Chapter 4

Message and medium – The role of consulting firms in globalization and its local interpretation

Christopher McKenna, Marie-Laure Djelic and Antti Ainamo

Published in GLOBALIZATION AND INSTITUTIONS – REDEFINING THE RULES OF THE ECONOMIC GAME, editors Djelic, M L and S. Quack, Edward Elgar 2003

Introduction

A century ago, management consulting as we now understand it did not exist. The management consulting industry emerged and structured itself in the twentieth century, growing very rapidly in the process. In today’s capitalist landscape, the industry has become a significant actor (O’Shea and Madigan 1997). Historically, the changing needs of a stable group of large corporate clients drove the industry’s growth. In time, however, growth also came from the exploration of uncharted territories – new clients, new industries and 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 and they have started working with semi-public and public organizations. Slowly from the mid-1960s and much more rapidly since the 1980s, consultants have also
internationalized their activities from a mostly American base, often becoming in this process, multinational and increasingly global firms.

Scholarly interest in management consulting has increased in relation to the weight of the industry in the economy. The role and legitimacy of management consultants are now key questions and emerging answers vary. Some scholars claim that management consultants fill in for a lack of internal expertise or competency. Alternately, scholars explain that consultants serve 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 the internationalization of consulting activities, a particularly rapid phenomenon since the 1980s, the link between this role and the process of globalization has become an important research agenda (Kipping and Engwall 2002).

We would not deny 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.

In questioning the origins of modern management consulting, the first part of this chapter describes the industry’s emergence at the turn of the twentieth century as a constitutive institution in the infrastructure of American corporate capitalism. The modern consulting industry is one key feature in a particular set of ‘rules of the economic game’ (Djelic and Quack in this volume) that emerged 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, we believe that analysts should shift
their attention away from the content to the form of 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, scholars should turn to the medium itself, the infrastructure behind the message. Modern management consulting plays a central role in the globalization process. More than simply through the diffusion of knowledge and practices, we argue that management consulting contributes to globalization by pushing new rules of the capitalist game in those countries where the industry becomes a significant player.

Modern management consulting expanded internationally during the second half of the twentieth century. There were two main moments in that transfer. The first was the ‘American challenge’ of the 1960s and the arrival en masse of American corporations and service providers in Western Europe. The second followed the fall of the Berlin Wall. Taking France and Finland to exemplify these two moments, we focus in sections two and three of this chapter on the respective processes through which modern management consulting came to each country. Both cases 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 the respective historical accounts show that this transfer took place in unique conditions in each case. In the process, what had originally been a feature of American corporate and managerial capitalism was reworked, translated and transformed. As consulting spread around the world, the modern – originally American – form of management consulting has come up against national legacies and preexisting institutional constraints that act as filters to which it has had to adapt. This leads us to propose that there is also less to the impact of management consulting than a perfect convergence of practices and rules of the game. Again using McLuhan’s framework, the medium
is also the ‘massage’ perhaps even more than the ‘message’ (McLuhan and Fiore 1967). The massaging of the medium – in our case the originally American form of management consulting – to fit 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). Both men, as well, would define the rules of the game in American industrial relations for most of the twentieth century.

*Between shop floor and boardroom: the two traditions 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, John Pierpont 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 (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 Taylor’s legacy than Morgan’s, since Taylor actually described himself as a ‘consultant’, while 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 Herrington 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 increasingly turned their attention to Europe and Japan for consulting contracts (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 centre of the second industrial revolution. One was Arthur D. Little, founder of his 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 as an archetype of the merchant banker combined the now separate functions of a commercial banker, stockbroker, management consultant, and venture capitalist. In order to finance and organize such industrial giants at U.S. Steel, AT&T and General Electric, Morgan and his partners drew upon internal and external networks 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, John Pierpont 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, p. 87). In the 1890s, as Morgan employed his internal staff to reorganize most of the American railroad network, he also drew upon external specialists, like the engineering firm 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 duty 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, p. 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**

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 1995). 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 vital economic 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 rapidly institutionalized the flow of American MBAs into leading consultancies (Bower 1977).

Management consulting comes of age: from institutionalization to expansion

Marvin Bower’s decision to recruit at 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 elite consultancies, with heavy competition among leading firms for ‘Baker Scholars’, the top five percent of a 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 top corporate law firms in New York (Galanter and Palay 1991, Bower 1963). By the early 1960s, it was increasingly clear to 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 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 entering the job market.

During the 1950s, even as the senior partners of 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 to 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, Djelic 1998). In the late 1950s, however, as European managers and policy makers
became convinced that American management techniques, perhaps even more than technology or labour, 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 1967). Leading American consultancies, which had initially followed American multinationals to Europe, quickly founded offices throughout Western Europe even where the latter did not need them. They offered 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

American management consulting firms began opening offices in France during the 1960s. Following their clients, consultants also rode the wave of a large-scale institutional transformation that had been redefining French industry since the late 1940s. Settling down, however, took time and proved difficult, requiring consultants to adapt to local conditions.

A Taylorist precedent

Early in the twentieth century, Taylor’s ideas had found a sounding board among a small group of French engineers. Before 1914, however, the rare attempts at actually implementing these
ideas were on the whole quite contested and unsuccessful in France (Moutet 1997). Taylorism got a new lease of life after the First World War, when Taylor’s disciples 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. Paul Planus, an early collaborator of Thompson soon followed and opened an office in Paris during the late 1920s. Within ten years, Planus’ practice was quite successful and numbered roughly thirty-five professionals. Charles Bedaux also opened an office in Paris in 1927. Born in France, Bedaux had emigrated to the States in 1906, where he developed his own version of scientific management. By 1939, the Société Française Bedaux had 80 professionals and its system had been installed in about 150 firms (Christy 1985).

The ties linking these offices to local engineering and business communities explains in part their relative success. The founders knew how to create and to leverage dense networks, enlisting the support of the small, but well organized, cadre of French Taylorite engineers (Moutet 1997, Kipping 1996). Well-anchored in the American tradition of scientific management but nevertheless embedded in the local community, these Taylorite organizers structured the field during the 1930s of professional business counsel in France. Although limited to a few firms, their impact was significant, particularly given the cultural impediments consultants faced. 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). Despite owners’ natural reluctance, Taylorite organizers nevertheless managed to convince a few open minded and ‘enlightened’ business owners to let outsiders scrutinize their shop floors.

This was not yet, though, 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 then doing in the United States. French boardrooms would remain out of reach for many years. It would take a remarkable transformation in the industrial landscape before outsiders would be let in.

Institutional reengineering – a necessary precondition to modern management consulting

The end of the Second World War created an opening as it came together in France with an acute sense of national crisis. For the new authorities the ‘absolute necessity for national rebirth’ called for radical transformation and the ‘modernization’ of economic structures (De Gaulle 1970, Commissariat 1946). A small group of national actors, around the key figure of Jean Monnet, coordinated this initial impetus. Their main referent was the American system of industrial production as an exemplar of the path 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, American foreign assistance initiative bolstered this French effort. Originally, Washington defined the Marshall plan as simply a program of financial and material assistance, to provide for large-scale transfer of machinery and equipment. In reality, Marshall planners always had much 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 continuing predominance of processes that left little space to mechanization, specialization and standardization. Both American Marshall planners and French modernizers championed mergers and concentration as a first step towards the modernization of ownership and organizational structures and a necessary condition to the importation of ‘advanced’ technologies and ‘efficient’ production methods. Using their access to American goods and counterpart funds as an incentive, the French planning council fostered mergers, restructuring and mechanization in many industries (Djelic 1998).

Another common concern was the existence of cartels and restrictive practices that limited competition, rationalization and the search for efficiency. In 1953, a national antitrust act was enacted but it was not effective (Sélinsky 1979). Changes there would be more indirect, coming through the process of European construction. In 1951, Jean Monnet used American resources and support to integrate American-style antitrust provisions into the coal and steel treaty (Djelic and Bensedrine 2001). These provisions, which were subsequently incorporated in the Rome Treaty during the late 1950s, came to redefine, *de facto*, competition within the European Economic Community and later the European Union. They contributed to bringing closer the rules of the game in Europe to those then prevalent in the United States (Monnet 1976). Under the Rome Treaty, cartels were, in principle, outlawed which encouraged the growth over time of large corporations utilising mass production and enjoying economies of scale and scope. The American philosophy of antitrust in 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 to Europe (OMGUS Bd18).
Finally, the common cause of American and French ‘modernizers’ 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 since it placed many French firms under the full and direct control of a technocratic elite who favoured 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 American model. Teams of young experts were also sent to the States, and they would later become trainers, consultants, and business school professors. A longer term but parallel project was the construction of a national system of business education to socialize the emergent class of ‘managers’ (Boltanski 1982). In this case, once again, the recipe was a combination of French initiatives with American models and references, resources and support (Djelic 1998).

*The American challenge*

Initially, public and semi-public actors and institutions oversaw this vast and multidimensional transformation. Rapidly, however, this came to be seen as only the first stage in the broader transformation of Europe. Americans in particular believed that these changes would not succeed if they remained state-led. Private initiative had to be fostered in order to replace, in time, public intervention. In practice, 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 earlier and was the second stage, after the coal and steel community, towards an open European market, only reinforced this trend by increasing competitive pressures on French firms. The preparatory work had gone far enough. Time was ripe for the ‘American Challenge’ (Servan-Schreiber 1967).

While they had been cautious before then, American private companies began moving in great numbers into France – and more generally into Europe – in the late 1950s. American foreign direct investment more than tripled between 1960 and 1973 (Jones and Schröter 1993, p. 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 the opportunities created by the structural and institutional transformations that marked Europe. 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 focused their activities in Europe on serving the American corporations pursuing internationalization. Consultants soon set up local offices, however, when they realized that there was also a domestic market for their services. In France, the mergers and reorganizations of the 1950s had resulted in the creation of large scale
companies for which the old organizational systems were ill suited. In the process, the networks, alliances and cartels through which French firms had previously shared information and maintained protective barriers were gradually weakened or destroyed. The new European regime, policed by a strict anticartel act, disturbed many French executives who were not used to these competitive pressures. Changes in ownership structures also created greater need for professional managers both in state-owned and private firms. And many of these managers had been exposed, in one way or another, to the American ‘miracle’. Most of these managers were convinced that the only way that French firms could fight the ‘American challenge’ was by becoming increasingly similar to their American competitors (Servan-Schreiber 1967).

French business counsel, however, was not up to the task of reorganizing French firms in the image of their American competitors, for French consultants did not have those skills. The problem with ‘consulting centres’ – direct heirs to Taylorite predecessors – was that they focused on shop floor practices and work rationalization; yet French companies now needed external experts who could help them think through strategic issues, implement mergers and move towards structural rationalization. American consulting firms offered just those kinds of services. American consultants were the repositories of ‘modern’ management knowledge and practices that consultants could transfer to these avid French firms. They were also the missing link bridging the gap, if only indirectly since collusion was becoming less acceptable, between competitors.

*American consultancies and integration into the French landscape*
As a consequence, American consulting firms expanded rapidly during the 1960s and early 1970s even as firms that focused on scientific management and the shop floor level declined (Kipping 1996). This was true in France but also more generally within Europe. By 1969, McKinsey had six offices in Europe. The number of consultants working for these offices went from fifteen in 1962 to one-hundred and sixty in 1969, when European revenues amounted to thirty-five percent of McKinsey’s worldwide revenues (McKinsey 1971). In France, McKinsey’s assignments had to do mostly with helping emerging national ‘champions’ reorganize their structure. These were the golden years of the multidivisional form (Kogut and Parkinson 1993, McKenna 1997). The first oil shock, however, and difficulties in the process of European construction had a sobering effect. The ‘phones stopped ringing’ (McKenna 1997) and McKinsey even closed its Paris office for a while. The failure to adapt in spite of changing conditions could also explain, at least in part, the difficulties American consultants faced. As time had passed and the new generation of French professional managers had appropriated the institutional and structural transformations of the postwar period, the French had developed their own version of corporate and managerial capitalism and French managers were far less ready than before to favour American consultants simply because they were American.

American consulting firms had to adapt before they could rebound in France. On the one hand, there was an effort at greater integration within the national landscape. American consultancies started recruiting locally, increasingly choosing to have French nationals as local directors. They understood, as American Taylorite organizers had before, that consultants had to be integrated within the network of local elites. Hence, consultants 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 (Byrkjeflot 2000). Quite a number of former consultants went on to have successful careers as top managers, shaking up the traditional managerial class dominated by engineers and civil servants (Boltanski 1982). Another way in which American consultants adapted was through better responding to their clients’ particular needs. The many years of ‘one size fits all’ solutions were gone and this was true not only within the French market.

Ultimately, the effort paid off. In France and more generally in Europe, the management consulting industry prospered during the 1980s and 1990s. The cumulative revenues of Booz Allen, McKinsey, A.T. Kearney and Arthur D. Little in Europe were over twenty-one million dollars in 1969, but by 2000, the consulting market in Europe was worth an estimated 25 billion euros (Feaco). The cost of success, however, has been that early American entrants – Booz Allen, McKinsey and Arthur D. Little – faced increasing competition. In the French market, competition came mostly from the US and in particular from the large accounting firms that developed consulting divisions. To a lesser extent, it also came from the transformation of a few local Taylorite organizers. The Gemini group, however, is the only example of a consultancy with French origins growing beyond its national boundaries. To this day, of the twenty largest consultancies in the world, seventeen are headquartered in the US (Kennedy Information Research Group).

The transfer to Finland
In Finland, the American model of management consulting arrived quite late, in the mid-1990s. Preparatory work had been intense, however, since 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 to 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 working class who spoke Finnish. They survived the bloody Finnish civil war of 1917-18 but after Finland gained its independence, the new government became concerned by the country’s strong dependence on forests (Laurila 1999, p. 215). Hence it sponsored the creation of a national industrial rationalization association (Työehollisuusliitto) with the aim of fostering standardization, industrialization and growth in other more craft-based industries.

In 1947, the 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. At the age of 25, Suurla became the assistant managing director and was granted a significant amount of autonomy and power (Suurla 1987). One of his early contributions was to persuade 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). Despite this, during Cold War years, Finland was not fully behind the ‘wall’ and the country managed to remain open to the West. This unique way of being in the middle 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, p.
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 to 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 Western standards (Hobsbawn 1994, p. 251).

Behind the geopolitical game, the actions of a few individuals are key to understanding how Finland managed to 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. 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 channelled 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 in the country. Leo Suurla leveraged this interest to negotiate a two-hundred thousand dollar 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 significant 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 market research 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 to be institutionalized by the 1950s, 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 the prevailing German influence on consulting in Finland. 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 driven by Soviet connections. Working closely with Leo Suurla and Henrik Virkunnen, 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’ of the Finnish firm at the time. Scriven managed to convince Finnish managers that temporary outside help might sometimes be much more useful than trying to do everything alone or within a tight social network or cartel arrangement.

An indirect consequence of Scriven’s work was that Finnish firms did not settle for local counsel when they pursued internationalization. Instead, they hired international management consultancies. All in all, the Finnish industry used in that period twenty to thirty foreign management consultants, including Stanford Research Institute and H. B. Maynard from America, the EK Konsulterna from Sweden, and the Habberstad from Norway. Naturally, their use of outsiders deterred the growth of a domestic 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 founded that same year. Yet, by 1966, LJK had only 70 individual members – a good start perhaps but small 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 merged 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, Mec-Rastor increased the number of its assignments, which focused principally on rationalization and downsizing. It also took advantage of state subsidies to diversify into assignments with small and medium-sized companies. Finally, Mec-Rastor 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, Mec-Rastor became known as ‘the’ Finnish national consulting firm. Mec-Rastor estimated its own market share in the 1970s at somewhere around sixty to seventy percent of the domestic market (Malin 1989).

While Mec-Rastor dominated its home base then, it was also clear that it was a ‘giant with feet of clay’. Even worse, H.B. Maynard was having its own problems and wanted out. Rastor’s shareholders (mostly Finnish companies) bought Maynard’s share 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 who were able to discuss and thus disagree with dominant patterns of governance and cooperation. Secondly, Mec-Rastor failed in its attempt to internationalize. Thirdly, the country began to deregulate its economy. 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 within Europe. 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 the 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 grew quickly. By the mid-1980s, the country was often labelled the ‘Japan of Europe’ (Tainio et al. 2000, p. 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, p. 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 within the domestic market by smaller management consultancies. In the early 1980s, the new management at Mec-Rastor had started down the path to internationalization. The firm then aggressively sought to enlarge its Soviet operations and to exploit the growing Finnish-Swedish trade. History would show that Mec-Rastor 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. This was the end of the Finnish boom and the country entered a period of deep recession that came together with a banking crisis. Nokia had difficulties in consolidating its acquisitions in consumer electronics in Germany and Sweden. Large forestry corporations, one after the other, withdrew from the national trade association, prompting commentators to suggest that the old system was finished (Lilja et al. 1992, p. 148). Last but not least Mec-Rastor was in trouble. In the early 1990s, the company had to restructure in order to escape bankruptcy; in 1996, they sold themselves to Coopers and Lybrand.

**The American invasion**

In the meantime, Andersen Consulting and McKinsey & Co were becoming increasingly integrated into 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 who had retired in 1978. He received extensive media coverage, chaired LJK, proposed Andersen as the benchmark for
other management consultancies in Finland, and introduced new products such as ‘benchmarking’, ‘integrated transformation programs’ and ‘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 foreign firms set up offices in Finland in rapid succession during the 1990s.

During that period, a number of other changes were radically redefining the Finnish business system. Most notably, Nokia became a global player in the digital telecommunications industry (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 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 know-how which these consultancies proposed to sell. More importantly, management consulting emerged as an integral part of the new rules in 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. American legislators wanted to limit the power of banks and after 1934 their more narrow span of activities no longer included business counsel. 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 onto 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 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 had been played earlier in the US – 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 managerial professionalization 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 2000, Roy 1997). American understanding of knowledge brokering in that context turned out to be quite removed from what it had been in the days of cartels and universal banking. Knowledge brokering was defined as open and encompassing rather than secretive 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.

In this way, 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 2000), professional management and business education as well as antitrust legislation (Djelic 1998, Djelic and Bensedrine 2001).

*Export and its stages*
Starting in the early 1960s, this American ‘invention’ began to export itself. American consultancies engaged an internationalization path, following in the footsteps of their large American corporate clients. The early destination was Western Europe where they realized, in surprise, that there was a local market for their services. In France, World War II shocked the existing system. 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 centres 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 some 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, requiring them all 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 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 (see also 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 altering the ownership structure of a large number of firms. In the confrontation between two different worlds, two different paradigms, consulting firms emerge as a massaging interface, a smoothing mechanism (Lilja and Moen this volume). For American investors, consultancies serve as a form of corporate insurance; for European firms they are 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 2000).

Last but not least, the strong presence and clout of management consultancies has had an impact on national power structures and elite systems (Pinçon and Pinçon-Charlot 1999). The consulting industry has naturally reinforced the trend, in most countries, towards a professionalization of management. More importantly may be the fact that 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 (Byrklohoft 2000).

Globalization…and its limits

Even more than the knowledge it carries, the institution of management consulting as such thus appears to be a driver of homogenization and an agent of globalization. The historical narratives, though, and their comparison do not provide evidence 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 processes 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 structured the field of professional business counsel in each country before the transfer and acted as filters, sifters or deflectors to a greater or lesser extent.

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 which was due to the lack of understanding of the purpose of consulting firms at the time. To grow and find a niche in the local ecological context, they had to understand it and adapt to quite an extent. Paradoxically, the great distance between local traditions and the foreign model in the French case and the solid structuration of a field of professional business counsel before the 1960s may have made it easier for a few local actors to survive. 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 on the international stage.

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’ had preceded their arrival. The largest of Finnish firms knew what management consultancies were; for they had already worked with them in the West. Even the Finnish public certainly knew more about global consultancies in the late 1980s, before they set up offices in that country, than the French elite had known in the 1960s. The consequence was that instead of an ‘American challenge’, the Finns faced an ‘American invasion’ and American consultancies entered the market with less need to adapt and little threat from local competitors.

Those different paths and the local ‘massaging’ processes they imply undeniably point to the limits of the homogenizing effects associated with globalization. Globalization appears to be indeed about new rules of the game transforming local incumbent frameworks – not necessarily radically but potentially quite significantly (Djelic and Quack in the conclusion to this volume).
However, the specificity and unique character in each case of the encounter between a common ‘dominant’ model and multiple local legacies means that the end result remains open and leaves room for variability. By all means, the latter becomes all the more obvious that we go away from formal structures, rules or discourse and closer to practice and action.

References


Brandeis, Louis (1914), *Other People’s Money and How the Bankers Use It*, New York: Frederick A. Stokes.


Daggett, Stuart (1908), *Railroad Reorganization*, Boston, Mass: HMC.


Hoffman, Paul (1951), Peace can be Won, New York: Doubleday.


OMGUS Bd18 (1947), *Bipartite Control Office, Economics Division and Decartelization Branch*, Koblenz, Germany, Bundesarchiv.


Pulkinnen, Matti (1997), *The Breakthrough of Nokia Mobile Phones*, Helsinki, Finland: Helsinki School of Economics and Business Administration.


Scriven, L. Edward II (2000), Son of L. Edward Scriven, email communication with one of the authors.


Veblen, Thorstein (1921), The Engineers and the Price System, H. B. Huebsch.

**On-line:**

FEACO: [www.feaco.org](http://www.feaco.org)

Kennedy Information Research Group, Consulting Central: [www.consultingcentral.com](http://www.consultingcentral.com)