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## **MESSAGE AND MEDIUM:**

### **The Role of Consulting Firms in Globalization and Its Local Interpretation**

**Marie-Laure Djelic, Antti Ainamo, Chris McKenna**

## **INTRODUCTION**

A century ago, management consulting as we know it all but did not exist. The management consulting industry emerged and structured itself in the twentieth century, growing then very rapidly. In today's capitalist landscape, it has become a significant actor (Kennedy Information Research Group on-line). Historically, the changing needs of a stable group of large corporate clients were driving growth. In time, however, growth also came from the exploration of uncharted territories – new clients, new industries but also new countries. From traditional engagements with private for profit firms essentially involved in the manufacturing, marketing and distribution of goods, consulting firms have made inroads in the service and non profit sectors as well as in semi-public and public organizations. From the mid-1960s, they have also rapidly internationalized their activities from a mostly American base, often becoming in the process multinational or even global firms.

The interest for management consulting as an object of study has increased in proportion to its weight in the economy. The role and legitimacy of management consultants are now key questions, to which answers vary. Management consultants are described as filling in for a lack of internal expertise or competency. They emerge as scapegoats or hired guns in situations requiring difficult decisions (Greiner and Metzger 1995). They are also seen as carriers and brokers of knowledge and practices – or even of fads and fashions (Havelock et al. 1969, Abrahamson 1996, Sarvary 1999). In the context of an internationalization of consulting activities, particularly rapid since the 1980s, the link between this role and the process of globalization has become an important research agenda.

There is no denying that global consulting firms have become powerful channels for the diffusion of knowledge and practices on a worldwide level. The purpose of this chapter,

however, is to show that there is both more and less to the impact of management consulting when it comes to globalization.

Asking about the origins of modern management consulting, the first part of this chapter describes its emergence at the turn of the twentieth century as a constitutive infrastructural institution of American corporate capitalism. The modern consulting industry is one key feature in a particular set of rules of the economic game emerging then in the United States. Thus we argue that there is more to the relationship between consulting and globalization than simply the diffusion of knowledge and practices. To better grasp the nature of this relationship, attention should shift away from content to consulting as a key institution of modern capitalism. Using a metaphor proposed by McLuhan (1964) in his work on media, the ‘medium is the message’ and from a focus on content or message, we should turn to the medium itself, the infrastructure behind the message. Modern management consulting plays a star role in the globalization process. More than through the diffusion of knowledge and practices, we argue that it does so by contributing to a redefinition of the institutional rules of the capitalist game in the countries where it becomes a player.

Modern management consulting expanded internationally during the second half of the twentieth century. This constitutive dimension of a characteristically American version of capitalism transferred to different areas of the world. There were two main moments in that transfer. One was the ‘American challenge’ of the 1960s and the arrival *en masse* of American corporations and service providers to Western Europe. The second followed the fall of the Berlin Wall. Taking France and Finland to exemplify these two moments, we focus in parts 2 and 3 on the respective processes through which modern management consulting came to each country. Both cases seem to confirm the contribution of the industry to the redefinition of national rules of the economic game.

The two stories, however, also tell of differences and historical accounts show that the transfer took place in unique conditions in each case. In the process, what had originally been a feature of American corporate and managerial capitalism got reworked, translated and transformed. In its spread around the world, the modern – originally American – form of management consulting has run locally into national legacies and preexisting institutional constraints that act as filters and to which it has to adapt. This leads us to propose that there is also less to the impact of management consulting than the expected full convergence of

practices. Using again McLuhan's terms, the medium is 'massage' more than 'message' (McLuhan and Fiore 1967). The rubbing of the medium – in our case the originally American form of management consulting – with local conditions leads to partial appropriation and thus to a number of hybrid constructions. These hybrids have enough common features that they contribute to a degree of homogenization. They are nevertheless different enough to rule out full convergence.

## **MANAGEMENT CONSULTING: ORIGINS AND INSTITUTIONALIZATION**

Management consulting did not, unlike Athena, emerge fully formed in its modern incarnation. Instead, in retracing the evolution of management consulting, we must clearly differentiate between two very different legacies best personified, respectively, by Frederick W. Taylor and J. P. Morgan. In the United States, prior to the First World War, Taylor and Morgan both dominated not simply the market for, but the public perception of, corporate counsel (Kanigel 1997, Chernow 1990).

### **Between shop floor and boardroom: the two-edged tradition of American business counsel**

Frederick Taylor, the leading advocate of scientific management, advised large industrial companies on the most 'efficient' means to speed-up shop floor production (Aitken 1960, Nelson 1980). In contrast, J. P. Morgan, the senior partner of the most influential investment bank on Wall Street, oversaw the restructuring of the largest American corporations in order to increase their market value (De Long 1991, Carosso 1987, Garraty 1957). Both Taylor and Morgan argued that their business methods led to more effective management, but the two men pursued vastly different means to achieve their common goal – while Taylor systematized the industrial shop floor, Morgan reorganized the corporate boardroom (Chandler 1977). Despite their apparent differences, however, modern management consulting owes its genealogy, both in ideological and institutional terms, to these two traditions.

Contemporary consultants, not surprisingly, have been more likely to acknowledge Frederick Taylor's legacy than J. P. Morgan's, since Taylor actually described himself as a 'consultant', while J. P. Morgan always considered himself a banker (Noble 1977). The well-known promoters of scientific management in America, including Frank Gilbreth, Harlow

Person, Morris Cooke, Henry Gantt, and Harrington Emerson, all acknowledged their intellectual debts to Frederick Taylor, and between 1901 and 1915, they ‘introduced scientific management in nearly 200 American businesses.’ (Nelson 1992). The influence of Taylorism, however, did not end on the American shop floor. As the market for scientific management declined in the United States after World War I, Taylorite consultants like Harrington Emerson, Frank Gilbreth, and Charles Bedaux, increasingly turned their attention to Europe and Japan for consulting contracts (Merkle 1980, Waring 1991). In their place a new generation of consultants, interested in ‘management engineering’ not ‘industrial engineering’, would come to dominate corporate counsel in the United States.

Scientific management was not the only form of corporate counsel to expand at the turn-of-the-century, although it may have been the most controversial. More staid consulting engineers were well-known among businesspeople for providing expert advice on the new electro-chemical industries at the center of the second industrial revolution. One was Arthur D. Little, founder of the eponymous chemical engineering firm, others were Charles Stone and Edwin Webster, founders of the Boston-based electrical engineering firm Stone & Webster, (Kahn 1986, Keller 1989). In tandem with the large civil engineering firms like Ford, Bacon & Davis, cost accounting firms like Arthur Andersen, and corporate law firms like Cravath, Swaine & Moore, these corporate professionals formed an institutional infrastructure that undergirded the rapid growth of big business in America (Larson 1977). It was the influential merchant bankers, however, who served, *primes inter pares*, to oversee and coordinate this network of corporate professionals for the benefit of the growing corporate giants.

From a modern-day perspective, J. P. Morgan combined the now separate functions of a commercial banker, stockbroker, management consultant, and venture capitalist into his more comprehensive position as a merchant banker. In order to finance and organize such industrial giants at U.S. Steel, AT&T and General Electric, Morgan and his partners drew upon an internal and an external network of advisors to help them evaluate, finance, and subsequently reorganize, the great industrial corporations (Carosso 1987). Indeed, many of Morgan’s partners were not what we now think of as investment or commercial ‘bankers’, for as George Perkins, J. P. Morgan’s ‘right-hand man’, readily admitted, ‘I never went behind the counter or examined into the book-keeping end of the business. My job was to assist in the physical organization of the great industrial combines which Mr. Morgan was then engaged in financing’ (Garaty 1957: 87).

In the 1890s, as J. P. Morgan employed his internal staff to reorganize most of the American railroad network, Morgan also drew upon external specialists, like the engineering firm of Stone & Webster, to advise him on sale of electrical generating facilities owned by General Electric (Daggett 1908, Keller 1989). The particular importance of the rapid growth of ‘consulting engineering’ (now better understood as ‘management consulting’) was not lost on the prominent economist Thorstein Veblen. Veblen explained that ‘the ordinary duties of these consulting engineers has been to advise investment bankers as to the industrial and commercial soundness, past and prospective, of any enterprise that is to be underwritten’ (Veblen 1921:65). Veblen understood what management consultants later forgot: that the subsequent evolution of management consulting was tied less to Taylor’s shop floor efficiency than to Morgan’s top-floor reorganizations.

### **Unintended consequence of the Glass Steagall Act: the birth of an industry**

J. P. Morgan’s oversight of the functions of management consulting might have continued indefinitely in the United States had the American public not feared the extensive monopoly power of the ‘Trusts’ and the growing influence of Wall Street bankers (Brandeis 1914, Roe 1991). From the turn-of-the-century on, the American Congress was increasingly distrustful of bankers’ concentrated power and repeatedly investigated the role of the ‘Money Trust’ in the U.S. economy (Carosso 1973). After the Great Crash of 1929, legislators – who blamed the stock market’s decline on insider dealing by bankers – worked to curb Wall Street’s broad influence by creating institutional checks on the national financial system. From the mid-1930s on, the Federal government required that listed companies hire independent auditors to file quarterly reports, that commercial and investment banking operate independently of each other, and that management consulting be separate from commercial and investment banking (McKenna 1994). Where bankers had once acted as *de facto* knowledge brokers for the benefit of their commercial clients, in the mid-1930s management consultants – now independent of bankers – took over this economic vital role. After the passage of the Glass-Steagall and the associated Banking Acts, consultants served as the primary conduits for the exchange of managerial know-how.

The New Deal regulatory changes of the 1930s resulted in an explosion in the number of management consulting firms in the United States. Between 1930 and 1940, the number of

management consulting firms grew, on average, fifteen percent a year from an estimated one-hundred firms in 1930 to four-hundred firms by 1940 (ACME 1964). By the 1940s, this rapid growth had slowed to ten percent annually, but this meant that by 1950 there were nearly one thousand separate management consulting firms in the United States, employing roughly twelve thousand consultants. From 1950 to 1960, the growth rate slowed again, but the doubling in size of the average firms and the further doubling of the total number of management consulting firms, meant that by late 1950s there were nearly fifty-thousand people employed as consultants in the United States (Amon 1958). As these numbers suggest, by the late 1940s and into the early 1950s, the critical problem for most consulting firms was not simply securing new clients or disseminating new management techniques, but simply institutionalizing the recruitment of high-quality people for the rapidly growing profession (Neukom 1975). The large and growing consulting firms, and in particular, Marvin Bower of McKinsey & Company, responded to this personnel squeeze by expanding their recruitment to business school graduates, a decision that would rapidly institutionalize the flow of American MBAs into the leading consultancies (Bower 1977).

### **Management consulting comes of age: from institutionalization to expansion**

Marvin Bower's decision to recruit at the Harvard Business School, in the mid 1950s, had a lasting impact not only on McKinsey & Company, but also on the entire field of management consulting. By the early 1960s, the Harvard Business School had become the primary recruiting ground for new staff for the elite consultancies, with heavy competition among the leading firms for the 'Baker Scholars', the top five percent of the graduating class (Career Guide 1962). By 1961, the average starting salary for consultants graduating from Harvard was \$8,348, twelve percent more than the \$7,500 starting salary for either accountants from Harvard or associates at the top corporate law firms in New York (Galanter and Palay , Bower 1963). By the early 1960s, it was increasingly clear to the top business school graduates that one of the quickest ways to scale the corporate ladder was no longer through corporate training programs at industrial companies like General Electric or Westinghouse. Instead, it seemed that the experience and cachet of the elite consultancies like McKinsey & Co., Booz Allen, or Arthur D. Little was the best insurance of a quick rise to the top (Higdon 1969). The large consultancies

had diverted, if only for the first few years of their careers, the stream of the most promising business school students just entering the job market.

During the 1950s, even as the senior partners of the elite management consultancies were trying to institutionalize the flow of new recruits into their firms, they also began to look overseas at new markets for their services (Ryan 1953). Management consultants, unlike the earlier Taylorist consultants, had been slow to go to Europe. They had been busy, initially, keeping up with surge in demand in the United States after the regulatory changes of the 1930s. They had also been quite unsure what services they might offer European companies (Bower 1977). To American consultants it seemed that European managers would be particularly unlikely to pay hefty fees for American managerial know-how in the late 1940s and early 1950s when the American Marshall Plan presumably provided these same services for free (Locke 1996). In the late 1950s, however, as European managers and policy makers became convinced that American management techniques, perhaps even more than technology or labor, posed the fundamental challenge to European business expansion, European managers reached out to American management consulting firms for help in implementing American managerial innovations (Servan Schreiber 1968). The leading American consultancies, which had initially followed the American multinationals to Europe quickly founded offices throughout Western Europe even where American multinationals did not need them to offering European managers access to the same 'American' model of divisionalization that they were providing throughout America (Channon 1973). As a result, analysts would subsequently blame consultants, rightly or wrongly, for much of the Americanization of European business after 1960.

## **THE TRANSFER TO FRANCE**

In France, American management consulting firms started opening offices in the 1960s. Following their clients, they also rode upon a wave of large-scale institutional transformation that was redefining French industry since the late 1940s. Settling down, however, took time and proved difficult, calling for some adaptation to local conditions.

## **A Taylorist precedent**

Early in the twentieth century, Taylor's ideas had found a sounding board in a small group of French engineers. Still, before 1914, the rare attempts at actually implementing these ideas were on the whole quite contested and unsuccessful in France (Moutet 1975). Taylorism got a new lease of life after the war, when disciples of Taylor set up offices in Paris. The first to do so were C. B. Thompson and W. Clark, who initially came to Europe to advise national governments on scientific management. Paul Planus, an early collaborator of Thompson then opened an office in the late 1920s. Ten years later this practice was quite successful and counted around 35 professionals. Charles Bedaux, finally, also opened an office in Paris in 1927. A Frenchman by birth, Bedaux had emigrated to the US in 1906, where he developed his own version of scientific management. By 1939, the Société Française Bedaux could field 80 professional organizers and the Bedaux system had been installed in about 150 firms (Christy 1984).

The ties linking these offices to local engineering and business communities could in part explain their relative success. The founders had known how to create and use dense networks, enlisting in particular the support of the small but well organized circle of French Taylorite engineers (Moutet 1997, Kipping 1996). Well anchored in the American tradition of scientific management and nevertheless embedded in the local community, Taylorite organizers thus came to structure the field, in the 1930s, of professional business counsel in France. Although limited to a few firms, their impact was real and important. To many French business owners, control – their own or their family's – remained throughout the interwar period a priority over efficiency and high levels of profit (Djelic 1998). This was a difficult context for business counsel but Taylorite organizers nevertheless managed to put a foot in the door. They convinced a few open minded and 'enlightened' business owners to open their shop floors to systematic scrutiny.

This was not yet, though, and far from it, modern management consulting as we know it (McKenna 1995). Taylorite organizers specialized in time and motion studies, processes and work rationalization at the shop floor level. They did not work on issues of structure, strategy or control at the corporate level as McKinsey or Booz Allen & Hamilton were doing in the United States. French boardrooms would remain for many years still out of reach for outsiders. It would take quite a transformation of the industrial landscape before this could change.

### **Institutional reengineering: a necessary precondition to modern management consulting**

The Second World War brought along such an opportunity together with an acute sense of national crisis. For the new authorities the ‘absolute necessity for national rebirth’ called for radical transformation and ‘modernization’ of economic structures (De Gaulle 1970, Commissariat 1946). The early impetus in that direction was coordinated by a small group of national actors, around the key figure of Jean Monnet. The main referent was the American system of industrial production and the United States were seen as leading the way to ‘modernization’ (Monnet 1976, Fourquet 1980). This group of French modernizers controlled key institutions, and in particular the planning council, which gave them significant leverage over the national economy (Djelic 1998).

Starting in 1948, the American foreign assistance initiative bolstered this French effort. Originally, the Marshall plan was defined as a program of financial and material assistance, providing for the large-scale transfer of machinery and equipment. In reality, Marshall planners had greater ambitions. Their ultimate goal was to bring to Europe the rules of the economic game as defined in the United States – to export the model of American corporate capitalism (Hoffman 1951, Hogan 1985, Djelic 1998). There was thus proximity and compatibility between the project of French ‘modernizers’ and American objectives. And in fact a cross-national network soon emerged that worked in close synergy.

One major common undertaking had to do with the small size of French firms and the predominance of processes that left little space to mechanization, specialization and standardization. For American Marshall planners and French modernizers, mergers and concentration seemed necessary so that ‘modern’ ownership and organizational structures could emerge and ‘advanced’ technologies and ‘efficient’ production methods be imported. Using access to Marshall goods and counterpart funds as an incentive, the French planning council fostered mergers, restructuring and mechanization in many industries (Djelic 1998).

Other common concerns were cartels and restrictive practices in so far as they limited competition, rationalization and the search for efficiencies. While the French 1953 antitrust act was not very effective (Sélinsky 1979), the breakthrough here was the European Coal and Steel Community. Using to his best American resources and support, Jean Monnet managed to integrate in the coal and steel treaty antitrust provisions in the American tradition (Djelic and

Bensedrine 2001). Transferred in the late 1950s to the Rome Treaty, these provisions came to redefine, *de facto*, competition in the European space bringing it much closer to the definition then prevalent in the United States (Monnet 1976). Cartels became outlawed in principle while large corporations allowing mass production and economies of scale and scope would tend, in time, to multiply. The philosophy characteristic of American antitrust, according to which ‘oligopolies, when policed by the vigorous enforcement of antitrust and anticartel laws as in the United States, yield pretty good results’ was thus transferred, in the process, to the European space (OMGUS Bd18).

Finally, the common fight also targeted family capitalism and the ‘conservative spirit’ of most French business owners (Commissariat 1946). The nationalization of key industrial sectors represented a partial solution as it placed many French firms under the full and direct control of a technocratic elite that favored large bureaucratic and mass producing hierarchies (Kesler 1985). The professionalization of management emerged as another solution. As part of the technical assistance program, launched in 1949 within the framework of the Marshall plan, French business owners, engineers and workers were sent to the US in large numbers to find direct inspiration in the model which the American economy represented. Teams of young experts were also sent to the US, who would later become trainers and consultants or business school professors. A longer term but parallel project was the construction of a national system of business education to create locally the institutional means allowing the socialization of the emergent class of ‘managers’. In this case, once again, the recipe was a combination of French initiative with American models and references, resources and support (Djelic 1998).

### **The American challenge**

Initially, public and semi-public actors and institutions thus monitored this vast and multidimensional attempt at transformation. Rapidly, however, the idea gained ground that this should only be a first stage. Americans, in particular, were convinced that these transformations would not last if they remained state-led. Private initiative had to be fostered in order to replace, in time, public intervention. On the ground, this led to reorientation after 1953 of the American foreign assistance initiative. The Blair-Moody amendment increased the share, in the technical assistance program, of direct loans to private companies for structural or technological transformations with a positive impact on productivity.

By the end of the 1950s, there were signs in France that things were indeed changing. In 1959, the French government justified its partial disengagement from the productivity drive by the fact that private initiative had regained sufficient vitality. The Rome treaty, which had been signed two years before and was the second stage, after the ECSC, towards an open European market, only reinforced this trend by increasing competitive pressure for French firms. The preparatory work had gone far enough. The time was ripe for the ‘American Challenge’ (Servan-Schreiber 1968).

While they had been prudent until then, American private companies moved in great numbers into France – and more generally Europe – starting in the late 1950s. American foreign direct investment more than tripled between 1960 and 1973 (Jones and Schröter 1993:10). In Europe, the number of American subsidiaries went from 150 in 1950 to nearly 1500 in the early 1970s (Delacroix 1993:11). Large American companies were apparently the first to understand and seize upon opportunities created by structural and institutional transformations in Europe (Servan-Schreiber 1968, Djelic 1998). In the wake of their clients followed American service providers and in particular management consulting firms which, by then, had become important actors in the United States. Booz Allen and Hamilton was the first to open an office in Paris in 1960. McKinsey arrived in 1964 while Arthur D. Little followed in 1967.

Initially, American consulting firms developed their activities in Europe to serve American clients in their strategy of internationalization. They only set up offices, though, when they realized that there was also a local market for them. This was the case in France. Mergers and restructuring in the 1950s had led to the emergence of large size companies for which the old ways of organizing were ill fitted. In the process, the networks, alliances and cartels through which French firms had shared information and knowledge and set up protective barriers were weakened or destroyed. The European space, policed by a strict anticartel act created competitive pressure that was disquieting to many French managers. Changes in ownership structures were also creating more space for professional managers both in state-owned and private firms. And these managers had been exposed, in one way or another, to the American ‘miracle’. Most of them were convinced that the only way French firms could fight the ‘American challenge’ was by becoming increasingly similar to their American competitors (Servan-Schreiber 1968).

For that, the field of professional business counsel as it was structured at the time in France was not adequate. The problem with ‘consulting centers’ – direct heirs to Taylorite

organizers – was that they focused on shop floor practices and work rationalization. Instead, French companies now needed private professional experts who could help them think through strategic issues, implement mergers and move towards structural rationalization. American consulting firms were proposing just that. They were repositories of modern management knowledge and practices that they could transfer to avid French firms. They were also the missing link bridging the gap, if only indirectly in a context where collusion was prohibited, between competitors. They were finally keeping French firms on their toes in an environment where increasing competition did not allow for complacency.

### **American consultancies and integration into the French landscape**

The consequence was a rapid and astounding success of American consulting firms in the 1960s and early 1970s and the decline of private service providers who kept focusing on scientific management and the shop floor level (Kipping 1996). This was true in France but also more generally in Europe. By 1969, McKinsey had 6 offices in Europe. The number of consultants working for these offices went from 15 in 1962 to 160 in 1969 and European revenues then already amounted to 35% of McKinsey's worldwide revenues (McKinsey 1971). In France, McKinsey's assignments had to do mostly with helping emerging national champions redefine their structure. Those were the golden years of the multidivisional form (Kogut and Parkinson 1993, McKenna 1997). The first oil shock and difficulties in the process of European construction had a sobering effect. The 'phones stopped ringing' (McKenna 1997) and McKinsey even closed down its Paris office for a while. The failure to adapt in spite of changing conditions could also explain the difficulties of American consultants. Time had passed and the new generation of French professional managers had appropriated the institutional and structural transformations of the postwar period. France developed its own version of corporate and managerial capitalism and French managers were less ready than before to favor American consultants just because they were American.

American consulting firms had to adapt before they could come back strong in France. On the one hand, there was an effort at greater integration in the national landscape. They started recruiting locally, choosing increasingly to have a French national as local director. They understood, as American Taylorite organizers had done before, that they had to find their way to the local elite network. Hence, they recruited from the Grandes Ecoles. Interestingly, this did not

lead them to compromise with what they saw as their mission and culture. And in many cases, American consultancies sent these French recruits to get MBAs in the US or at INSEAD. In the process, American consultancies undeniably reinforced the trend whereby managers with business school degrees came to play an increasingly significant role in France. Quite a number of former consultants went on having very successful careers as top managers, disturbing the traditional elite system dominated by engineers and civil servants (Boltanski 1982). Another way in which adaptation took place was through proposing greater fit between the offer and the individual client's particular needs. The years of 'one size fits all' were gone and this was so beyond the French market.

Ultimately, the effort paid off. In France and more generally in Europe, the management consulting industry has greatly prospered during the 1980s and 1990s. Cumulated revenues of Booz Allen, McKinsey, A.T. Kearney and Arthur D. Little in Europe were 21 millions dollars in 1969. By 2000, the consulting market was a hefty 25 billions euros (Feaco). The ransom of success has been that early players – Booz Allen, McKinsey or Arthur D. Little – have had to face increasing competition. On the French market, competition mostly came from the US and in particular from the large auditing and accountancy firms that developed a consulting arm. To a lesser extent, it also came from the transformation of a few local Taylorite organizers. The Gemini group, however, is the only one case of a consultancy with French origins imposing itself beyond national boundaries. Still today, out of the 20 largest consultancies in the world, 17 are American (Kennedy Information Research Group).

## **THE TRANSFER TO FINLAND**

In Finland, the American model of management consulting stormed in quite late, in the mid-1990s. Preparatory work had been intense, however, from the 1940s mostly due to the efforts of a handful of men. The work of this small network was constrained by local institutional patterns and by the structure of professional business counsel in the Finnish system. Leo Suurla, an industrial rationalization engineer, was the key figure. His right hand was Antero Kallio, a building construction engineer. L. Edward Scriven, an American expert, was the main bridge between Finland and American managerial knowledge. Henrik Virkkunen, Rector of the

Helsinki School of Economics, also played a significant role by contributing to the creation of a local pool of managerial and professional talent (Ainamo and Tienari, 2002).

### **The roots of business counsel in Finland**

Before the modern form of management consulting came to Finland, trade associations and commercial banks played the role of knowledge brokers and counsel on business issues. Finland's economic development started in the 1860s with the exploitation of wood. Finland was then a Grand Duchy of Russia. Foreign entrepreneurs led the movement, seizing upon the opportunities created by abundant forests, a large Russian market and the emerging railway tracks connecting Finland to Russia (Lilja et al. 1992). The capital-intensive nature of the forestry industry rapidly made it necessary to turn to commercial banks to finance investments. Another device to pool funds was the constitution of trade associations or cartels. In the forestry industry, cartels were also used to share knowledge and provide individual firms with counsel on infrastructure projects – machine-making and power plants, workers' housing. Finally, cartels also sponsored the creation of bureaus that coordinated international sales (Koskinen 1987).

Trade associations, cartels and banks adapted to a context where a language dispute separated the educated class that spoke Swedish from common people who spoke Finnish. They survived the bloody Finnish civil war of 1917-18 (Hobsbawn 1994). After Finland gained its independence, the new government became concerned by the country's strong dependence on forests (Laurila 1999: 215). Hence it sponsored the creation of a national industrial rationalization association (*Työtehoisuusliitto*) with the aim of fostering standardization, industrialization and growth in other more craft-based industries.

In 1947, this association hired Leo Suurla, a graduate in industrial organization from the Helsinki University of Technology to work on two 'national projects' – reconstruction and industrial exports. Leo Suurla was ambitious but lacking in work experience, social capital and family relations, his options were limited. He therefore took this job, for which many of his colleagues had no interest. The upside was that he became the assistant managing director at the age of 25 and was granted a significant amount of autonomy and power (Suurla 1987). One of his early contributions was to bring the Finnish association to join the international coordinating body for national scientific management and industrial rationalization associations (CIOS or Comité International de l'Organisation Scientifique) (Ainamo and Tienari 2002).

## **The rise and fall of local firms**

The 1948 Treaty of Cooperation, Friendship and Mutual Assistance between Finland and the Soviet Union, although in principle only a military treaty, de facto created special links with the Soviet sphere of influence (Tainio et al. 2000). Still, during the Cold War years, Finland was not fully behind the ‘wall’ and it managed to keep a few openings to the West. This unique way of keeping balance between East and West was heavily criticized in Washington. In the 1970s ‘Finlandization’ or the Finnish attempt to ‘maintain balance in the Cold War no man’s land’ (Kuisma 1998: 138) was highly suspect. The consequence was stringent regulation of American exports to Finland, in particular of ‘strategic’ technology. The objective was to exert pressure on Finland so that it would sever its Eastern ties and move closer to American expectations, particularly in the economic sphere. In practice, the result was the converse : a nigh-isolation of Finland and a widening gap between that country’s institutions and those of Western standard (Hobsbawn 1994: 251).

Behind the geopolitical game and the simplistic discourse of both superpowers, the actions of a few individuals are key to understand how Finland managed to still keep many doors open to the West particularly in the business and economic sphere. In the 1940s, industrial organization experts were still a highly regulated community in Finland legitimated by the attribution of government licenses. Underscoring the need for ‘messengers of free market economy’, Leo Suurla vied for a liberalization of the profession (Tienari 1999). He engineered a transformation of the old industrial organization association into a local version of a modern consulting firm – RASTOR (Rationalization, Standardization and Organization). He channeled resources away from traditional industrial organization projects into ‘company management – that is people management projects’ (Suurla 1987). The 1952 Helsinki Summer Olympics revealed Finland to the rest of the world and triggered the interest of a few American and Western European companies for that country. Leo Suurla leveraged this interest to negotiate a USD 200,000 donation that would fund visits from American management experts into Finland. In this way, Finland was able to bypass in part its official exclusion from the American sponsored Marshall plan and technical assistance program.

The first group of American experts to set foot in Helsinki had little impact but the 1956 group included a man who would play a great role in the transformation of the Finnish field of

professional business counsel. L. Edward Scriven was an American who, in 1939, had opened the London office of Arthur C. Nielsen's management consulting branch to 'spread American management knowledge in Europe'. The war prevented him from opening offices in continental European countries and he went back to the United States. In 1956, he came to Finland and his ties with that country would be dense and long lasting (Scriven 2000).

The model Scriven was working from was the modern form of management consulting as it had come, by then, to be institutionalized in the United States. The focus was on planning and control at the managerial level. This was in stark contrast to the focus on skills at the shop floor level that reflected German influence. It was also not the same as a more recent focus on leadership characteristics, triggered by the war. Finally, it was some distance away from the emerging interest for central planning and state control that was floating around due to Soviet connections. Working closely with Leo Suurla and Henrik Virkunen, Scriven was a major factor behind the diffusion to Finland of a model of professional management that included as one of its key components modern management consulting. He also did a lot to open the 'black box' that the Finnish firm was at the time. The message he managed to put through to Finnish managers was that temporary outside help might sometimes be much more useful than trying to do everything alone or within a bounded and tight social network or cartel arrangement.

An indirect consequence of the work of Scriven was that Finnish firms would not settle for local counsel when they engaged in a strategy of internationalization. Instead, they hired international management consultancies. All in all, the Finnish industry used in that period 20 to 30 foreign management consultants, including the American firms Stanford Research Institute and H. B. Maynard, the Swedish EK Konsulterna and the Norwegian Habberstad (Kallio, 1999). This was to the detriment of the development and growth of a local consulting industry.

In 1961, Leo Suurla set up a Finnish association of management consultants (Liikkeenjohdon Konsultit or LJK) which joined the international coordinating body of national management consulting associations (Federation of Associations of Consultants or FEACO) itself created that same year. Yet, by 1966, LJK had only 70 individual members – a good start perhaps but lagging in comparison to membership in other countries. To spur the growth of a management consulting industry within Finland, Leo Suurla decided to let a 'thousand flowers bloom'.

In 1968, he brought together Rastor and Mec – the Finnish subsidiary of H. B. Maynard – to form Mec-Rastor. In 1974, LJK organized the annual world meeting of FEACO in Helsinki. Despite an economic downturn from 1975 to 1977, Mec-Rastor managed to thrive. To offset declining prices, it increased the number of its assignments, which focused principally on rationalization and downsizing. It also took advantage of state subsidies to diversify into assignments for the small and medium-sized industry. Finally, it advised Finnish companies competing with each other in the Soviet bilateral trade market, where volume and cost generally mattered more than quality. In the process, it imposed itself as ‘The’ Finnish national consultancy (Malin 1989). Mec-Rastor estimated its own market share in the 1970s at somewhere around 60 or 70% of the domestic market (Kallio 1999).

In 1976, the President of the Republic of Finland, the chief architect of both Finlandization and Finno-Soviet bilateral trade, awarded Leo Suurla a ‘professorship’, a prestigious honorary degree, for furthering Finnish management education. Leo Suurla retired in 1978. Meanwhile, Mec-Rastor may have been dominating its home base, but it was by then a ‘giant with feet of clay’. Furthermore, H.B. Maynard was having problems of its own and wanted out. Rastor’s shareholders (mostly Finnish companies) bought the shares of H. B. Maynard in 1980 (Ainamo and Tienari 2002).

### **The swan song of the Finnish model**

In the 1980s and 1990s, four developments had an impact on management consulting in Finland. First, the Americanization of business and engineering schools had by then gone quite far. These schools were producing increasingly international-minded graduates that were able to discuss and thus disagree with dominant patterns of governance and cooperation. Second Mec-Rastor failed in its attempt to internationalize. Third, the country entered the path of extensive deregulation. Finally, the Soviet Union collapsed.

The first major attack on dominant patterns and consensual institutions came from Nokia. Nokia was then the largest private sector corporation in Finland, a prominent actor in the forestry industry that also occupied a significant position in the electronics industry on a European scale. In the mid-1980s, Nokia’s CEO, Kari Kairamo publicly proposed that Finland ought to bet on becoming an ‘information society’ instead of remaining dependent on ‘smokestack industries’ such as forestry (Lovio 1989, Fortune 2000). His direct collaborators in Nokia could not believe

what he had said – forestry was for them a science-based, high technology industry. To overcome resistance, Kairamo turned to the younger group of engineers within Nokia and hired a few outside recruits with international experience (Fortune 2000). Nokia's early move was soon reinforced by others and prompted the Finnish state to action. The state started with a deregulation of the telecom sector and cooperated with Nokia in its attempt to transform the national innovation system (Ainamo 1997). The deregulation of the banking sector soon followed. Finland's economy boomed and the gross domestic product was growing fast. In the mid-1980s, the country was often labeled the 'Japan of Europe' (Tainio et al. 2000: 278). As a sign that times were changing, one of the prominent forestry corporations withdrew from the national trade association that also played the role of a sales cartel (Lilja et al. 1992: 148). The outside world saw these developments as important signals and American consultancies in particular became increasingly interested in Finland. In 1988, Andersen Consulting and McKinsey & Co set up offices in Helsinki.

This, naturally, represented a major challenge for Mec-Rastor, whose heels were at the same time being nibbled on the domestic market by smaller management consultancies. In the early 1980s, the new management at Mec-Rastor had started on an internationalization path. The firm then aggressively sought to enlarge its Soviet operations and to exploit growing Finnish-Swedish trade. History would show that Mec-Rastor had bet on the wrong horse. By the end of the 1980s, the slow descent of the Soviet Union into economic decline was turning into outright economic catastrophe. With the collapse of the Soviet market, Finnish trade suffered a great deal. This was the end of the Finnish boom and the country entered a period of deep recession with a domino effect. The recession triggered a banking crisis. Nokia had difficulties in consolidating its acquisitions in consumer electronics in Germany and Sweden. Large forestry corporations were one after the other withdrawing from the national trade association, a development that commentators interpreted as a sign that there was no way back to the old system (Lilja et al. 1992:148). Last but not least Mec-Rastor was in trouble. In the early 1990s, the company had a go at internal restructuring to escape bankruptcy. And in 1996, it was sold to Coopers and Lybrand.

## **The American invasion**

In the meantime, Andersen Consulting and McKinsey & Co were imposing themselves within the local landscape. The managing director of the Finnish office of Andersen Consulting took it upon himself to follow in the footsteps of Leo Suurla. He got extensive media coverage, chaired LJK, imposed Andersen as the benchmark for other management consultancies in Finland, introduced on a large scale new products such as ‘benchmarking’, ‘integrated transformation programs’ or ‘outsourcing’. Soon, Andersen Consulting was the largest management consultancy in Finland (Ainamo and Tienari 2002). Ironically, though, Andersen’s efforts also led to increased competition and new entrants, all of which foreign, set up offices in Finland in rapid succession during the 1990s.

Meanwhile, a number of other changes were redefining in a radical way the Finnish business system. Nokia imposed itself globally as a major player in the digital telecommunications industry (Lovio 1993, Pulkkinen 1997, Fortune 2000). Finnish banks started losing their power over Finnish industry to global financial markets and in particular to American institutional investors (see Tainio et al. this volume). The call for ‘deregulation spread and became increasingly accepted throughout Finnish society. Finland became a full member of the European Union in 1995 and the Finnish industry as a whole started to feel the ‘need to europeanize’. These developments reinforced the clout of global management consultancies in Finland.

Finnish managers were searching for new knowledge, ‘best practices’ and legitimate knowhow which these consultancies proposed to sell. More importantly, management consulting emerged as an integral part of the new rules of the economic game. Global consultancies were central mediating actors, bridging the gap between Finnish firms and their competitors – both the old, domestic type and the new, often global ones. In this bridging role, global consultancies were taking the place previously occupied in Finland by banks and cartel agreements. The same consultancies bridged the gap between Finnish firms and their new owners – often American institutional investors. Arguably, they also bridged the gap between Finnish firms and their own new managers who had been socialized to understand management as a profession where management consultancies were standard bearers and standard setters.

## **DISCUSSION AND CONCLUDING REMARKS**

In its modern form, management consulting has a relatively short history. The consulting industry as we know it was born in the United States during the 1930s, partly as an unintended consequence of the Glass Steagall Act. The American legislator wanted to limit the power of banks and after 1934 their more narrow span of activities did not include business counsel anymore. This important role was taken over by new entrants who went through a period of rapid growth and managed to institutionalize business and corporate counsel as an industry in itself. The new management consultancies focused on boardroom issues – organizational restructuring, strategy or control. This was quite different from Taylor’s focus on the industrial shopfloor and the new firms were closer in fact to JP Morgan’s understanding of corporate counsel.

In the emerging form of American corporate capitalism, the management consulting industry thus played a role that was played elsewhere – and in the US a little earlier – by banks and cartels. The particular conditions, though, in which that industry took over the role of banks and cartels as knowledge brokers made for significant adjustments and led, one could argue, to the reinvention of that role.

### **Consulting as Institution**

Modern management consulting emerged from the characteristically American preoccupation with concentrations of power. Its birthmark was to make transparent and independent an activity – business counsel – which until then had been used to serve private interests often to the detriment, it was believed, of the wider public. It reinvented in the process a form of corporate counsel that fitted with and even reinforced the stringent antitrust provisions that had come to structure American capitalism. In the 1930s and 1940s, modern management consulting rode on the wave of the professionalization of management then characteristic of the American industry. In time, it even became a key fostering mechanism of that process, along with business education institutions but also stock markets, the increasing size of corporations and the separation of ownership from control (Berle and Means 1932, Roe 1999, Roy 1997). The understanding of knowledge brokering in that context turned out to be quite removed from what it had been in the days of cartels and all-purpose banking. Knowledge brokering was defined as open and encompassing rather than secrete and exclusionary. It was the broad and neutral diffusion of ‘best’ practices rather than the limited sharing of contextual and subjective

information for essentially defensive purposes. It gave all actors equal opportunity in the competitive fight rather than limiting competition in the interests of a few.

Altogether, the modern form of management consulting stands out as an important institutional component of the American form of corporate capitalism. It can be considered a constitutive element of its DNA – on a par with the large, multidivisional firm (Chandler 1977), public ownership and stock markets (Berle and Means 1932, Roe 1999), professional management and business education as well as antitrust legislation (Djelic 1998, Djelic and Bensedrine 2000).

### **Export and its stages**

Starting in the early 1960s, this American ‘invention’ came to export itself. American consultancies engaged on an internationalization path, following in the footsteps of their large American corporate clients. The early destination was Western Europe where they realized with somewhat of a surprise that there was a local market for their services. In France, World War II had had the effect of an electric shock. Reconstruction became the pretext to radical transformations, which were quite disquieting to local actors. Behind these transformations, the US loomed large as a model, the ‘mystique’ of which was effectively diffused in those years through a number of different channels (Djelic 1998). Unlike European consulting centers that had focused almost exclusively on personnel or labor policies and work rationalization, American consultants offered both boardroom level advice on structure, strategy and control and direct contact with the secrets of American know how.

The second moment in the process of internationalization came in the 1980s with a rush of new entrants in the ‘old’ Western European markets – including of local stock – and the assault on the Eastern border. The unique geopolitical position of Finland between 1940 and the 1990s allowed that country to keep many – often hidden – doors open to the West while the domestic market remained officially and formally closed to Western and in particular American firms and consultancies. The largest Finnish firms used consultants for their activities in Western countries. A small group of Finnish men with significant institutional leverage was in the meantime preparing the ground in Finland, working on the institutionalization of management education in the American tradition. So when the Soviet Union collapsed, triggering a national crisis, domestic actors were ready and able to question and shed off dominant institutions and

practices. There were calls for changes in corporate governance, for a shift of power away from banks and towards the stock market. Foreign consultancies moved in, taking over with little difficulties the local market of professional business counsel.

### **Redefining national rules of the game?**

The cases presented above suggest a new perspective on the worldwide expansion of modern management consulting. The rapid diffusion of knowledge and practices across national borders, for which this expansion is in part accountable, is only the tip of the iceberg. The more significant impact of modern management consulting is its contribution to the redefinition of the rules of the capitalist game in the countries where it comes to play a role. Modern management consulting is part of a ‘package’ – the unique version of capitalism that was originally, and partly accidentally, born in the United States. It is one piece of a puzzle that fits closely with other pieces, needing them to make sense. The structuration of a modern management consulting industry in a given country is bound, as we have shown in the French and Finnish case, to come together with the institutionalization of other elements of the ‘package’. It may both follow and reinforce the constitution of large firms, the multiplication of joint stock corporations, the expansion of the role of the stock market, the enactment of strict antitrust rules and the professionalization and rationalization of management.

In interaction with those other elements, the structuration of a management consulting industry thus becomes a powerful mechanism of change for national institutional systems – through time and in a clearly incremental kind of process (Tainio et al., Kleiner this volume). The progressive institutionalization of this combined set of elements creates, when it happens, a challenge for incumbent rules of the economic game. Consulting on its own may have little impact. But its interaction with changes in ownership structure or with a new definition of competition pushes forth a challenger model. The latter trickles up in a progressive and incremental manner, questioning in time national institutional legacies and rules of the game.

According to a recent survey of European top management consultants, deregulation and the ever-stricter implementation of antitrust legislation are key factors explaining the expansion of their industry (Garcia 1999). In this context, consulting firms emerge as an important – and the only legal – connecting link, a mediating institution between a company and its direct and indirect competitors. In the process, consulting firms spread further and contribute to the

institutionalization, in the European landscape, of antitrust principles that forbid direct collusion between competitors. This questions and clearly contributes to threatening European traditions of cartelization and collusion (Lilja and Moen this volume).

Another important conclusion reached by European management consultants was that ‘the relevance of strategic management consulting (was) strongly related to the systems of corporate control implemented by the firms’ (Garcia 1999). More specifically, ‘financial rationality based on the premise that management’s goals concern the maximization of the value of the company translated into an increasing demand for management consulting’ (Garcia 1999). Put differently, this tells us that management consultancies bridge the gap in Europe between local firms and ‘new owners’, mostly institutional investors of American origin (see Tainio et al. this volume). The latter have taken important positions, in recent years, on European stock markets, radically changing in the process the ownership structure of quite a number of firms. In the confrontation between two different worlds, two different paradigms, consulting firms emerge as an interface, a smoothing mechanism. For American investors, consultancies are an insurance; for European firms a legitimacy-enhancing device. For both, they serve as translator. In the process, consulting firms help in the promotion, diffusion and institutionalization of a form of ownership structure and corporate governance distinctly American in its heritage and quite foreign to European traditions – the public firm with dispersed ownership freely traded on stock markets (Roe 1999).

Last but not least, the strong presence and clout of management consultancies has had an impact on national power structures and elite systems (Pincon Charlot 1999). The consulting industry has naturally reinforced the trend, in most countries, towards a professionalization of management. More importantly, may be, consulting firms have tended to impose themselves as an alternate and legitimate – in worldwide standards – route to corporate power in many countries. They have disrupted in the process traditional social structures and local patterns of elite reproduction, contributing to the relative homogenization, across national borders, of business elites along a model that here again had clear American origins (Byrklehoft).

### **Globalization...and its limits**

Even more than the knowledge it carries, the institution of management consulting thus itself appears to be a driver of homogenization and as such an agent of globalization. The

historical narratives, though, and the comparison do not tell of blind or full convergence. The stories we tell of management consulting in France and Finland reflect the impact of a common model, the American model. However, they also reflect the specific process for each country through which this model was transferred. The stories point to unique networks of actors, historical accidents and locally grounded types of resistance, to unique and specific institutional and organizational legacies that predated the transfer and had structured the field of professional business counsel in each country.

Because American consultancies arrived early on in France, they had to face a fair degree of resistance both active and passive in that country, part of it was due to a plain lack of understanding of what consulting firms were for. In order to impose themselves and find a niche in the local ecological context, they had to understand and adapt to that context. Paradoxically, the great distance between local traditions and legacies and the foreign model in the French case may have allowed the survival through transformation of a few homegrown actors. One of them at least – the Gemini Group – has become a success story in its own right and a rare case of a non-American consultancy playing in the major league.

In any case, the process of adaptation and translation in the French case certainly went much further than in the Finnish case. American consultancies arrived in Finland quite late and their ‘fame’, so to say, had preceded them in that country. The largest of Finnish firms knew what management consultancies were; they generally had worked with them around their Western activities. Even the Finnish lay person certainly knew more about global consultancies in the late 1980s before they set up offices in that country than the French had done in the 1960s. The consequence was that instead of an ‘American challenge’, the Finns faced an ‘American invasion’ and American consultancies imposed themselves fully with less need to adapt and little threat from local competitors.

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