

4 Human Resources Management in International Consulting Firms: Distinguishing Second and Third Wave Company Patterns

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4.1 Introduction

The consulting industry is rapidly becoming a large and mature sector. Between 1995 and 2000 alone, the size of the global consulting market, measured by total revenues, has more than doubled, growing from \$51 billion in 1995 to more than \$110 billion in 2000 (Kennedy Information 2001: 35). Only in recent years has this development, at least temporarily, tapered off. With the growth of the industry, its importance from an economic point of view has increased, too. According to the European Federation of Management Consulting Associations (FEACO), management consulting revenues have risen as a percentage of European GDP on a yearly basis from 0.12% in 1994 to 0.48% in 2002 (FEACO 2002: 9). The fact that the comparable figure for the United States is around 0.70% suggests that there may be scope for further growth of the industry in Europe.

A second aspect of the economic relevance of the consulting sector lies in its function as an employment market. Focusing on Europe, the number of management consultants has grown from less than 100,000 in 1994 to approximately 300,000 in 2001/2002 (FEACO 2002: 8). Although the consulting market is fragmented in that there are a large number of small consulting firms, the large and medium-sized consulting firms dominate the market with a market share of more than 90% of revenues. These firms – the top 20 and the larger mid-sized firms – are almost exclusively international players in the full sense of the word: Not only do they export their services from one country to another, but they also have offices with local employees in several countries. It is on the employment and, therefore, the human resource management (HRM) practices of these international companies that we focus in this chapter. Whilst understanding the changing dynamics of the employment relationship in the consulting sector and drawing consequences for HR policies in consulting firms is of importance in its own right, it is equally relevant from the perspective of students and other groups of potential candidates and of non-consulting companies in the economy. Consulting firms serve as an increasingly important entrance point into formal employment relationships for high-calibre candidates from a variety of academic subjects and experience backgrounds (Ruef 2002). Therefore, consultancies shape the perspec-

tives, expectations and skills of young professionals at a critical phase in their lives. In many cases, these people move on to form the managerial elites in business and public life. In addition, consulting firms often serve as trendsetters for other organizations in the economy. Therefore, the HR practices prevalent in the consulting industry exert an influence extending beyond the scope of consulting firms.

The structure of this chapter is as follows. In section two, we investigate the development of the consulting industry, and in particular the changing dynamics of the employment relationship in the leading players in the industry. We also take a look at the internationalization of the sector, which is one of the key factors that have affected employment relationships in the industry. Thereafter, in section three, we draw the implications from our earlier observations on the HR policies and practices in consulting organizations. We also compare the practices prevalent in consulting firms with those of multinational organizations in other industries. In the fourth section, we provide empirical evidence for our theses, using the results of an interview series we conducted with over 30 consulting firms, and casual evidence from public sources and own experience. Finally, we summarize our findings and provide hypotheses with regard to the further development of HR management in consulting firms.

4.2 The Development of the Consulting Industry: Dynamics of the Employment Relationship in Consulting and the Internationalization of the Industry

Consulting as a profession is a young industry. While managers of large-scale industrial companies have asked for the advice of outsiders such as accountants, financiers and engineers since the beginning of the industrialization in Great Britain in the late 18th century (Ferguson 2002) and during the 19th century in other countries, the emergence of management consulting as a distinct activity can only be dated back to the first two decades of the 20th century (for a brief overview see Wilkinson 1995). Broadly speaking, since then there have been three overlapping waves of consulting, distinguished by the type of services provided and the organizational features of the firms rendering these services (Kipping 2002; see Figure 4.1.).