Consulting Business in Need of Reform

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The crisis in the consulting business is worldwide. In December 1972, a German business magazine had this to say on the subject: “The fat years are past. Numerous erroneous planning decisions landed the large German and foreign firms into a critical situation. The running is now made by advisers with specialised knowledge and social flair.” ¹

That the uncontrolled proliferation of consultant firms and groups would one day lead the whole of the consulting business into a crisis which would force it to weed out the undesirable elements was to be expected. For, as had been the case with marketing and market research a few years earlier, numerous firms, interested only in quick profits, had moved into the consulting business which they regarded as a highly promising growth sector of the service industry. Some none too respectable firms ruined the reputation of the entire profession.

Causes of the Crises

The main errors committed by consulting firms in the Federal Republic may be summarised as follows:

- Failure to recognise the real problems confronting those seeking their advice because the consultant, biased by his own “experiences” was unable to approach the problem in an unprejudiced manner;
- insufficient regard paid particularly by successful firms of consultants to changes in the social and economic climate;
- the one-sided concentration of most consultants on rationalisation and business efficiency to the exclusion of problems which go beyond the scope of any single firm;
- the fact that cases of misconceived planning and questionable concepts soon became common knowledge among potential clients;
- with the increasing volume of business it had become more and more difficult to recruit qualified advisers.

Thus the majority of the more than 400 private firms of consultants operating in Germany have been obliged in the last few months to reduce their staff and to accept losses in turnover. The more experienced firms were however foresighted enough to start diversifying in time. These firms extended their activities to foreign countries, and particularly to less developed countries (LDCs) where business consultants enjoy increasing popularity.

Advantages of Consultants in LDCs

In April 1970, the State Secretary in the Federal Ministry for Economic Cooperation, Professor Sohn, was already in a position to state that German consulting firms were participating in all German capital-aid projects. A fifth of the entire funds to be spent on technical aid had been allocated to consulting firms.

The reason why the demand for the services of foreign consultants in connection with aid programmes is constantly increasing is the belief that consulting firms offer many advantages which scientists, representatives of ministries or supranational organisations or potential native consultants are unable to offer. The main advantages are said to be the following:

- The know-how of a group of experienced consultants which is of necessity greater than that of a single person;
- the greater flexibility and speed of a group working as a team;
- the tightly knit organisation of a team;
- the fact that the consulting firm is organised as a private enterprise which must be successful, if the firm is to continue in business;
- the competitive pressure from other firms which forces the organisation not only to maintain minimum quality standards but also constantly to improve their performance as consultants;
- the avoidance of difficulties which may arise in respect of the re-integration of experts on their return to Germany, possibly after a long stay

¹ HWWA-Institut für Wirtschaftsforschung (The Hamburg Institute of International Economics). The author gives his own views resulting from his experiences acquired in LDCs.

I Cf. Konservativ in die Krise (Conservative Into the Crisis), In: Manager Magazin, Nr. 12, December 1972, p. 68.
abroad, it being assumed that the consultant in question will again be used by his firm in some other developing country;

and finally the fact that consulting firms play an important part in promoting exports from their native country in that they help its producers to conquer new markets by advising the foreign country which is consulting them on what goods to buy.

**Demand for State Support**

Arguments like these are advanced by German consulting firms in support of their demand that their activities in developing countries should be supported by the state. For one thing they want a better market transparency, i.e. they would like to be currently informed about all the available projects requiring the services of consultants for which they may tender. They complain that they themselves are not allowed to publicise their own activities and demand that their continued existence be ensured through a steady flow of substantial government orders. In justification of their case they point out that other industrial countries like the USA and France rely predominantly on national consulting firms in planning and carrying out state-sponsored development projects.

In judging whether demands of this kind are justified it must be borne in mind first and foremost that the activities of the consultants in the developing countries are primarily supposed to benefit those countries additionally. This however applies less for the increase of market transparency—which should be obvious and therefore need not be discussed in detail—or improvement of advertising possibilities but for the alleged necessity and justification of government support. Seen from this angle, it is questionable whether the demand for government support is really justified, for experience so far has given rise to doubts as to the effectiveness of quite a number of consulting firms.

**Limited Know-how**

Already the superior know-how the consultants claim to possess is open to doubt. They certainly have the advantage in cases where a group of advisers has already tackled several similar tasks in developing countries. More often than not, however, the activities they are involved in differ greatly in accordance with the nature of the job in hand and also from the point of view of location which may be an industrialised country one day and a developing country another. Moreover, the composition of the group of consultants is subject to considerable fluctuations so that the advantage of specialised knowledge becomes very limited indeed. Many consultants have had an opportunity to concern themselves especially with problems of development policy, but they lack the economic and social background they need to carry out their assignments. During their relatively brief stay in the country they do by no means always fully comprehend its specific problems. This applies particularly to its social problems (such as the need for an effective employment policy). In these areas the advisers whose views have been formed by their experiences in industrialised countries frequently show an almost complete lack of understanding.

One reason why this should be so is that up to the present members of consulting firms have had next to no systematic instruction concerning the tasks awaiting them in developing countries. Whereas in the Federal Republic of Germany the state-run Deutsche Förderungsgesellschaft für Entwicklungsländer — GAWI (German Corporation for Technical Assistance to Developing Countries) holds regular training courses for experts before they are sent on their assignments in developing countries, the consulting firms in extreme cases do nothing at all to instruct their staff. In some cases, the consultants even lack the necessary linguistic qualifications in English, Spanish or French to enable them to cooperate in a meaningful way with their counterparts in the LDCs. As for the local language, this remains for the great majority of consultants a sealed book. This, of course, considerably limits their contacts with the inhabitants of the country in which they have to work. In these circumstances, the consultant frequently remains isolated from the people of the host country and obtains through his — also limited — relations with members of the ruling classes a distorted picture of the true situation.

**Insufficient Adaptability**

The plans the consultants submit and the proposals they make frequently suffer from their inadequate knowledge of the country they have been called in to advise. Again and again it is evident that the advisers are unable sufficiently to divorce themselves from their own general and professional experiences. Technicians all too easily overlook economic problems, while economists tend to disregard the limits set by the country’s technological capabilities. As for the social conditions, these are neglected by both groups.

Many teams of consultants concentrate too much on the technical aspects of the problems confronting them at the expense of their economic implications. It is no secret that the engineers are for the most part concerned to find the best possible technical solution. Many proposals are