become 'the most important source of fee income to the consultancies.'[78] In the late 1980s, public sector consultancy grew faster than private sector business and by 1995 was providing around 25 per cent of the total fee income of the largest consulting firms.[79]

The evidence regarding the government's use of consultancies under New Labour is mixed. Following the 1997 election, the total revenues of MCA member firms from the public sector began to decrease, falling from £217 million in 1997 to £146 million in 1998. In its *Annual Report* for 1998 the MCA's Executive Director stated the following (p.3):

> The dramatic rise in Public Sector revenues of 1997 was not repeated this year . . . It is interesting to note that in 1991 over 30% of UK revenues for MCA members came from the public sector. By 1998 that figure has fallen to just 9%. I believe it is important that Government should be continuously exposed and joined in the latest management thinking and methods. It would be a matter of concern if this real decline in government spending year on year was caused by a pursuit of price at the expense of quality, or a lack of general understanding of the contribution made by MCA members to the national economy.

Apparently, things have changed in subsequent years and New Labour, like its Tory predecessor, has now become a more enthusiastic consumer of consulting services. In December 2002, the government, in conjunction with the MCA and the Institute of Management Consultancy, published a joint statement of best practice, providing guidelines to management consultants on how to deliver better, more efficient consultancy services to government. Entitled *Delivering World-class Consultancy Services to the Public Sector*, the document recognised that over the past years 'the public sector has become a major purchaser of management consultancy services.'[80]

What this suggests is that even if government has become more dependent or 'addicted' to consulting services over the years, this seems to be a case of what we could term 'controlled addiction.' The 2002 guidelines not only provide a statement of best practices with which the industry has agreed to comply. They also represent a 'soft' form of regulation through which government officials are seeking to have some control over the ways consulting firms provide services to the public sector. Government may indeed have become more dependent on the consulting industry for delivering public services, but at the same time, the industry is facing a more experienced and demanding client, that might have become less easy to manipulate than in the past.

VI

This overview has shown that concerns about a possible dependency of clients on consultancy services raised in the recent literature might be exaggerated. We found no indication that any of the actors involved ever mentioned a possible dependency or even 'addiction'. What were obvious, from the late 1940s onwards, were concerns about the quality of consultancy services. In the 1950s and 1960s, these were addressed largely through the self-regulation of the industry – albeit prompted by the creation of a public consultancy Register by the British Institute of Management in early 1956. The latter remained a thorn in the side of the Management Consultancies Association, which the largest British service providers formed, partially as a response to the government initiative, in 1956. It exercised quality control largely through a fairly strict admissions process – and on more than one occasion sacrificed a larger membership for the maintenance of tough quality standards.

From 1962, the MCA shared this task with the Institute of Management Consultants, which certified individual consultancy practitioners rather than firms as a whole. This was also a reflection of the growing number of small consultancies or individual practitioners (often trained as accountants) that had no home in the MCA. This is a period when a growing number of small and medium-sized firms became clients of the consultancies. Once again, the government chose to intervene in a soft way, rather than regulating the market directly. It developed programmes to sponsor the consultancy use by SMEs through the provision of partial funding, this way indirectly controlling the choice of the provider and the quality of services.

From the 1960s onwards, the government itself relied increasingly on consultancy services. Initially these were confined to local government and industry studies commissioned by the National Economic Development Office (NEDO) and its sub-units. These concerned mainly declining industries, where the government was looking for possible ways out of the crisis and – maybe – also for a justification to cut a never-ending stream of subsidies, as we have seen in the case of the motorcycle industry. This obviously led to bitter complaints about the consultants among those directly concerned. Central government itself became the target of efforts to improve efficiency from the 1980s onwards, partly as a result of a belief that private sector consultants would be able to make government more 'business-like,' partly because of a growing disaffection with the government's internal consultancy services. Now the government itself had to learn how to use consultants effectively. This, once again, was largely done in a 'soft' way – through the development of guidelines for 'best practices' in conjunction with industry representatives.

Overall, therefore, one can say that quality assurance and the prevention of abuses was a concern for the British government – especially during periods of rapid growth of consultancy services and their expansion to new sectors (SMEs and central government). To deal with these concerns, the government and the consulting industry seem to have relied largely on self-regulation and market transparency as a way to influence the behaviour of consultants and their clients. This provided a 'soft' kind of consumer protection, and also a certain incentive for consultants to sell good quality services.

NOTES

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3 J. Micklethwait and A. Wooldridge, *The Witch Doctors. What the Management Gurus are Saying, Why it Matters and How to Make Sense of It* (London, 1996); J. O'Shea and C. Madigan, *Dangerous Company: The Consulting Powerhouses and the Businesses they Save and Ruin* (London, 1997); M. Ashford, *Con Tricks: The World of Management Consultancy and How to Make it Work for You* (London, 1998); L. Pinault, *Consulting Demons: Inside the Unscrupulous World of Global Corporate Consulting* (New York, 2000).

4 H. Higdon, *The Business Healers* (New York, 1969); A. Huczynski, *Management Gurus: What Makes Them and How to Become One* (London, 1993).

5 Ashford, *Con Tricks*, p.19.

6 A. Kieser, 'Managers as Marionettes? Using Fashion Theories to Explain the Success of Consultancies', in Kipping and Engwall (eds), *Management Consulting*, pp.167–183, here p.176.

7 The advantages of long-term relationships for both clients and consultants are discussed in more detail by C. Amorim and M. Kipping, 'Selling Consultancy Services: The Portuguese Case in Historical and Comparative Perspective', *Business and Economic History*, Vol.28 No.1 (Fall 1999), pp.45–56.

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11 M.D. Reagan, *Regulation: The Politics of Policy* (Boston, 1987).

12 K.J. Meier, *Regulation: Politics, Bureaucracy and Economics* (New York, 1985).

13 See, for example, J. Braithwaite and P. Drahos, *Global Business Regulation* (Cambridge, 2000).

14 Cf. the contribution of David Courtwright in this volume.

15 For the early origins of this type of consulting activity in Britain, for example, see M. Ferguson, *The Rise of Management Consulting in Britain* (Aldershot, 2002); for a broader overview, see M. Kipping, 'Trapped in their Wave: The Evolution of Management Consultancies', in Clark and Fincham (eds), *Critical Consulting*, pp.28–49.

16 See, for more details, M. Kipping, 'American Management Consulting Companies in Western Europe, 1920 to 1990: Products, Reputation and Relationships', *Business History Review*, Vol.73 No.2 (Summer 1999), pp.190–220.

17 See, for details, P. Tisdall, *Agents of Change: The Development and Practice of Management Consultancy* (London, 1982), esp. pp.24–30 and 55–60; Ferguson, *The Rise*, chapters 3 and 4; and, in a comparative perspective, M. Kipping, 'Consultancies, Institutions and the Diffusion of Taylorism in Britain, Germany and France, 1920s to 1950s', *Business History*, Vol.39 No.4 (Oct. 1997), pp.67–83.

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21 Cf. Ferguson, *The Rise*, pp.102–3.

22 On Butten and PA see ibid., pp.113–16; Tisdall, *Agents of Change*, pp.52–5.

23 Before being sent to Abadan, Hurry was brought 'up to date regarding recent developments in practice with workshop organisation and engineering maintenance' within a two-week period; see the exchange of letters between the Managing Director of AIC, Norman Pleming, and various AIOC managers in July and Aug. 1944; BP Archives, Warwick, 41506.

24 L. Urwick, 'Letter to an MBA', published in October 1969, quoted by Tisdall, *Agents of Change*, p.58.

25 Management Consultants Association (MCA), *Annual Report*, 1961; to be found in the MCA archives, London, Box 22.
26 Its transcript is published under the title 'Management Consultants – An Assessment', *The Manager*, Vol.21 No.10 (Oct. 1953), pp.603–13 and 622–3, quotation p.603.
27 See N. Tiratsoo, 'High Hopes Frustrated: The British Institute of Management as an Agent of Change, 1947–1963', in F. Amatori, A. Colli and N. Crepas (eds.), *Deindustrialization and Reindustrialization in 20th-Century Europe* (Milan, 1999), pp.143–54.
28 Tisdall, *Agents of Change*, pp.38–9, based largely on information from the BIM's annual report; cf. also Ferguson, *The Rise*, p.125.
29 For details of the vetting procedure and the Register's operations see 'Role of the Business Consultant', *The Statist*, 28 June 1952, pp.932–3.
30 Tisdall, *Agents of Change*, p.9; see also Brian O'Rorke, 'The Management Consultancies Association – "A Way Ahead"', undated, sent in a letter dated 27 Nov. 1985 to the then MCA Chairman Len Brooks, MCA archives, Box 2. O'Rorke was the MCA's Executive Director at the time.
31 See the minutes of the MCA's General Policy Committee meeting on 12 Nov. 1963, MCA archives, Box 15.
32 Tisdall, *Agent of Change*, chapter 6; Ferguson, *The Rise*, pp.125–6.
33 See a letter of 16 Nov. 1977 from the MCA Executive Director to Deloitte Haskins & Sells Management Consultants, which suggests that the MCA had received at least 148 enquiries so far that year; MCA archives, Box 4; thank-you letters can be found in various boxes of the MCA archives.
34 See the MCA archives, Box 1, which contains, among others, the dossiers for Mead Carney (admitted in 1964), Binder, Hamlyn, Fry (1966), Arthur Andersen (1969) and Arthur Young (1983).
35 Minutes of the Membership Committee Meeting on 26 Sept. 1967, MCA archives, Box 1.
36 See a note about 'Membership of M.C.A. with a list of Possible New Members', March 1963, MCA archives, Box 15.
37 According to the data provided to the MCA for the admissions process, in most cases, this happened during the 1950s. For more detail on the case of Price Waterhouse, see E. Jones, *True and Fair: A History of Price Waterhouse* (London, 1995).
38 See Tisdall, *Agents of Change*, pp.80–83. Cf. also E.B. Mellett, *From Stopwatch to Strategy: A History of the First Twenty-Five Years of the Canadian Association of Management Consultants* (Toronto, 1988), p.7.
39 See for the IMC's activities Tisdall, *Agents of Change*, pp.83–94 and 107–8; K. Hook, 'The Institute and the Profession', in *Management Consultants: IMC 1995 Career Guide* (London, 1994), pp.22–5.
40 R. Cowton, 'Leading Firm Quits Management Group', *The Times*, 25 March 1975, p.25; MCA archives, Box 3.
41 Brian Smith, quoted in ibid. See also his letter to the MCA Chairman, dated 20 March 1975, MCA archives, Box 3. The MCA remained firm, however. About ten years later, PA eventually decided to return to the fold.
42 C.D. McKenna, 'The Origins of Modern Management Consulting', *Business and Economic History*, Vol.24 No.1 (1995), pp.51–8 and idem., 'The World's Newest Profession: Management Consulting in the Twentieth Century' (unpublished Ph.D. dissertation, The Johns Hopkins University, Baltimore, MD, 2000).
43 Cf. Kipping, 'American Management Consulting Companies'.
44 Tisdall, *Agents of Change*, pp.39–40.
45 'Management Consultants – An Assessment', p.604.
46 Cf. Kipping, 'Consultancies, Institutions'.
47 Department of Industry, *Consultancy and the Smaller Firm*, by C.D. Jones (London, 1974).
48 See B. Atkinson and C. Lupton, 'Towards an Enterprise Culture? Industrial and Training Policy under the Conservatives', in S.P. Savage and L. Robins (eds), *Public Policy and Thatcher* (London, 1990), pp.45–59.
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50 OECD, *Best Practices for Small and Medium-Sized Enterprise* (Paris, 1995), p.145.
51 T. Burt, 'Management Consultancy: A Special Report', *Accountancy* (Aug. 1988), pp.94–100, quotation p.99.
52 Letter from P-E to the MCA with attached client list, dated 13 Jan. 1971, MCA archives, Box 4.
53 Letter from a PA Director to the MCA, dated 15 Jan. 1971, MCA archives, Box 3.
54 Letter to the MCA of 15 Jan. 1971, MCA archives, Box 4.
55 Letter to the MCA of 14 Jan. 1971, MCA archives, Box 4.
56 These examples are from list of assignments produced by Cooper Brothers, later Coopers & Lybrand, in Jan. 1971, Dec. 1972 and Nov. 1976, all of which can be found in the MCA archives, Box 1.
57 Cf. A. Ringe and N. Rollings, 'Responding to Relative Decline: The Creation of the National Economic Development Council', *Economic History Review*, Vol.LIII (2000), pp.331–53.
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60 See, for details, B. Ryerson, *The Giants of Small Heath: The History of BSA* (Yeovil, 1980); B. Hopwood, *Whatever Happened to the British Motor Cycle Industry?* (Yeovil, 1981) and, in general, B.M.D. Smith, 'The History of the British Motorcycle Industry 1945–1975', University of Birmingham, Centre for Urban and Regional Studies, Occasional Paper No. 3 (New series), Oct. 1981. We would like to thank Steve Koerner for drawing our attention to this story and providing us with a number of relevant references.

61 See A. Fels, *The British Prices and Incomes Board* (Cambridge, 1972), chapter 11, which stresses that the NBPI's claim for lasting significance lay less in its efforts to moderate inflationary pressures than its efforts to improve efficiency, especially managerial efficiency.

62 They summarised the results of various lunch meetings the Chairman of the interest group had held with representatives of the CSD and of NEDO, MCA archives, Box 1.

63 According to an undated draft letter from the MCA's Executive Director to the Editor of the *Guardian*, which was however never sent, MCA archives Box 4.

64 Letter from C.W. Bocock to Anne Shaw, the MCA Chairperson at the time, of 11 May 1967, MCA archives, Box 4.

65 Tisdall, *Agents of Change*, pp.73–5.

66 See its response to 'MCA Information Requested in Support of Application for Membership', dated 10 Aug. 1983, MCA archives, Box 1.

67 *Inbucon 1926–1986*, MCA archives, Box 2. The former Bedaux Consultancy had changed its name to AIC in 1938 and to Inbucon in 1972.

68 O. Blymke, 'Government Agency and Consultancy', in H. Von Weltzein Hoivik and A. Follesdal (eds.), *Ethics and Consultancy: European Perspectives* (Dordrecht, 1995), pp.128–35.

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80 Office of Government Commerce, Management Consultancies Association and the Institute of Management Consultancy, *Delivering World-class Consultancy Services to the Public Sector* (London, 2002), p.2.