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Article — Digitized Version

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Intereconomics

*Suggested Citation:* Kebschull, Dietrich (1973) : Consulting business in need of reform, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 08, Iss. 4, pp. 121-124, <https://doi.org/10.1007/BF02927582>

This Version is available at:

<https://hdl.handle.net/10419/138816>

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# Consulting Business in Need of Reform

by Dr Dietrich Kebschull, Hamburg \*

**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."<sup>1</sup>**

**T**hat 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 onesided 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 supra-national 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

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<sup>1</sup> 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

formulated with too little regard for the wishes, requirements and possibilities of the LDC. They are therefore as a rule much more conditioned by the adviser's experiences in his own country than by the situation in the host country. In many cases, for instance capital-intensive projects are recommended, although the scarcity of capital and the abundant supply of labour would have called for labour-intensive projects. There is no need to know anything about a particular team of consultants; their country of origin can easily be told simply by looking at the studies they have worked out.

One give-away fact is that the consultants more often than not recommend the purchase of goods and plant from their own country. The consultants know the quality of these things and recommend them in perfectly good faith, but they ignore that to import them from other countries may possibly be much more suitable. Whether this kind of export promotion through consulting firms is in fact desirable from the point of view of development policy, is therefore highly debatable.

### **Conflicting Interests**

The fact that business consultants are organised as private firms also presents certain problems. On the one hand, they hardly ever have any influence on the choice of the project on which they are called upon to work; on the other, they must show successes, if they want to stay in business. In this situation they are constantly facing the temptation to make projects appear sensible, although from an economic point of view it would be better to shelve them. To "kill" a project on which a developing country has set its heart does not only mean a serious and unexpected loss of revenue; it may also do harm to the firm's image, particularly if subsequently other consultants should decide for financial reasons to carry on with the scheme notwithstanding.

It must also not be overlooked that the members of the team of consultants, in view of the relatively high income they receive during their stay in the host country, are interested in remaining there for longer periods. Their tasks should not be confined to working out plans and to making sure that the project is properly carried through; they should at the same time include the training of suitable native experts, capable of carrying out similar jobs in future. For the best of projects is of necessity condemned to failure, if the LDCs are later incapable of using it themselves. Thus one of the consultants' jobs – and not the least important at that – consists in making themselves superfluous, possibly even by training new consultants in the host country. In this area there

clearly exists a conflict of interests between the private firm of consultants and the members of their team and the aims and aspirations of the developing country.

### **Difficulties In Defining the Task**

Moreover, experience has frequently shown that difficulties are likely to arise between the consultants and those seeking their advice over the precise definition of the project. Often the task to be performed is insufficiently clear and must first of all be clearly formulated. On occasions the need for additional tasks becomes evident while the project is already in process of being carried out, and it is by no means rare that the country seeking advice constantly changes the terms of reference. The resulting difficulties must then be overcome by the group of consultants in the limited period allocated for their work, in addition to the tasks they were originally called upon to undertake. A consulting firm is just as likely to come up against difficulties of this kind as any other group of experts working in LDCs.

Even consultants can work no miracles and none should be demanded of them. To dismiss constantly recurring problems as trifling, only leads to disappointments on both sides. Nor is it reasonable to maintain that members of consulting firms never experienced any difficulties of reintegration. Such difficulties do exist just as they do in the area of public administration; only there they are not visible.

Consulting firms, too, can employ their staff in developing countries as a rule only for a limited period. For, after a few years, most members of a consulting group working abroad are compelled by problems of finding suitable schools for their children, by reasons of health or considerations of their future careers to withdraw from the firm. Up to now the possibilities for advisers who have specialised in developing countries to find suitable employment in German industry have been rather limited. If an able adviser with expert knowledge of developing countries wants to be professionally successful in the long run, he must look upon his consultative work as only a passing phase. On the other hand, his withdrawal from the consulting firm results in a diminution of the firm's know-how.

### **Possible Improvements**

All these considerations are not intended to be arguments against the employment of consultants in developing countries. They show, however, that the expert knowledge of a team of advisers is by itself no guarantee for the success of any development project. To make the work of con-

sulting firms in LDCs more effective, the following steps should be taken:

- ☐ All members of staff who are to be employed as advisers in developing countries should receive special training in the course of which they should be made acquainted with the economic and social problems and aspirations they are likely to encounter.
- ☐ Language courses should be arranged for advisers who are to remain abroad for any length of time.
- ☐ They should have very close contacts with experts — especially government experts — in their own and in the host country to enable them to make maximum use of all the available knowledge.
- ☐ Before any large-scale project is tackled, it is advisable to ask some neutral institutions, not primarily interested in making money, to submit preliminary studies.

☐ The activities of the advisers should be continually controlled by the client. Provided such supervision is ensured, the choice of the advisers may be left to the firm.

☐ Incentives which enable the consulting firm prematurely to discontinue work on a project which cannot be justified economically (to be discussed in this connection would be such points as partial compensation for loss of revenue, first refusal for any follow-up orders and the like).

☐ The introduction of true competition through unlimited invitations to tender.

In this way it would be possible to make consulting a meaningful instrument of development policy. Any attempt, however, to overcome the crisis in the consulting business merely by giving consultants more government commissions without previously eliminating the causes of failures would certainly be a mistake.

## Mexico's Demand for Business Education

by Dr J. Barton-Dobenin and Dr R. A. Lynn, Manhattan, Kansas \*

**Higher education for business has undergone dramatic changes in the past decade, not only in the industrialised nations but also in the developing countries. The following article analyses these changes, taking the case of Mexico.**

In the United States the movement has featured an analytic decision-oriented approach based on increased use of the behavioral sciences and quantitative approaches. In Europe, recognition of the value of management education has led to the development of numerous business programs and schools of business administration<sup>1</sup>. For developing nations the importance of collegiate business education is especially strategic. For economies to develop, there must exist entrepreneurial motivation and ability to develop other resources. Therefore, management education is a key to economic growth. In addition, economic growth is necessary if the other parts of higher education are to bear real fruit. A poor country with unemployed intellectuals is unlikely to accomplish positive results. Without a productive base, other desirable reforms are doomed to futility<sup>2</sup>.

This report considers the nature, development, impact, and implications of collegiate higher education for business in Mexico. Among the developing nations, Mexico has the advantages of an

extensive tradition of higher education and a growing industrial base. It can show the path for newer nations to follow. It can also point out some problems to avoid. Besides study of documents, this report is based on a tour of ten Mexican universities<sup>3</sup>.

Higher education in Mexico has generally followed what may be termed the "classical" or "scholastic" tradition. Education passes the wisdom of the ages along to students. Students in turn are expected to learn and absorb, but they are not usually encouraged to examine and criticize.

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<sup>1</sup> Alan B. Coleman and Dan Throop Smith, *The Renaissance of Foreign Business Schools*, The MBA, March, 1968, pp. 21-25.

<sup>2</sup> Richard N. Farmer and Barry M. Richman, *Comparative Management and Economic Progress*, Homewood, Ill., 1965, pp. 74-108.

<sup>3</sup> The following universities were visited by the authors: Instituto Tecnológico y de Estudios Superiores de Monterrey, Universidad de Nuevo León, Universidad Autónoma de Guadalajara, Universidad de Guadalajara, Universidad Michoacana de San Nicolás de Hidalgo, Universidad Autónoma de San Luis Potosí, Universidad Autónoma de Puebla, Universidad Veracruzana, Universidad Iberoamericana, Universidad Nacional Autónoma de México.