

Profession is through worst of times



Puzzling it out: the recession has taught consultants the importance of focusing on problem-solving for clients

dreamstime

Stefan Stern looks back on a difficult year and assesses hopes for a recovery in fortunes

Marvin Bower, the father of modern management consulting, had clear expectations of how colleagues at his firm McKinsey & Co should behave. Mirroring the professionalism of other partnerships such as legal firms, his consultants were to be smartly but soberly attired, producing immaculate, authoritative reports for clients. Personal enrichment was never on the agenda. (Indeed, Bower turned down the chance to cash in on his shareholding in the business by selling it back to the partnership at book value rather than for what it was truly worth.) So how would Bower have reacted to the sight of Anil Kumar, a McKinsey director, being arrested and charged in association with the FBI's insider trading investigation into the Galleon hedge fund last month? Probably in the same way that Mr Kumar's current colleagues did – with shock and disbelief. “Nothing like this has ever taken place in 83 years of the business,” says someone who knows the company well. “That goes for the firm's major competitors Bain & Boston Consulting Group too. It is unheard of.” McKinsey has launched an internal inquiry into this affair (no one has been convicted of anything, it should be stressed), while other consultancies, suppressing any momentary schadenfreude, have been forced to take a good look at themselves. This risks being an unwelcome distraction from

the business of providing advice to clients.

That would be unfortunate. Because as we head towards the end of 2009, that is precisely what many consulting firms are increasingly busy doing. There was no way that a service provider industry such as consultancy was going to be able to avoid the consequences of the global recession. The great majority of consulting projects fall under the heading of “discretionary spending”, and in a grim economy discretion has been the better part of valour.

Clients' attitudes and behaviour, at least in the first half of 2008, have been described by their potential advisers in a number of similar ways – “rabbits in the headlights”, “keeping their heads down”, or “distracted and simply trying to survive”.

PA Consulting Group, the large London-based firm, has gone a step further, describing the current market as a “zombie economy”: banks, governments, companies and consumers have all had a near-death experience, and are still struggling to come to terms with the aftermath.

“We use the term ‘zombie’

because these individuals and institutions do not cease to exist, but they do become unable to perform the function we expect of them in supporting growth of the economy,” writes Mark Thomas, head of PA's strategy and marketing practice, in his new book on the subject. “Zombie banks cannot lend as we need; zombie consumers cannot consume as we need, and so on.”

The upheaval in markets means that some business fundamentals are being challenged

A zombie client base will not be able to ask for much help. But while we are clearly not yet through the period of crisis, and the early signs of economic recovery remain pretty feeble, nonetheless something almost like optimism is beginning to emerge in some consulting firms.

“We have experienced the worst and are already seeing clients migrate back from pure cost-cutting initiatives to strategy projects,”

says Michael Traem, chief executive of Arthur D Little. “After a period of near silence from the big London private equity players, the phones are ringing again and private equity is talking seriously about new investments for the first time since we entered the recession.”

Along with other consultancy bosses, Mr Traem suggests that tougher economic times have helped to bring about a healthy rethink in his profession. “If anything, the downturn has taught us that as consultants, our business is to help clients solve problems, not to complete a project and present a report back to the board.”

That sentiment was echoed at two well-attended meetings the Financial Times hosted this autumn, one in London and the other in New York, where professionals from consulting firms spoke freely about the difficulties and opportunities they face.

For one thing, the radical upheaval in markets means that some business fundamentals are being challenged. Attitudes and approaches to risk have to be questioned in a world where so many organisations, particularly in financial services, left themselves badly exposed. This new risk environment may not prove all that helpful to consultancies if clients become resistant to the idea of undertaking too many ambitious projects. On the other hand, those consulting firms that can convince clients that they have an insightful understanding of risk may prosper.

Other big questions were asked around the table in both cities. Is it the case that “the traditional way of governing a company no longer exists, because the

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Business of Consulting

Daily rates fail to match fall in demand

BUYERS' MARKET
Richard Brass
looks at prices, procurement and performance

Consultancy today is a buyers' market. The boom days of more demand than the industry could satisfy and consultancies practically choosing their clients seem a long way off, and firms are facing a much tougher world.

"It's an immensely difficult market," says Fiona Czerniawska, author of a series of books on the industry and founder and managing director of consulting industry research firm Arkimeda. "Recently an invitation to tender for a particular project was issued and more than 100 responded."

"In 2007 most firms had excess demand of about 10 per cent in consulting, varying from firm to firm and sector to sector. Now our estimate is that there's about 10 per cent overcapacity across the industry."

It has been a dramatic slide for an industry that only a couple of years ago could count on a regular stream of executives knocking on its door to find the secrets of success. But while in most markets such a severe slump in demand

would cause a commensurate fall in prices, in consultancy, apart from dips in specific areas, rates across the board have, so far, remained curiously stable.

"If I look year-on-year, I'm actually seeing pricing up on last year," says Ashley Unwin, head of consulting at PwC. "Our pricing for our first quarter – to the end of September – versus the whole of last year is up something like 3 per cent."

That, says Ms Czerniawska, is largely due to increased astuteness among clients that pre-dates the current downturn. "Going back 10 years to the dotcom boom, rates were unsustainably high. In 2002-03 they fell by about 15 per cent, and they haven't significantly recovered since."

"In the boom period between 2004 and 2008 there wasn't a huge hike in rates, because there's been a growing trend among clients to be much clearer about what value they get and what they're paying for."

"The cutback in consultancy spend really just accelerated an ongoing process that would continue irrespective of the economic situation," says Colm Reilly, head of government practice at PA Consulting Group. "Buyers are getting much more knowledgeable about how to buy, what to buy and how to trigger suc-

cess in the buying process."

But while consultants in general may so far have been spared a direct drop in rates in line with the overall fall in demand, the recession has brought pressure from clients on other fronts, most significantly in a growing preference for performance-related pay structures.

Performance-related pay is currently used in only a small proportion of consultancy services, but many consultants report that clients have been voicing a preference for moving more

'Clients are getting much more knowledgeable about how, and what, to buy'

work in that direction, with some saying they want to see half of their consulting work paid for on that basis.

This drive is in part connected to a quest among clients for greater clarity in pricing. The wide range of services and the variety of different types and sizes of firm, with junior consultants on fee rates from £400 a day and senior figures costing up to £3,000 a day and an ever-changing mix of different personnel's time on each project, can make

consultancy a bewildering landscape for a client on a budget, and the performance-related option, or risk-reward, can appear the clearest route through it.

Consultants are, however, reluctant. A key problem, some say, is that not all projects, among them areas such as change management and human resources, are easily measured by results and therefore do not lend themselves to this kind of payment. Another is that the usual current motivation for going down the risk-reward road misses the point.

"I would say that in one in every three major bids we're going through now, risk-reward comes on to the table," says Mr Unwin at PwC. "It was coming up in conversations two or three years ago, but it was more of a tactic in the negotiation, as opposed to something that they really wanted to do."

"To me there's a contradiction, because risk-reward is not designed to save money. It's designed to maximise output for input. If their motive is to save money, there are far better ways of doing that."

The pressure for risk-reward as a cost-saver is identified by many consultants as just one instance of the growing influence of procurement departments, a trend widely regarded as

erecting a barrier between consultants and clients.

"The genuine expertise, innovation and creativity that once attracted the best and brightest graduates to careers in consultancy are fading at the hands of procurement-driven purchasing behaviour," says Mark Mulcahey, managing director of Arthur D Little UK.

"Procurement's short-term return on investment cycle encourages consultants to deliver incremental but measurable changes to clients, which are likely to spiral into further project work for the consultants, which will in turn result in similar incremental change. This self-fulfilling cycle risks permanently driving innovation and genuine problem-solving out of the industry."

According to Raju Patel, chief executive of specialist strategy consultancy Fulcrum, the root of the problem is that an understanding of consultancy is far from universal among procurement departments.

"There are some procurement managers working at some of the world's largest companies who have very little understanding of what consultancy is and how it gets delivered," he says. "Those that are fixated on price alone can do damage to some of the most valuable relationships between clients and consultants."



Unwin: pricing is up compared with last year

"The best procurement people recognise that clients and consultants are part of a value chain and if the whole value chain can be made to perform better, then significant competitive advantage could be achieved by the client

which goes beyond the traditional metrics of cost savings alone.

"This means taking a more intelligent and balanced approach on working with consultants, who after all are not gods but humans like everyone else."

Firms survive worst of times

Continued from Page 1

traditional business model no longer exists", as one attendee in New York put it? Is strategy dead? (The view of some corporate clients now, apparently, is that life is all about execution, that is to say, "doing stuff".)

The role of government was also raised as a newly-significant factor. Even as public spending looks set to be cut aggressively all around the world in the wake of the massive state spending to prop up the banks, government itself is a big presence: as both a regulator and (temporary) owner of assets. In the US, healthcare industries wait to see what new model the Obama administration finally gets to introduce. This development alone will have big implications for the consulting firms that advise in this industry. But it is not only the health sector that is affected by the return of activist government. As General Electric's Jeff Immelt has put it: "The government has moved in next door and it is not going away any time soon."

Procurement remains a provocative issue for consultancies. The influence and impact of corporate purchasers continues to grow (see Buyers' Market feature on this page). "They have certainly grabbed their moment," as one consultancy boss says drily.

Procurement teams will maintain the downward pressure on fees for the foreseeable future. "The downturn has created a shift in buyers' values," says Mark Foster, group chief executive for management consulting and integrated markets at Accenture. "There is more focus on value, outcomes and shared risk and rewards."

Consulting firms will have to show greater imagination to win new business

PA's chief executive Alan Middleton agrees. "There is a lot of pressure under the headings of price and value," he says. "Frankly, I think some firms may be buying business right now [selling at a loss]."

According to data from Plunkett Research, the global spend on consultancy services (including HR, IT, strategy, operations management and business advisory services) in 2008 was \$330bn. Given the very slow start to business in the first half of this year, it seems unlikely that the 2009 figure will come very close to matching that.

But this market is changing, and recovering. There will be opportunities to do better in 2010. Consulting firms will have to show greater imagination to win new business, as well as convincingly showing that proposed work will produce tangible improvements while representing value for money.

In this downturn, consultancies have displayed some flexibility, redeploying staff, offering extended leave of absence or reduced hours of working to avoid the excessive reductions in headcount – and later regretted – in the wake of the "new economy" crash of 2001-2.

Working on secondment with another employer or doing pro bono work has been another alternative option. But some firms were already aware of the advantages of this kind of work, having committed to working pro bono even in the good times. One such consultancy is the London-based firm Eden McCallum.

Ditlev Schwanenflugel, a consultant with Eden McCallum, says that he has worked on almost 50 commercial projects in his career, and five charity projects. The charity projects are all in his top six as far as satisfaction and learning are concerned. "One of the people I was working with [at a charity] sincerely thanked God for sending me," he says. "I can tell you that was very humbling... and has never happened in the commercial world."



Rough weather: the forced restructuring of the banking industry has created a lot of demand for consultants' services

Bloomberg News

Help needed as banks leave bunker

FINANCIAL SERVICES

Rod Newing finds the new competitive landscape is creating work for consultants

All eyes in the consulting industry are fixed on financial services sector, which acts as bellwether for the whole industry. The banks took the world into recession, but 18 months after the demise of Bear Stearns, the US investment bank, they are leading the consulting industry out of the recession.

The latest Quarterly Trends in Consultancy Buying report, from sourceforconsulting.com, which researches the consulting industry, found that while overall consultancy spend decreased by more than 25 per cent in the last six months, 27 per cent of financial services companies interviewed spent more, some by more than 50 per cent.

"It was investment banks and capital markets that first pulled in their horns, then the retail banks," says Fiona Czerniawska, the site's co-founder. "Because they were first in, they are also first out of the recession, which is the same pattern we saw in 1997 and 2002. Two years further on they have got their houses in order and their profits are starting to pick up. They have moved out of their 'bunker' mentality to look at what they have to do in the new competitive landscape."

The forced restructuring of the banking industry has created a lot of consultancy work. Some banks are dealing with mergers, some are preparing to divest

non-core business and new banks are emerging from outside the industry, such as Tesco and Virgin Money.

"There were a number of forced marriages during the financial crisis and there is going to be a lot of clean-up work for the next couple of years," says Simon Rawlings, group managing director at PIPC.

Simon Kent, managing director for UK financial services consulting at Navigant, sees a "foot-race" going on over the course of the next two years as the landscape of the banking industry is reshaped. Existing banks are sorting themselves out and trying to reposition themselves to face the new challenger banks, such as Tesco, that have an opportunity over the next two years to take market share by benefiting from the reduction in trust that consumers have with their banks.

"The competitive landscape will require very different propositions to both consumers and shareholders," says Graham Lloyd, a financial services specialist at PA Consulting Group. "The consultant will become a trusted adviser, bringing new ideas, alternative perspectives and challenging the way clients do things. Above all it will be value-added insights that will help clients make a real difference with their growth strategies."

However Ian Holden, UK partner for financial services at BearingPoint, says profitable growth strategies are being held back by lack of information. He says banks cannot accurately report on product profitability, benchmark themselves against rivals or determine which customer segments they should pursue.

"The key is not to gain marginal efficiencies through running faster, it is to identify which direction you should be running," says Mr Holden. "Slightly reducing costs on a

partner in financial services consulting at PwC. "Longer-term decisions need to be derived from basic thinking around the customer value proposition, the ability to derive value and appropriate levels of risk and reward."

Mr Gray says that in some cases institutions are investing to correct years of under-investment, frequently in their back offices. Others are looking to transform their business model to be competitive for the next five to 10 years.

Chris Harvey, global head of banking and securities at Deloitte, predicts that the coming wave of innovation will be focused on customer intimacy and service delivery excellence. This will include optimising existing investments in customer relationship management and associated technologies and more targeted segmentation and value proposition analysis.

Mr Holden at BearingPoint says the banks are concerned that regulators may require them to split off operations, reduce branch networks, exit markets or change their product mix. This will require uncoupling systems and processes that have cost them millions to integrate, a very expensive and complicated process that adds nothing to their bottom line.

The insurance sector went into the recession later, so is still involved with cost cutting rather

than new strategic opportunities. "Cost structures of the insurers were still geared up for the good days just before the crisis, so they need to realign to the new reality," says Edwin van der Ouderaa, a senior executive in Accenture's financial services practice.

The current instability in the sector provides an opportunity to bring innovation to the consulting market. Maintaining an established business model while waiting for more work may not be a winning strategy.

"Some consultancies will need to change their approach, to be more commercially agile and flexible, whilst investing much more heavily in truly innovative and fresh thinking," says Rick Freeman, head of financial services consulting at Capgemini UK. "The future belongs to those who have the ability to reinvent themselves."

Ms Czerniawska at sourceforconsulting.com warns that although the signs look good for financial services consulting at the moment, it is too early to tell if the whole consulting industry will move quickly out of the downturn. "There are still sectors pulling in their horns on expenditure and it will take them time to emerge from recession," she says. "I wouldn't expect to see a big improvement in consulting until part of the way through 2010."

Contributors

Stefan Stern
Management Writer

Andrew Baxter
Senior Writer, FT Reports;
Commissioning Editor

Charles Batchelor,
Richard Brass,
Rod Newing,
Ross Tieman
FT Contributors

Steven Bird
Designer

Andy Mears
Picture Editor

For advertising details, contact:
Robert Grange on: +44 (0)
207 873 4418
e-mail: robert.grange@
ft.com or your usual
FT representative

Originality needed to merit fees

PUBLIC SECTOR
Ross Tieman on the pressures and changes in a huge market for firms

Rarely have governments faced such strong pressure to change the way they work nor – in developed countries at least – such tight pressure on budgets. Those factors are already having an impact on volumes of, and competition for, public sector consultancy contracts in some regions. Yet more profound, it seems, are changes in the nature of advice and assistance administrations need: put simply, governments have learned, and consultants will need to offer ever-more-original solutions to merit their fees.

That said, the public sector has become a huge market for consultants. Kennedy Consulting Research & Advisory estimates that in 2008, global revenues for public sector consultants exceeded \$55bn, or approximately 19 per cent of the total consulting market, and showed growth of 2.7 per cent over 2007. Public sector consultants in the US have prospered even as colleagues advising private sector industries such as finance, real estate and retail have seen business stall. John Furth, chief executive of the Association of Management Consulting Firms in New York, says consultants tend to play an important role under Democratic administrations, and the Obama presidency is no exception.

Indeed, Mr Obama has even appointed America's first chief performance officer, Jeffrey Zients, the former head of consultants Portfolio Logic, to "streamline processes, cut costs and find best practices throughout government". That search for improvement and efficiency has already blessed the nation's public sector consultants. Mr Furth says: "For my membership this has been a year where there have been lots of contracts awarded. The administration is shutting down some programmes and opening others. The Tarp (Troubled Assets Relief Programme to help stressed financial insti-



Hands-on approach: Zients has been appointed chief performance officer by US president Barack Obama

AP

tutions) created a lot of work. They need people who can hit the ground running."

In the UK, another vanguard market, the going is tougher. Controversy over fees and delays in some prominent contracts have tarnished the image of consultants. Budgetary constraints and the prospect of a new government by May 2010 have caused the volume of new contracts to shrink.

Historically, says Alan Leaman, chief executive of Britain's Management Consultancies Association,

The public sector needs help because technology has transformed opportunities for service delivery

around a third of UK consulting has been in the public sector. Given capacity constraints and pressures for change, the need for consultants will not evaporate.

Indeed, he says that citizen demand for high quality delivery of state services will ensure a continuing role for those able to help solve the conundrum of delivering more and better, for less cost.

Mr Leaman believes the state deficit creates pres-

sure for a huge public sector productivity improvement, and that both consultants, and their clients, can get better at drawing up contracts that reward consultants for results.

Colm Reilly, head of government practice at PA Consulting Group, says governments have called in consultants over the past decade to tackle successive "waves" of challenges: the year 2000 information technology challenge, the advent of the euro currency, and the dotcom shift to providing more government services online.

The public sector needs help because technology has transformed opportunities for service delivery, in taxation, social security benefits, healthcare, and many other functions where the state has responsibilities for citizens. "We're moving to citizen-focused government," he says, but "technology capability outstripped organisational capability".

Greg Baxter, head of the UK public sector practice at international strategic consultants Booz, says the consultancy agenda in developed countries is now around "efficiency and effectiveness". In emerging economies, it is largely focused on reforms to help business perform better. But in both cases, he says, the public sector needs solutions that transcend ministerial boundaries.

That creates a need for external advice and new forms of organisation. Malaysia's new Economic Development Council, he says, is the kind of integration body needed by administrations keen to overcome legal, property and deregulation challenges and cut corruption, nepotism and collusion.

Meantime in the Middle East, he says, consultants have been called in to a "greenfield environment" to help establish e-government and a more business-friendly environment.

But it is in developed economies, such as the UK,

where some of the biggest challenges arise, in converting "legacy" delivery mechanisms and IT systems to deliver the kind of citizen-focused services that governments everywhere want to provide.

Alan Downey, head of public sector at KPMG, says the UK spends more than £2bn a year on management consultants. "That figure will come down substantially," he says.

Yet he predicts a shortage within the public sector of the skills that are needed to cut costs and reverse declining productivity. "There will be a continuing

need for external advice and support," Mr Downey says.

What external help do governments in such economies need, and how might that change?

Keith Coleman, head of public sector consulting at Capgemini, says looming crises linked in part to demographic change will in any case challenge education, health and benefit systems.

Healthcare systems across Europe face financial deficits, but must also adapt to scientific progress in care and clinical procedures, says Jonathan Anscombe, head of the health practice at AT Kearney. Fewer hospitals are needed. Shedding them could cut costs by 10-20 per cent, but community care must improve.

Many consultancies now work hard to build skills and provide continuing data capture within public institutions as they deliver programmes, so that institutions are learning to do their own strategic analysis.

Yet the consensus among consultants is that their skills will still be needed to assist huge discontinuous changes. Capgemini's Mr Coleman says there will be more need for alliances between consulting firms to deliver, and a bigger role for integrators.

"The consulting firms of the future are going to be those that can help clients go on an extended journey of transformation," he says. "That is where we can add massive value."

Case Study PA's Iraq water work

Some public sector consulting projects are not for the faint-hearted. In March 2005 Angus Jackson, an emerging markets specialist at PA Consulting Group, began a four-year project in southern Iraq to help restore safe water supplies in the Basra region.

The client was Britain's Department for International Development (DFID), with an £18m budget for emergency infrastructure intervention, and £40m of follow-on funding for an infrastructure services programme focused on electricity and water supplies.

On arrival in Basra Mr Jackson found many communities with inadequate water supplies, not because of war damage, but rather because 30 years of sanctions and inadequate maintenance had left facilities out of order or with restricted capacity.

With back-up from London, and in close collaboration with Iraqi officials, he organised contractors and utility staff to get treatment works and pumps back in operation.

But to ensure a sustainable service recovery, he also opened a centre for training maintenance engineers, and managed projects to bring water to communities not previously supplied.

"Capacity building was an important element," Mr Jackson says.

Progress with long-term improvements was hampered by a deterioration in the security situation, which at times during the



Jackson: four-year project

four-year project made it impossible to visit construction sites and plants.

But Mr Jackson says his core role as a consultant was nonetheless comparable with that in classic public sector project design and implementation. Today, 1m people receive potable water because of the successful assignment.

An ability to speak Arabic and a cultural familiarity, after previously working in Egypt, were important contributors to success, he says. So was a belief in the value of what he was doing, and a determination not to disappoint the many Iraqi friends he had made, and those who needed the water.

"I felt similar loyalty to the people who were benefiting from the project in Egypt," he says.

"It is truly amazing what you can achieve with Iraqi engineers and contractors who are just as committed to ensuring supplies."

Mr Jackson, aged 35, was awarded Britain's Order of the British Empire for his consultancy work.

Ross Tieman

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Merger brings people skills to the forefront

CASE STUDY
THOMSON REUTERS
Charles Batchelor on the impact of integration work by Deloitte

Thomson's \$18bn acquisition of Reuters brought together two well-established names in the news and financial information business. It also triggered the integration of a workforce of 54,000 people in 550 offices spread over almost 100 countries.

Managing the people issues was clearly going to be a huge challenge for the companies and Deloitte, the consultants chosen to help them. The human resources department had to appoint or confirm a total of 30,000 people in their roles, harmonise benefits plans in 37 countries and carry out a globally-consistent redundancy programme for those people who would not be staying. It also had to develop a new corporate vision.

Stephen Dando, previously Reuters' group human resources director and now chief HR officer at Thomson Reuters, had experience of managing a large merger a decade earlier when Guinness and Grand Metropolitan joined to form Diageo.

"But when you do a deal of this size, you reach out to a partner like Deloitte for a number of reasons," he explains. "They have people who have done deal after deal. They have finely honed skills, methodologies and templates for doing these things. The workload involved in a big

integration is beyond anything any company would be resourced for."

For Deloitte's HR team it was a case of applying skills learned handling other big acquisitions in the financial services and telecoms fields to the Thomson Reuters' project. "We bring capacity to get things done because corporate HR departments are usually pretty lean," says David Parry, a Deloitte partner.

One of the consultant's roles is to bring an objective outsider's view to sometimes fraught situations involving people who have different ways of working and in some cases

'Often the people issues dictate the timescale and the shape of the overall programme'

are competing for future roles. But they are not there to referee a fight. "They are supportive but if the primary aim of the consultant is to hold the ring you are in trouble," says Mr Dando.

HR is often regarded by outsiders as a backroom function but in a merger it comes to the fore. "Often the people issues dictate the timescale and the shape of the overall programme," says Mr Parry. One of the key issues was bringing together a largely North American-based business – Thomson – with a company – Reuters – that had a much broader international spread. And while Thomson had

subcontracted large parts of its HR requirement, Reuters still managed it in-house.

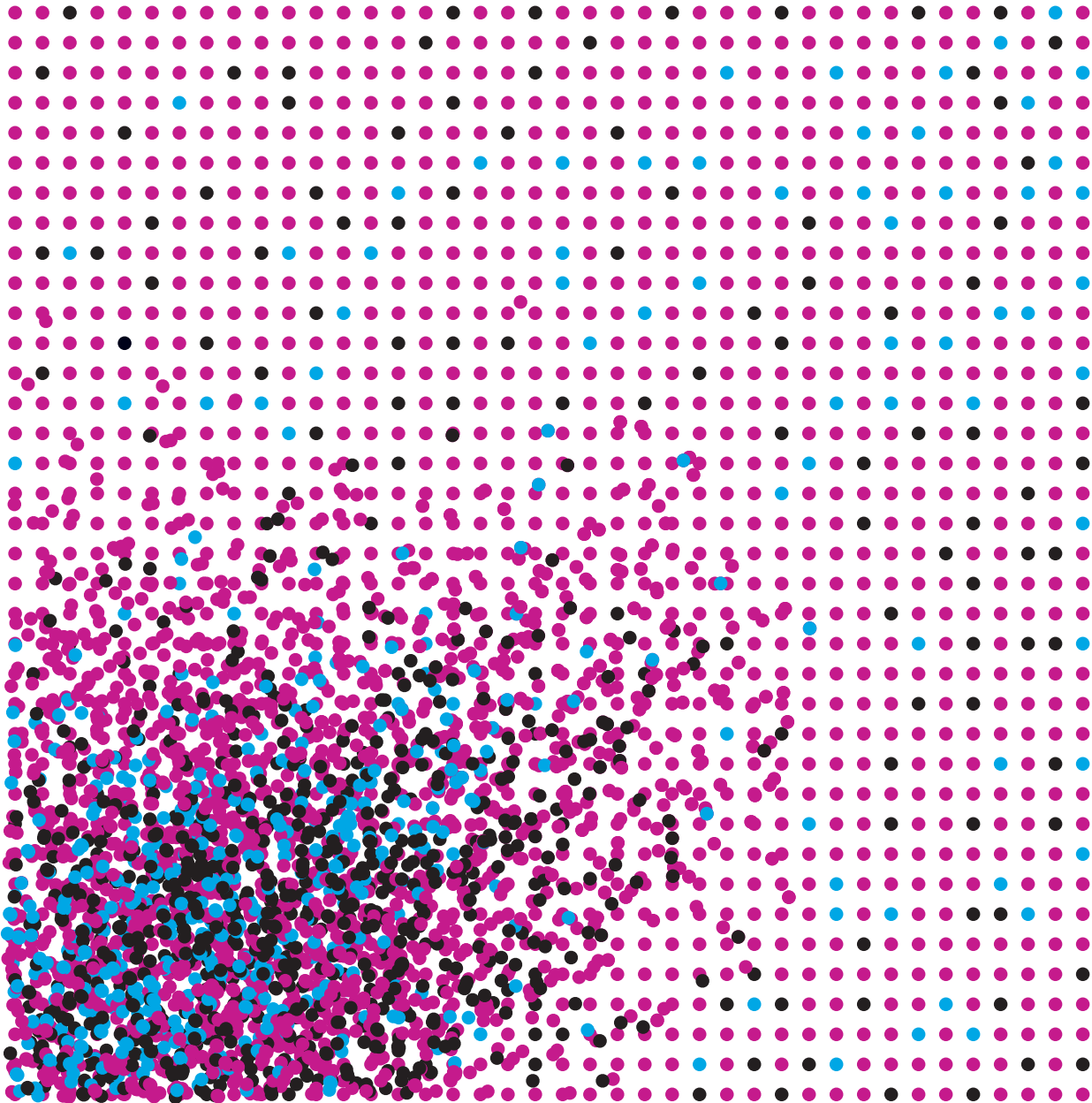
After the announcement of the agreed acquisition of Reuters in May 2007, Thomson set out to create "one company in one year". It beat this target by a month, announcing Day One to coincide with closure of the deal in April 2008. At that point it had completed 500 senior appointments, agreed a single compensation framework, integrated more than 40 HR systems and created a fully operational HR team. Full implementation of the HR changes will take three years from Day One but Mr Parry estimates that 70 per cent of the work has been completed.

The challenge for the company and the consultants was threefold. First, they had to carry on with business as usual, maintaining a recruitment schedule of 120 people a week and keeping up performance and compensation reviews. Secondly, they had to support the merger, designing a new organisational structure with its appointments processes and structure for compensation and benefits.

Finally the HR departments had to reform themselves to take account of the different approaches the two businesses had previously adopted. Thomson had nine centres of expertise handling 36 countries while Reuters had three servicing 91.

Deloitte fielded a total of 60 consultants in the UK and the US to deal with a range of integration issues, of whom 15 were involved in the HR project.

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Business of Consulting

Firms put premium on experience and specialist skills

RECRUITMENT

Charles Batchelor on a difficult time for would-be graduate entrants

Graduate recruitment into consulting may have been hit by the economic crisis but firms continue to snap up experienced professionals from rivals and from industry.

The fear factor that kept consultants and managers in posts that they were not happy with has started to abate and they are now willing to move to firms that can offer a more attractive deal, says Phil Dunmore, UK managing director at PIPC, a project and programme management consultancy.

"There has been a change in the last couple of months," says Mr Dunmore. "Before, even if people did not like where they were, it was safer to stay because they did not want to move and find themselves in a 'first-in, first-out' scenario. But now people sense that it has got a bit easier."

"Experienced hires from other consulting firms" emerged as the most likely source of recruitment during 2009, according to a survey carried out by Top-Consultant.com, a recruitment website. Experienced hires from industry, government and other public sector bodies came next with MBA finalists and university leavers bringing up the rear.

Mr Dunmore distinguishes between the recruitment needs of the specialist

of training but there are other routes in."

For many firms this means people in their late 20s, 30s and 40s with experience of industry or from other consultancies. When firms see a good person they will try to recruit them even if they do not have an immediate job for them, says Mr Leaman.

PwC, the professional services firm, says it is keen to make better use of networking and referrals from its own staff in other areas to attract experienced recruits. "We want to build our own talent bank rather than rely on head-hunters and agencies," says Marcus Robinson, consulting partner.

A bright spot for graduate would-be consultants is the return of the large accounting firms to the consultancy field. PwC sold its management consulting business to IBM in 2002 but is now rebuilding a presence in the sector. It has launched a graduate recruitment programme, signing up 42 graduates this year, rising to a planned 150 in 2010. It expects to double the size of its 1,400-strong consultancy team within four to five years.

"We never got out of the business of advice," says Mr Robinson. "A couple of years ago we started thinking about consultancy. The partners have taken a small hit to invest in recruitment."

But how do graduates themselves view their prospects in consultancy? Much has been made of Generation Y, supposedly a bunch of softies ill-attuned to rigours of a long consultancy project that may require them to spend a lot of time away from home.

"The industry remains very attractive to bright people who are intellectually curious and want to understand the world and make an impact," says Mr Leaman. "This is not an issue," comments Mr Dunmore. "People are hungry for the experience of different cultures, experience that they can bring back to the UK. It is a smaller world and it has got easier [to work overseas]."

"We try to make it easy to work away from home," says Mr Robinson. "But fundamentally, if you want to get into consulting, you have to be flexible and work hard."

The basic requirements of consulting may not have changed but recruits come with different expectations in two important areas, he explains. Far more graduate recruits regard a firm such as PwC as a temporary port of call and not as a career for life. "They do it for a couple of years to get it on their CV."

Secondly, and here the Generation Y idea may have some substance, graduate recruits are more ambitious – that is, less realistic – about what they can achieve in a very short time. "When I joined I expected, metaphorically, to make the tea and do an apprenticeship," says Mr Robinson. "There is now an expectation you will be in the boardroom of the biggest companies in the land in a couple of years."

PwC says half its successful graduate applicants are women but it is conscious that there are not enough women at a senior level in its consultancy division. The firm says its career development policies are designed to help female recruits get on.

The MCA plans shortly to publish the results of its first-ever survey of women in the industry. Firms are better at putting the right structures in place to help women build a career, the survey found. But women already in the industry emphasised the need for continuing mentoring and support and help with career-planning for newcomers.



Career path: some of these UK army officer cadets may end up in consulting

Alamy

Officers from armed services provide rich source of talent

MILITARY RECRUITMENT

Andrew Baxter on a popular choice for those returning to civilian life

Consultants may not have to dodge bullets, but there are enough similarities between their work and that of the armed services to make the profession a popular choice for officers returning to civilian life.

"In the army you are thrown in on an exercise, there are long hours and a job that has to be done," says Catriona Bratten, an executive consultant at Atos Origin. "You do learn to adapt to a new environment quickly."

After an accounting degree, Ms Bratten spent seven-and-a-half years in the UK army from 1987, reaching the rank of captain in what was then the Royal Army Pay Corps. As with many officers, she relished the variety that consultancy offers.

It is this diversity of engagement, and rapid exposure to a range of companies and sectors, that attracts many ex-officers into consulting. Some view this as a stepping stone to choosing "a real job" but find themselves staying.

An example is Edward Savage, who has spent 10 years at PA Consulting Group after 11 years in the Royal Air Force. "The sort of training you get as an armed forces officer is about integrity, leadership, understanding a complicated situation quickly, doing something about it and taking responsibility," he says. "These are all things that play well in consulting."

Mr Savage is a senior defence expert at PA, which recruits several dozen people from the armed services each year. In addition to operations in Europe and Asia, PA has a 30-strong US team, drawn either from the US defence sector or from MIT, that focuses on strategic modelling of defence programmes and security policy issues.

But Nick Chaffey, PA's global head of defence and security consulting, points out that the majority of its ex-armed forces consultants work on non-defence issues. "We are very client-side oriented – we work with clients to get things done, rather than sell IT or equipment to them," he says. "This is one of our key attractions for military personnel."

This focus on practical delivery, helped by real on-the-round experience, characterises a lot of the work of consultants with a military background.

Damian McKinney, who co-founded McKinney Rogers in 1999 after 18 years in the Royal Marines, has put expertise in execution at the core of his consultancy's "value proposition", drawing on the importance of the "end-state" – political or military – that is vital to campaign planning in the armed forces. "Those plans are ultimately built on the basis of everybody coming home alive, and delivering the mission – doing whatever it takes ethically and legally," he says.

Flexibility in achieving a given goal is another important similarity between the military and consulting worlds – at least nowadays.

Simon Dixon, a partner at Deloitte, spent nearly 20 years in the army, reaching the rank of major. When he first joined the army, the way in which a goal was to be achieved was rigid, but this changed, he says, to allow the goal to be achieved in a different way, if necessary.

"It's the same in business," says Mr Dixon. "You may have an initial plan for how to deliver the benefits of a big programme, but if you can't do that

'We work with clients to get things done, rather than sell IT or equipment to them'

because something happens – a software company goes out of business, or there is a change in policy or legislation – you still try to deliver the benefits in a different way."

Apart from flexibility on working hours and a willingness to move around the world at short notice, consultancies also value former military employees' understanding of the importance of teamwork and skills management.

"Teamwork is a big thing when you are an officer, and I knew who had the skills to do things," says Ms Bratten. "That is very much what you find with consultants working in teams – you may not have somebody with a certain skill in your team but you know where you can access it."

Chris Wakerley, managing director of

Boxwood, had a 20-year military career, beginning as an aeronautical engineer and ending as head of global information systems for the UK's three armed services. He says the "core skills for officers – leadership, decision-making, planning and communicating – are extremely relevant in the commercial world and are not as widely available as you might think."

Boxwood, which Mr Wakerley has led for the past five years, has taken a leaf out of the armed services' book by placing great emphasis on training, of its own employees but also clients'. Just as this helps the army on operations, proper training can bring an enormous payback in the commercial world, he says.

Not all armed services types make good consultants, however. McKinney Rogers has created a "DNA profile" of its ideal consultant, and recruits mainly from a network of ex-military people and at senior levels among former clients. But, Mr McKinney says: "A lot of ex-military are still very military, and they just don't fit at all."

Mr Dixon agrees that some ex-military people struggle as consultants. "They are the ones who have been a bit used to commanding and they can't quite get over the fact that, in consulting, you have to persuade more than order."

He says people who have done only what he calls "green army jobs", and have not worked in a big staff or at headquarters, are more likely to have that mentality.

Mr Chaffey says the basis of authority and of personal value is very different at PA, where "anyone will challenge anybody... the basis of value is what you bring to assignments, and the perceived coaching and advice you can give colleagues, which is not the same as having three stars on your shoulder."

Some military types, it seems, may be too senior and dyed-in-the-wool to make the transition, although PA makes an exception for General Sir Michael Jackson, former head of the UK army, who joined the consultancy in 2007 as senior adviser on defence issues.

"He has helped us deliver on some more complex assignments and has provided a lot of practical and strategic guidance," says Mr Chaffey. "He has a good range of opinions" – an understatement, perhaps, given Sir Mike's reputation for outspokenness.

Tips for when the tide turns

Opinion

DAVE ULRICH

If a rising tide lifts all boats, a falling tide exposes all flaws.

In an upturn, companies may grow without outside advice yet they have money for consulting services. In a downturn, companies have less money for consulting expertise, but need it more. And while demand for consultants falls, their supply increases as many former employees in other sectors naively view consulting as their career redemption.

These paradoxes reveal the realities and opportunities of consulting in current market conditions.

First, consultants must offer unique value. While low-cost, generic products often prevail in a thrifty economy, consultants who offer generic ideas and insights will be exposed. Branded consulting, where the consultants have a deserved reputation for innovative ideas and pragmatic solutions, will continue to add value as clients scrutinise the value of such services.

Good consulting firms focus less on their costs and more on the value they deliver to clients, so consultants need to have a clear offering focused on how their knowledge creates client productivity. In this economy, clients need insights not only on how to manage in a shrinking market but also on how to continue to invest to grow – for example, in emerging

Quick-fix consulting solutions are like fad diets with bold promises and few sustainable results

markets and new market niches.

Second, to paraphrase Darwin, only the best survive. It has become trite to say that a crisis is a terrible thing to waste. The good news is that this economic downturn has exposed charlatans, fads, and what we call consulting foo foo. Quick-fix consulting solutions are like fad diets with bold promises and few sustainable results. Consultants who have creative ideas, thoughtful theories, and research roots are likely to be more fit to serve and survive.

Third, successful consultants need to adapt and learn. Consulting firms must offer tailored, targeted, and measurable solutions to client problems, both expressed and unexpressed. Tailored projects means that off-the-shelf solutions are replaced by joint learning. Clients should prepare to adapt, not adopt, solutions found in other settings.

Finally, we have learned that most people who speak many languages still swear in their native tongue when caught off guard. In a blunt and bleak economic recession, consultants' true values reveal themselves.

Consultants who privately believe that they have all the answers will be exposed for their inability to learn.

It is popular to talk about people "building on their strengths", but in this recession that is not enough for consultants to succeed. They need to build on the strengths that will strengthen their clients.

Learning this lesson in a low tide when flaws might be exposed will be even more helpful in a rising tide when the economy recovers. Memories will outlast recessions and consultants who learn how to serve their clients fully will be long remembered, and well served.

Dave Ulrich is professor of business administration at the Ross School of Business, University of Michigan and a partner at RBL Group.. The full version of this article is online at www.ft.com/consulting-2009



'The industry remains attractive to intellectually curious people'

Alan Leaman
MCA

firms focused on areas such as project delivery, which require a degree of experience, and the generalists who require analytical and strategic skills that can be provided by "back rooms full of graduates crunching numbers".

The downturn in graduate recruitment forced Top-Consultant to cancel its annual management consultancy careers fair at the London Barbican for the first time in five years. This fair, normally held in October, has in the past attracted 2,500 job seekers and between 35 and 40 participating firms.

"Half as many firms as normal had booked by the deadline and we were loath to run it when we could not ensure it would be a success for candidates," says Bryan Hickson, managing director. Drop-outs included big-name consultancies and boutiques.

"There is compelling evidence that it will be difficult for graduate entry this year and next," says Alan Leaman, chief executive of the Management Consultancies Association. "Clients rightly want people with expertise and specialist skills. The industry does a good job

Wider responsibilities move up agenda

STANDARDS AND QUALITY

Rod Newing finds a new focus on how the profession contributes to the common good

Management consultants are pilloried when projects go wrong, especially public sector work that is subject to official scrutiny. It is vital for consultants to be able to demonstrate to the wider business community and to the general public that they not only apply appropriate quality standards to their work, but contribute to the wider common good.

"The global economic crisis has created new demands on businesses for reliable and sustainable performance," says Adrian Godfrey, chief operating officer for global advisory services at Ernst & Young. "We need to show how our profession contributes, not just to stabilising and re-estab-

lishing individual organisations, but to the global financial future. We do this by providing value directly to our clients and indirectly to their employees, retirees, local communities and local and global economies."

Traditionally management consulting services were procured directly by senior managers, who understood how the profession adds value. However, engagements are increasingly being established by procurement professionals, who are not all familiar with the consulting industry. They rely on well-established generic procurement procedures, which inevitably concentrate not on value potential, but on quality standards – in an industry where all you need to be a consultant is a suit and a business card.

In the UK the Institute for Business Consulting has a two-page code of professional conduct and practice that applies to individuals who are members. This has recently been supplemented by a similar document from

Management Consultancies Association (MCA) that applies to member firms.

It requires them to put their client's interests first; focus on delivering sustainable value to the client; employ people with the right skills and experience to help their client, and continually develop their expertise; be clear and transparent with the client; be trustworthy, independent and objective; and be financially strong enough to deliver on their commitments. Alan Leaman, chief executive of the association, says that codes of practice must be dynamic, with good practice developing as the business world develops.

"There is a big responsibility on the industry to explain what it does more effectively and for members to be advocates and standard bearers for high standards and quality service," he says. "This is intended to be a 'kite mark' that gives buyers reassurance that they are buying a quality service. It will also give them and the general public

a more positive understanding of what consultancy is about at its best, which will pay dividends for years to come."

The big global firms have all produced their own statements of ethics, codes of conduct and internal quality assurance processes. Codes, such as that from the MCA, will help

Codes of practice 'must be simple, easily understood and aligned to what the market wants'

procurement professionals to evaluate these diverse documents against a common minimum standard.

"Consulting companies need to embed the code into their way of working, not just sign up to it," says David Thomlinson, a managing director at Accenture. "This is not just good for the industry and its clients, but is essential for attract-

ing new talent into the industry."

Along with most large global companies, BT's senior managers used to employ hundreds of different consultancies around the world. It now uses a list of 60 approved consultancies. Stephen Hayers, its vice-president for services procurement, says that using too many consultancies makes it difficult for a firm to get to know the organisation intimately.

"We are looking to get more value by working with fewer firms, so they understand us better and are able to deliver quality work," he says. "The pre-vetting procedure means we work with organisations that have the right approach, the right values, the right cultural fit and the right commercial terms."

Mr Hayers says codes of practice must be simple, easily understood and aligned to what the market wants. Consultancies need to be motivated to want to work with them, otherwise they are meaningless. A

commitment to quality standards will get a firm in, but its tangible performance will be evaluated at the end of the engagement.

Colm Reilly, head of PA Consulting Group's government practice, says the problem is not that no one knows what to do, but that it is just not done systematically. Standards and protocols already exist but are not always used. His solution is a rigorous and consistent focus on the basics of project management and their implementation.

Critical to adding value successfully is agreeing the objectives and scope of the work, together with the benefits to be expected and how they will be measured. Mr Thomlinson says that consulting, more than ever, has to be action oriented.

"With the recent economic turmoil, clients want more tangible, practical approaches to managing and growing their businesses," he says. "Deliverables need to be tangible and practical, rarely a report or slide deck."



E&Y's Godfrey

Consulting is very much a two-way relationship and clients also have a responsibility for ensuring that value is added. John Lockton, managing director of LCP Consulting, points out that clients need to provide as clear a brief as possible, which identifies the value that the project will bring.

"People must understand who we are, what we do and how we achieve sustainable mutual advantage," concludes Mr Godfrey. "Helping companies to stay in business and people to stay employed is all part of responsible consultancy."