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CHAPTER 4

INSTITUTIONAL CHANGE AND THE GROWTH OF STRATEGY CONSULTING IN THE UNITED STATES

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4.1 INTRODUCTION

THE remarkable growth of the management consulting industry has puzzled scholars and practitioners alike. Today, the industry is a socially and economically prominent sector of organization life, but prior to World War I the industry was fledgling at best (Higdon 1969; Kipping 2002; McKenna 2006). This transformation has garnered considerable academic attention. One line of argument for the industry's growth emphasizes management consulting's efficacy in addressing organizational problems. For example, in his two-part treatise, Canback (1998, 1999) invokes transaction-cost economics and argues that external contracting for management advice is, on the whole, more efficient than an internal solution (see also Washburn 1996). Using a similar argument, McKenna (2006) posits that management consulting offers 'knowledge economies' that outweigh the costs of using consultants. A second line of scholarly work takes a more critical stance and describes how management consultants perpetuate demand for their services through their interaction with clients. For example, Clark (1995; Clark and Salaman 1998) employs a dramaturgical metaphor to explain how consultants manage clients' impressions of the value of consulting. Similarly, Ernst and Kieser (2002) elaborate a model in which consulting projects initiated to give managers control over uncertainty actually exacerbate this need, thereby creating a cycle of self-perpetuating demand. A third, related line of work takes a political view and sees consultants as competing with and displacing other management groups, principally senior and middle managers inside organizations (Sturdy 1997).

What is generally under-explored in these approaches is how changes in the wider social context facilitated management consulting's growth (cf. Kipping and Wright, Chapter 8, this volume). While existing studies acknowledge the importance of such macroscopic changes, they generally do not elaborate on them: the economic, interactionist, and political approaches are endogenous in nature, with a focus on the consulting process itself. This chapter seeks to redress this gap with a historical–institutional perspective. Specifically, the chapter elaborates on how broad institutional changes created *opportunities* for early management consulting firms to gain resources and legitimacy for their activities. Five such changes are discussed: the increased number and complexity of corporate organizations, the establishment of a large and permanent military–industrial complex during and following World War II, the increased corporatization of non-corporate sectors, the spread of business education, and the expansion of the business press.

This analysis of these institutional changes extends the work of two notable studies of management consulting's growth. In his paper and book on the history of management consulting, McKenna (1995, 2006) locates the impetus of the industry's growth in the Glass–Steagall Act of 1933, which he argues 'opened up a vacuum into which firms of management consultants rushed'. More recently, Ruef (2002) examined a series of labour market shifts that increased the attractiveness of management consulting to business school graduates. The present chapter extends this prior work by considering a broader set of institutional changes—changes in the distribution of organizational forms in society, normative shifts within organizations, and the emergence of complementary sectors—and by making explicit the links between these institutional changes and the growth of the strategy consulting field.

The analysis in this chapter focuses specifically on the field of strategy consulting as a subset of the larger management consulting industry in the United States. A number of existing explanations for the growth of management consulting also focus on strategy consulting firms, implicitly if not explicitly (for example, Canback 1998; Ernst and Kieser 2002; McKenna 2006). Strategy consulting firms were the 'second wave' of management consultants, coming after the 'efficiency experts', who applied Taylorist principles to the shop floor (Kipping 2002; Wright and Kipping, Chapter 2, this volume). More than their engineering-based predecessors, strategy consulting firms struggled to explain their methods and potential benefits, and thus faced greater legitimacy hurdles (McKenna 1995). It was during the 1920–1980 period that strategy consulting emerged as a distinct field and grew to substantial prominence, eclipsing the first wave of shop-floor consultants; by 1960, strategy consulting was on the cusp of a golden age and would dominate the industry in the ensuing decades (Kipping 2002; McKenna 2006). Strategy consulting expanded most rapidly in the United States, and indeed the institutional changes described in this chapter generally occurred first in that country (Chandler 1990; Fligstein 1990: 304).

This account of the growth of strategy consulting employs a historiographical approach (Kieser 1994; Ventresca and Mohr 2002) and draws upon material from a variety of archival sources: organizational histories, the business press, publications from industry associations, and the work of business historians. Quantitative data on historical trends were also collected from sources such as *County Business Patterns*, *Statistical Abstract of the United States*, and *Digest of Educational Statistics*. Unfortunately, no systematic data exist on the size of the management consulting industry (or its subfields) prior to the publication of industry directories in the 1970s. In summary, the objectives of this chapter are to: 1) describe how macro-institutional change provided a fertile context for the remarkable growth of strategy consulting; 2) complement existing explanations of consulting's growth, particularly explanations drawing on economic or interactionist perspectives; and 3) inductively generate insights about how institutional change affects industry evolution more generally.

4.2 Institutional Change and Opportunity Creation

This section explores how broad institutional changes allowed the field of strategy consulting to expand from its nascent state. While 'institutional change' can refer to a great many different types of change (David and Bitektine 2009), even changes within individual organizations, here it refers to structural or normative changes in organizational *fields* and *forms* (Scott 2001). Specifically, the chapter examines the emergence of (or fundamental change in) the following *types* of organizations: large corporations, governments, the military and military-related organizations, not-for-profits, business schools, and the business press. Its central thesis is that the emergence of (or changes in) these organizational forms created opportunities for strategy consulting firms—opportunities that early strategy consulting firms exploited. Without the changes outlined below, it is unlikely that strategy consulting would have attained the level of social and economic prominence that it has.

4.2.1 The Corporate Form

Increases in both the *number* and the *complexity* of corporate organizations have presented a burgeoning opportunity for strategy consulting. As Chandler (1962, 1977, 1990) and others have documented, the first half of the twentieth century saw the structure of American industry change from one of small, single-product, owner-run enterprises to one dominated by large, complex corporations (see also Berle and Means 1932; Presthus 1962; Fligstein 1990). Merger waves following World War I and World War II accelerated these changes and resulted in great increases in the number and complexity of corporate organizations (Chandler 1977: 477). Most large corporations adopted a multidivisional structure (M-form), characterized by dispersed, decentralized units (Fligstein 1990; Kipping 2002). Figures 4.1 and 4.2 show the changing nature of the organizational landscape in the twentieth century. As Figure 4.2 shows, by 1979 almost 90 per cent of large organizations had adopted the M-form, requiring complex systems for co-ordination, control, and decision-making.

The post-World War II period also witnessed extensive corporate diversification. Inhibited from pursuing related mergers by the Cellar–Kefauver Act of 1950, corporations sought growth through *un*related expansion (Fligstein 1990). The result was diversified conglomerates of unrelated businesses. Organizations that before the war had ten to twenty-five divisions typically expanded to forty or more in the post-war years. An extreme example is that of General Electric, which by 1955 had over one hundred operating divisions (Fligstein 1990: 234). By the mid-1960s, mergers were topping 2,000 per year. These changes further increased organizational complexity, as managers were often faced with distant markets, new products and processes, far-flung supply chains, and diverse sets of competitors.

As a result of the decentralization and diversification of US corporations, new managerial positions not present in the previously dominant, owner-managed, single-product firms were created (Chandler 1977: 411). For the first time, owners no longer administrated their enterprises and full-time salaried executives came to dominate large corporations, resulting in the need for new managerial skills, justifications, and excuses. Meanwhile, managerial functions such as marketing, finance, and product development became increasingly specialized, making cross-functional communication more difficult (Vernon 1971: 127). Finally, as Fligstein (1990: 292) noted, diversification often did not lead to higher profits, a situation which prompted the search for solutions.

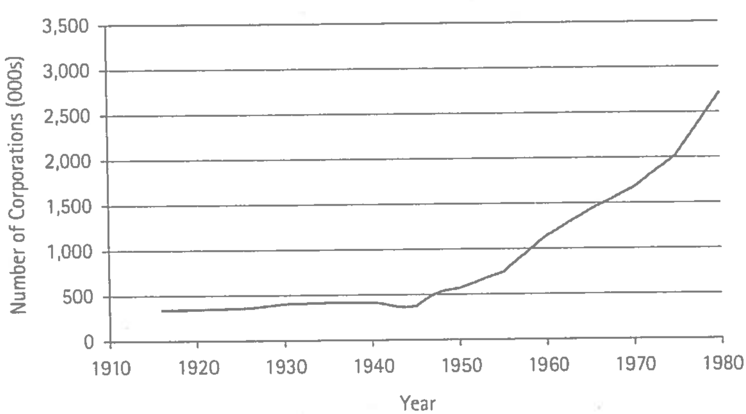

FIGURE 4.1 Number of corporations in the US

Source: Statistical Abstract of the United States.

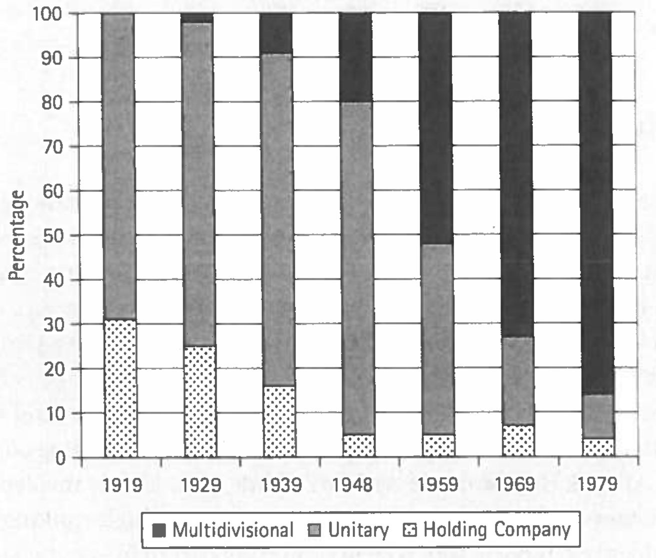

FIGURE 4.2 Structures of the 100 largest US firms

Source: Fligstein 1990: 336.

These changes in the organizational landscape created opportunities for early strategy consulting firms. For instance, in a landmark project begun in 1925, Edwin Booz (founder of Booz, Allen & Hamilton) was hired to reorganize US Gypsum in the wake of a multi-firm merger. Similarly, in 1935, US Steel—which had remained a federation of independent firms after it was formed through the merger of three large steel companies in 1901—commissioned a consortium of consulting firms that included McKinsey & Co. to help it integrate its activities. Retail firms, which were among the most diversified and ambitious firms of the pre-World War II period, were also frequent clients of early strategy consultants. For example, in the 1930s, Montgomery Ward enlisted the help of Edwin Booz as it opened a vast network of retail outlets and integrated backwards into manufacturing. During the same period, James O. McKinsey was hired to undertake a high-profile reorganization of Marshall Field, a large retailer that was feeling the ill effects of over-diversification.

The structural complexity, decentralized management, dispersed operations, and ambiguous authority structures of corporate organizations had essentially created the *opportunity* for strategy consulting firms to offer solutions to organizational problems and justifications for managerial actions. This does not imply, however, that consulting firms represented an optimal, or even effective, solution to organizational problems. Indeed, mimetic processes may have been at work: as large, prominent firms began to hire management consultants, smaller firms may have been prompted to 'follow the leaders' (DiMaggio and Powell 1983; Haveman 1993; Han 1994). The key analytic point here is that the evolution of the corporate sector provided a fertile context for strategy consulting, one which early firms capitalized upon.

4.2.2 Military–Industrial Complex

While increases in the number and complexity of corporate organizations occurred over an extended period, World War II provided an immediate (and lasting) stimulus to the strategy consulting field. As shown in Figure 4.3, the US military increased to over twenty-four times its pre-war size from 1939 to 1945; similarly, Figure 4.4 shows that US military spending also experienced a sharp increase, rising from $2.5 billion in 1939 to $162 billion in 1944 (1967 dollars).

This massive war effort created problems of co-ordination and control within the military, which management consultants could claim to address. Leading consulting firms, such as Booz, Allen & Hamilton and Arthur D. Little, were closely involved with the war effort, with partners and senior employees often occupying high-ranking military positions. A prominent example of war-related projects occurred in 1940, when Frank Knox, Secretary of the Navy, asked Edwin Booz to help him reorganize the entire US Naval organization (Bowman 1984). The navy was to double in size within two years, and Booz himself moved to Washington to manage the project. The firm also helped create the Army Services Forces, designed to help the army run more efficiently. In 1941, Richard Paget (then a Booz Allen partner) was named head of the navy's Office of the Management Engineer, and Mark Cresap (also a Booz Allen consultant) was appointed to a similar position in the army. Meanwhile, Arthur Tom Kearney, a senior partner at McKinsey & Co. (and later the founder of his own strategy consulting firm), was put in charge of reorganizing the War Production Board (McKenna 1996a: 103). This was the

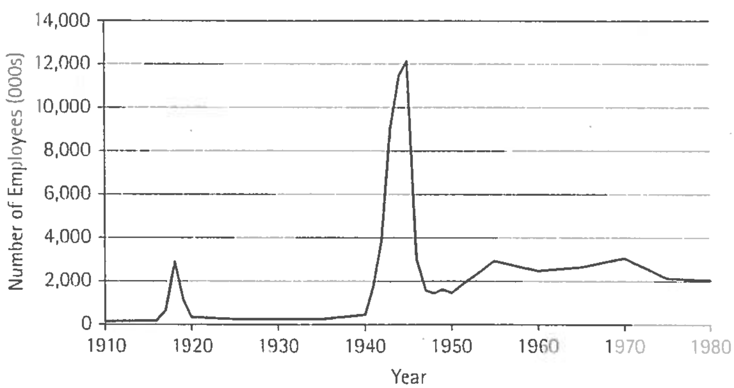

FIGURE 4.3 US military employment

Source: Statistical Abstract of the United States.

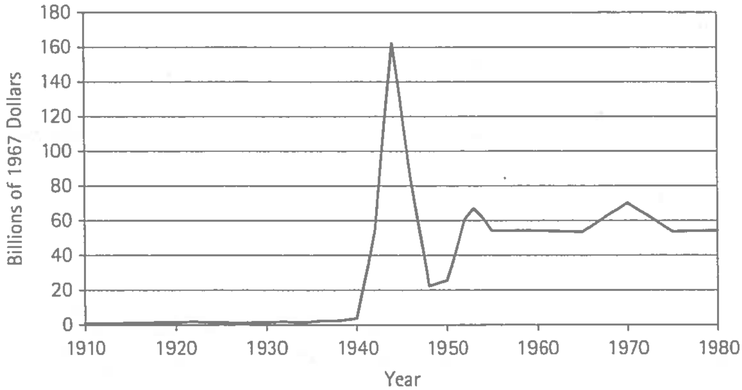

FIGURE 4.4 US military spending
Source: Statistical Abstract of the United States.

first time that personnel not trained in the military were given such key roles (Bowman 1984: 24).

Importantly, however, World War II was more than a one-time stimulus. Even though military employment and expenditures dropped markedly at the war's end, they remained well above pre-war levels (see Figures 4.3 and 4.4). Military-related demand for management consulting remained strong, as the military-industrial complex took on massive defence programmes (Hunt 1977: 16). In 1946, former Booz Allen partners Mark Cresap and Richard Paget, along with Paget's assistant in the navy, William McCormick, founded their own consulting firm (Cresap, McCormick & Paget) based primarily on military and related governmental assignments (Higdon 1969: 124). Booz, Allen & Hamilton itself also received a tremendous boost from the emerging military-industrial complex. For example, the firm undertook post-war projects for the Olin Corporation, makers of munitions, and for Sperry Gyroscope, makers of weapons systems. Between 1945 and 1948, Booz, Allen & Hamilton added eighteen partners to the ten that it had at the end of the war (Bowman 1984: 43). In 1958, as part of the landmark Polaris Missile project, Booz Allen developed a computer-based project management tool known as Program Evaluation and Review Technique, or PERT—a tool that soon gained wide prevalence in industry and gave the firm considerable visibility and recognition (Guttman and Willner 1976: 182). During the 1950s, Booz Allen added an additional forty-two partners, and by 1964 its military division alone had 275 clients and \$6 million in annual revenue (Bowman 1984). The firm's work for the military continued through the 1960s and 1970s, with contracts related to the procurement of navy ships, the development of Trident submarines, and the management of NASA space missions.

The nature of the military-industrial complex also led to opportunities within government and industry: after the war had ended, high-ranking military personnel took positions with consulting firms, government departments, and in industrial organizations, creating strong ties between these sectors (Guttman and Willner 1976). Finally, as discussed below, the war precipitated an increase in the size of the federal government as well as the international expansion of American corporations, both of which created additional opportunities for management consultants (see Kipping 1999 on the expansion of US management consultants to Europe).

In sum, in the words of George Fry (a former Booz Allen partner who would later found a prominent firm of his own), 'the war proved to be a tremendous impetus for the management consulting business' (quoted in Higdon 1969: 123). This accords with Carroll, Delacroix, and Goodstein's (1988) argument that war can redirect resources among organizational forms (see also Stinchcombe 1965). The stimulus provided by the war, moreover, lasted well past its end, thanks to the emergence and institutionalization of the military–industrial complex; for example, the PERT chart developed by Booz Allen spread quickly from military to industrial application. The war thus not only served as an immediate stimulus for strategy consulting, but as an irreversible one.

4.2.3 The Corporatization of Non-Corporate Sectors

The post-war years also witnessed the increasing 'corporatization' of non-corporate sectors—that is, the spread of corporate beliefs, values, and practices to areas previously dominated by other institutional logics (e.g. professional, political) (Starr 1982; Alexander and D'Aunno 1990). Corporatization is similar to Weber's (1947: 186) *rationalization*, or an increase in the degree of cost-benefit calculation present in a sector of activity. As purveyors of rational management techniques from the corporate sector, strategy consultants benefited from this normative change. While corporatization also occurred in the educational and even religious fields (McKenna 1996b), the most important changes for the consulting industry were in government and health care.

4.2.3.1 *Federal, State, and Local Governments*

First, as the federal government in the United States increased in both size and complexity, it also became increasingly subject to corporate logic. As shown in Figure 4.5, federal civilian employment (i.e. excluding the military) rose from 800,000 or so in 1935 to almost 4 million in 1945, and stabilized at over 2 million in the post-war period. By 1947, the number of federal administrative units had increased to over 1,800 from less than 500 some twenty years earlier (Gervasi 1949; McKenna 1996a).

This growth, moreover, took place 'in a haphazard fashion' (Emmerich 1971: 47), as 'agency piled on agency and bureau on bureau' (Gervasi 1949: 4). As a result, the federal government faced severe problems of co-ordination and control, and came under increasing pressure for administrative reform. In a landmark reorganization effort, the Hoover Commission on Organization of the Executive Branch was established in 1947 'to bring into an integrated organization structure the numerous agencies left in the wake of war and demobilization' (Emmerich 1971: 82) and to 'achieve maximum economy and effectiveness of administration' (Gervasi 1949: 9). Hoover himself was an ardent

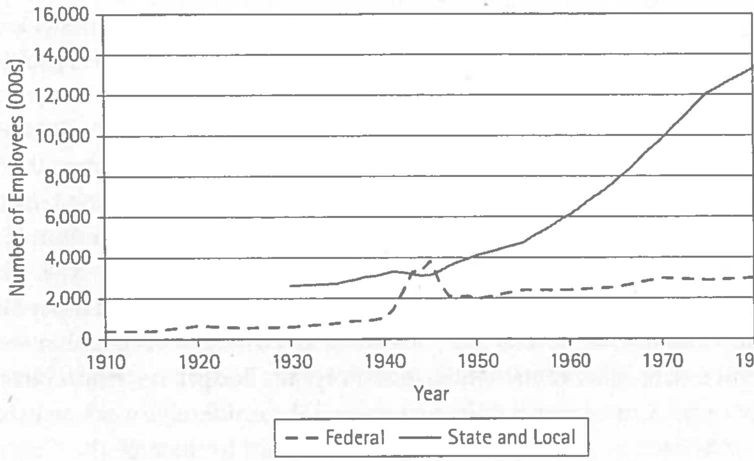

FIGURE 4.5 US government employment

Source: Statistical Abstract of the United States.

believer in 'orthodox administrative doctrine' and equated the presidential role with 'any other essentially *managerial* function' (Arnold 1976: 64; emphasis added). As such, Hoover applied a 'business' rather than 'political' logic to the reorganization, and, in a break with past federal task forces, recruited heavily from industry (Emmerich 1971; Arnold 1976). In fact, in the first high-profile use of management consultants by the federal government outside of the military, the commission hired management consulting firms to lead fifteen of its thirty-four policy studies, and thereby imparted 'the perspective of private business' and a 'general efficiency approach' to the federal government (Emmerich 1971: 85; McKenna 1996a: 102).

Consulting firms were given other higher-profile assignments within the federal government. In 1948, Robert Heller & Associates was hired to reorganize the US Post Office. In 1950, President Truman allocated $1 million for management consulting projects within the government, and in 1952 President Eisenhower hired McKinsey & Co. to provide advice on political appointments and to reorganize the White House (McKenna 1996a). Through the 1960s, the use of consultants continued to spread across federal agencies, as firms such as McKinsey & Co., Booz Allen, and Arthur D. Little took on projects for the Department of Transportation, the National Science Foundation (NSF), the Internal Revenue Service (IRS), and the US Olympic Committee (Guttman and Willner 1976).

As also shown in Figure 4.5, state and local governments grew at an even faster pace than the federal government. This growth was also accompanied by a shift towards corporate logic, often involving the creation of new organizational structures (e.g. lateral teams, chief executives) and the adoption of measurable performance criteria (Tolbert and Zucker 1983; Greenwood 1984; Hinings and Greenwood 1988). As with the federal government, this increase in size and change in logic created opportunities for management consultants. Moreover, federal grants to state and local governments were often administered by management consultants, encouraging the spread of consulting services down to the local level.

For example, strategy consulting firms were deeply involved in the 'Model Cities' programme of the 1960s, which was intended to address urban development problems. Firms such as McKinsey & Co., Booz Allen, and Fry Consultants helped install planning and evaluation systems in 144 cities as part of this programme; in fact, McKinsey & Co. was considered the *de facto* Model Cities administrator in New York City (Guttman and Willner 1976: 199). McKinsey's involvement in this and other New York City projects even led, in 1968, to the firm being given an official position within the city's government, as head of the Division of Program Budget Systems (Guttman and Willner 1976: 275). Strategy consulting firms also did considerable work on urban mass transit systems, such as Arthur D. Little's 1969 contract to manage the Center Cities Transportation Project for the Urban Mass Transit Authority (Guttman and Willner 1976: 257). Other examples of consulting work for state and local governments in the 1960s include Booz Allen projects to cut costs for the city of Seattle, reorganize Pasadena's school budget, and help the state of Connecticut study new ways of attracting industries (Higdon 1969: 13). In sum, in the years following World War II, increasing corporatization allowed strategy consulting firms to permeate various levels of public administration.

4.2.3.2 *Health care*

The corporatization of health care also created opportunities for management consultants. As Starr (1982) and Gray (1983, 1991) have described, health care in the United States has witnessed a shift away from the logics of community service and professional sovereignty towards those of commercialization, competition, and corporate control. This has led to practices in health care resembling those in the corporate sector, such as horizontal and vertical integration, diversification, and concentration of ownership (Starr 1982: 429). According to Alexander and D'Aunno (1990: 54), the result has been a 'decline in voluntarism and professional power in the health care sector; the introduction of new organizational forms (multihospital systems, specialized delivery organizations, corporate restructuring, and diversification); and the increased emphasis on running health care as a *business* rather than as a social service, including not only increases in business practices per se but also the adoption of symbols and language associated with business'. As these authors further noted, terms such as 'profit' and 'market', which were once considered taboo in the health care sector, have become widespread.

As with federal and local governments, the corporatization of health care was accompanied by increased use of strategy consultants. For example, in the 1960s, Cresap, McCormick & Paget undertook projects for Georgetown University Hospital in Washington, a children's hospital in Boston, and the Mount Sinai Hospital in New York City (McKenna 1996b). During the same period, Arthur D. Little consulted extensively for the National Cancer Institute (Kahn 1986). In 1970, when the New York City Health and Hospitals Corporation was formed to manage 18 New York City hospitals, it looked to consulting firms such as McKinsey & Co. to help implement reforms, including the drafting of legislation (Guttman and Willner 1976: 281).

In sum, as government and health care organizations became increasingly subject to corporate logic, they sought to adapt by adopting corporate practices. Because strategy consulting firms embody corporate logic, they represented readily available signals of conformity. In other words, what was important here was not the technical ability of strategy consultants to help clients become more 'efficient' or 'rational' but rather the *signals* that they provided of their clients' efforts to do so. By hiring strategy consultants, organizations in these sectors incorporated the 'rationalized myth' of corporate management in an effort to demonstrate consistency with their changed normative contexts (Meyer and Rowan 1977; Meyer 1986; Meyer, Boli, and Thomas 1994).

4.2.4 Business schools

The growth of management consulting owes much to the expansion of business education. The first school of business in the United States, the Wharton School, was founded at the University of Pennsylvania in 1881 by Joseph Wharton, a prominent industrialist (Sass 1982). By 1958, some 163 schools were granting over 55,000 degrees annually (Gordon and Howell 1959: 20–21). Overall, business degrees rose from 3 per cent of all degrees in 1919 to 13 per cent in 1958. By 1980, the number of business graduates in the United States had risen even more dramatically, to well over 200,000 per year. Figure 4.6 chronicles this growth, at both the bachelor and masters levels.

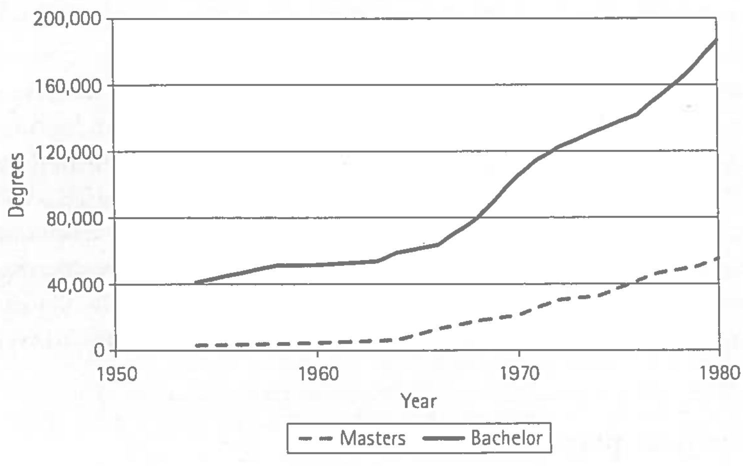

FIGURE 4.6 US business degrees conferred

Source: Digest of Educational Statistics.

Business schools have exerted symbiotic effects on the management consulting industry—and strategy consulting firms in particular—in three related ways. First, business schools produce graduates that can claim qualifications as management consultants. Like firms in established professions such as law and accounting, consulting firms could now send a strong signal of specialized human capital and expertise (Armbrüster 2004). This is a key element of professionalization, which leads to normative legitimacy (DiMaggio and Powell 1983; Abbott 1988). Again, what is important here is that the *claim* that business schools produce specialized human capital is widely accepted; the actual technical qualifications of business school graduates to practice management are largely unsubstantiated. Second, business schools facilitate the development, codification, and dissemination of managerial knowledge (Sahlin-Andersson and Engwall 2002). Business faculty members make their work visible at conferences, in business publications, and in the press, making both consulting firms and potential clients aware of new applications and ideas. In this way, business schools generate opportunities that can be appropriated by the consulting industry (see also Jung and Kieser, Chapter 16; Engwall, Chapter 18; both this volume).

Finally, because they are affiliated with universities (i.e. widely respected institutions), business schools impart legitimacy to the very notion of 'management knowledge' and 'management progress'. They give the field of management standing in the academic community, next to the sciences, medicine, and law (Khurana 2007; Engwall, Kipping, and Üsdiken 2010). Management consultants could thus claim to be purveyors of legitimated knowledge. In sum, business schools have allowed the management consulting industry to increase its legitimacy by both helping to define a jurisdiction for management and by producing 'experts' within this realm (Larson 1977; Abbott 1988; Kipping 2011). This is particularly important for strategy consulting firms, who base their expertise largely in the field of management itself rather than in engineering, accounting, and information technology as some other subgroups of management consultants do.

Early strategy consulting firms had strong ties to business schools. For example, James O. McKinsey was on the faculty at the University of Chicago, where he lectured in the morning and consulted in the afternoon (Wolf 1978). McKinsey & Co. would later hire extensively from business schools, particularly Harvard's (Higdon 1969). By the 1970s, consulting firms had become voracious consumers of MBA graduates (Ruef 2002). Meanwhile, consulting industry associations used the presence of business education to claim legitimacy for the industry. For example, in 1958, the Association of Consulting Management Engineers (the industry association that had come to represent elite strategy consulting firms) claimed that 'the immense growth in formal business training courses offered by universities and colleges' had produced many 'young specialists' who, even without prior business experience, had the requisite skills to become consultants (Amon et al. 1958: 21). Business schools had essentially allowed consulting firms—individually and collectively—to claim specialized expertise.

4.2.5 Business press

The expansion of the business press has also exerted symbiotic effects on the management consulting industry. Since the founding of the first specialized business publications in the late 1800s, the business press has grown phenomenally. For example, the *Wall Street Journal*, founded in 1889, went from 12,000 subscribers in 1910 to 1.8 million in 1980, while *Business Week* magazine went from 75,000 in 1930 to 800,000 in 1980. Figures 4.7 and 4.8 show the growth in circulation of the *Wall Street Journal* and three prominent business magazines, respectively.

This growth has benefited the management consulting industry in two main ways. First, the business press raised the awareness of the consulting industry itself through mostly laudatory coverage. Articles on consulting and consultants began to appear regularly in the post-war period, with titles such as 'Profit Engineers' (*Business Week* 1946) and 'Consultant Field Shows Big Growth' (Ryan 1953). Their tone was generally positive—articles outlined the nature of management consulting, extolled its benefits, and chronicled its recent growth. For example, Ryan (1953: 1) wrote: 'most of these firms stand ready to tackle almost any consulting problem or business survey assigned to them, and the variety of these problems has widened spectacularly in recent years'. Other articles profiled the large and successful firms—mostly strategy consulting firms—and trumpeted their successes. For example, in 'Slump or Boom, They Keep on Growing' (*Business Week* 1955: 142), McKinsey & Co. was profiled as a firm that can handle any kind of 'major, nonrecurring management problem', while in 'The Instant Executives' (*Forbes* 1967), the exploits of Booz, Allen & Hamilton at Hilton Hotels, the University of Alabama, and in the Chicago public school system were extolled. Of course, there was also some criticism of management consulting in the press. However, this was typically accompanied by advice on 'how to get the most' out of consulting engagements and avoid pitfalls.

Second, the business press has helped generate cycles of management fashion, which create demand for consulting services (David and Strang 2006; Jung and Kieser, Chapter 16, this volume). The press facilitates the process of *theorization*, or the propagation of public theories regarding the effectiveness of management techniques (Strang and

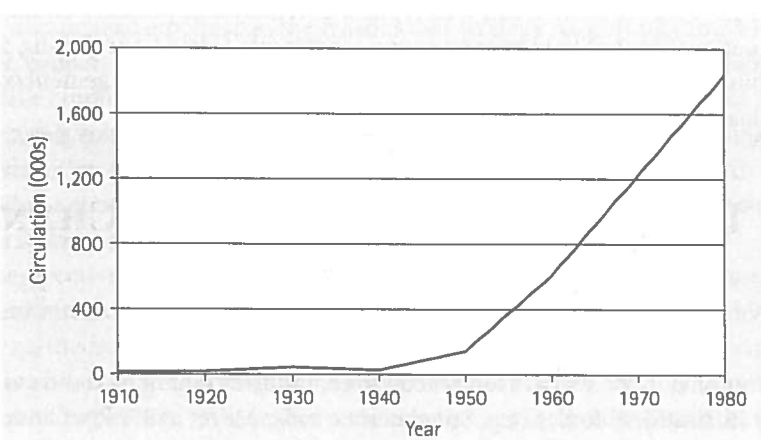

FIGURE 4.7 *Wall Street Journal* circulation

Source: Ayer Directory of Periodicals.

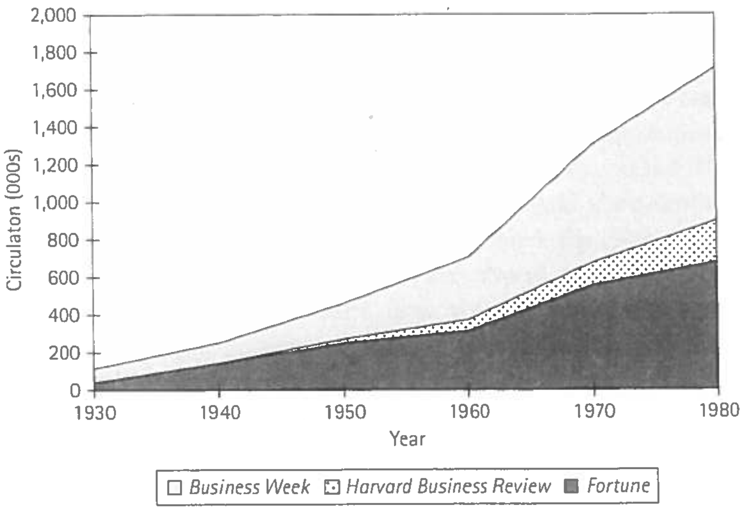

FIGURE 4.8 Leading business periodicals

Source: Ayer Directory of Periodicals.

Meyer 1993; Abrahamson 1996). Indeed, as Kieser (2002: 169) explained, public discourse surrounding a management concept gains momentum when 'widely read management magazines pick up the basic ideas' of the concept. With its bias towards the 'new' and 'successful' (Eccles and Nohria 1992), the business press allows management gurus, prominent CEOs, and consultants themselves to disseminate their prescriptions (Jackson 2001; Clark and Greatbatch 2002; Clark, Bhatanacharoen, and Greatbatch, Chapter 17, this volume). On the client side, moreover, the business press can generate anxiety among managers, as they read about success stories in other firms (Ernst and Kieser 2002). Waves of fashion can ensue, placing tremendous pressure on managers to act—a situation favourable to management consultants (David and Strang 2006). In sum, the business press contributes to the notion that the use of management consulting is both valuable and necessary.

4.3 Implications: Institutional Change and Industry Evolution

As organizational theorists have long recognized, industry emergence and evolution is shaped by institutional forces (e.g. Stinchcombe 1965; Meyer 1986; Ruef 2000). In the institutional perspective, new organizational forms spread to the extent that they gain legitimacy, or become seen as the appropriate or natural way of effecting a particular action (DiMaggio 1991; Haveman and Rao 1997; Sine and David 2003; Sine, Haveman, and Tolbert 2005; Tolbert, David, and Sine 2011). Institutionalists recognize that industries can grow even in the absence of efficiency reasons (e.g. Granovetter and McGuire 1998; Sine, David, and Mitsuhashi 2007), in contrast to the economic perspective, which holds that only technically efficient or cost-effective organizations will proliferate (e.g. Chandler 1962; Williamson 1975). Consistent with the institutional perspective, the account of the expansion of strategy consulting offered in this chapter emphasizes legitimacy rather than efficiency: the institutional changes outlined here created opportunities for strategy consulting firms to gain pragmatic, normative, and cognitive legitimacy regardless of their technical benefits. In this way, the institutional environment facilitated rather than constrained innovation (Scott 2010). Specifically, the institutionalization of the decentralized, diversified corporate form and the military–industrial complex, the spread of corporate norms to non-corporate sectors, and the spread of business education and the business press all facilitated 'the generalized perception' (Suchman 1995: 574) that strategy consulting firms were desirable, proper, and appropriate. Without these institutional changes, strategy consulting would not have reached the social and economic prominence that it has.

The perspective in this chapter differs in important ways from prior analyses of management consulting's growth. McKenna (2006) argues that management consultants provide 'economies of knowledge' that outweigh their costs. His argument accords with those of practitioners, such as Canback (1998, 1999), who employ reasoning from transaction-cost economics to argue that management consultants provide a cost-effective solution to organizational problems. To date, there has been no systematic empirical analysis of these economic arguments for the growth of management consulting. There is, however, considerable anecdotal evidence to question the economic rationality of management consulting, and at best there is a paucity of evidence that consultants provide efficient outcomes (e.g. O'Shea and Madigan 1997; Pinault 2000; Clark and Fincham 2002; Kihn 2005). The institutional explanation advanced here avoids the functional assumption that strategy consulting grew because it is economically rational to hire consultants, and instead emphasizes the reasons that strategy consulting came to be seen as desirable, proper, and appropriate within its social setting. Importantly, an institutional perspective emphasizes context in a way that economic arguments do not (see Faust, Chapter 7, this volume). Indeed, the institutional changes described in this chapter were, on the whole, most pronounced in the United States during the period 1920–1980, and this is where strategy consulting experienced its most rapid growth (Chandler 1990; Fligstein 1990: 304).

The perspective advanced here also differs from prior work that emphasizes client–consultant interaction (e.g. Clark 1995; Ernst and Kieser 2002; Nikolova and Devinney, Chapter 19, this volume). Consistent with the institutional approach, work emphasizing client–consultant interaction tends to be sceptical of efficiency arguments for the growth of the consulting industry; these accounts, however, are inclined to locate the reasons for consulting's expansion in the psychological effects that consultants have on their clients. For example, Ernst and Kieser (2002) emphasize client insecurity and need for control as driving the growth of management consulting. The account presented here is at a different level of analysis, and does not speak directly to the nature of client–consultant interaction. Instead, it *embeds* this interaction within a changing institutional context. For example, the sense of insecurity that Ernst and Kieser (2002) discuss can result from (as these authors acknowledge) environmental complexity and media hype, the development of which are discussed here. Put another way, the dynamics of client–consultant interaction are institutionally situated, such that discussions of institutional change provide a necessary complement to interactionist explanations.

The analysis presented here has implications for theory and future research. Three such implications seem particularly noteworthy. First, this chapter directs attention to the role of the state as a legitimating force. Whereas past work has emphasized the state's power to *regulate* (and thus legitimate) new industries, it is suggested here that the state can legitimate through its ability to *consume* (see also Kipping and Saint-Martin 2005). As described above, governments at various levels have been voracious consumers of consulting services, providing resources and visibility. This was especially critical early in the industry's history, when its status was still in question. Even though the state did not confer professional status on consulting by regulating qualifications and mandating certification (Kirkpatrick, Muzio, and Ackroyd, Chapter 9, this volume; Kipping 2011), it nonetheless enhanced the industry's legitimacy by purchasing its services at the highest levels. In some cases, moreover, it put strategy consulting firms in positions of power, and required firms wishing to deal with the government to use these consultants. Future research on industry evolution should thus go beyond the state's regulative influence and include its ability to impart both tangible resources and legitimacy through its consumption patterns.

Second, this chapter suggests that the flow of institutional logics—sets of assumptions, values, and beliefs that define formal and informal rules of behaviour—across social sectors can result in the concomitant expansion of organizational forms. In previous work, institutional theorists have shown that changes in logics *within* sectors of activity can result in adaptive changes in organizational forms or the birth of new forms (Haveman and Rao 1997; Thornton and Ocasio 1999; Sine and David 2003). This chapter suggests that as the corporate logic spread outside of the corporate realm into new sectors, opportunities were created for strategy consultants as *carriers* of this logic. If organizational forms spread along with the logics they embody, future research on industry evolution should not only seek to understand changes in logics *within* focal sectors, but also track the spread of logics *across* sectors of activity.

Finally, this chapter suggests the importance of co-evolutionary dynamics as an interesting avenue for future research. While not emphasized here, reciprocal effects are clearly present between strategy consulting and the institutional environment. For example, just as the increasing complexity of large corporations created opportunities for management consulting firms, these firms have themselves contributed to the increasing complexity of corporate organizations; similarly, the management consulting industry has both benefited from and contributed to the corporatization of non-industrial sectors. And reciprocal effects exist between management consultants, business schools, and the business press (Engwall and Kipping 2002). These co-evolutionary relationships are likely to be non-linear and time-varying (Astley and Fombrun 1987; Baum and Singh 1994; Hunt and Aldrich 1998). Although our models for handling these complex systems of interaction are currently under-developed, reciprocal effects such as these present a promising area for future research. Computational models and simulations represent one avenue with which to explore such complex, reciprocal effects.

4.4 Conclusion

Consultants, managers, and many scholars typically assume that the growth of the management consulting industry reflects the benefits that it provides. Indeed, they 'take for granted that the industry should exist and function the way it does' (Canback 1998: 3). At least partially, this taken-for-grantedness stems from a general lack of understanding of the industry's history. When the origins and evolution of an industry are not recalled or well understood, it is easy to take the industry for granted (Berger and Luckmann 1967; Tolbert and Zucker 1996). This chapter directs attention to the broad institutional changes that facilitated the growth of strategy consulting. It intentionally avoids functional assumptions, and instead treats consulting's growth as a process to be explained rather than an ineluctable progression (Kieser 1994). The chapter elaborates on the opportunities that emerged over time, and illustrates how entrepreneurial actors seized these opportunities (Sine and David 2010; Tolbert, David, and Sine 2011). A fuller understanding of the field's evolution, combined with micro-level analysis of the consulting process itself, can overcome the taken-for-granted nature of management consulting and provide a richer understanding of its growth. This would be a welcome development, not only academically but especially for the many managers who hire consultants based on assumption or habit.

Note

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