The great management consultancy swindle

Masters of illusion: The great management consultancy swindle

It's cost the NHS £300m and its practitioners are wielding the axe at magazine giant Condé Nast. But is it all just smoke and mirrors? Ex-management consultant Matthew Stewart recalls his career in the "efficiency business" and reveals its dark arts

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from The Management Myth: Management Consulting Past, Present and Largely Bogus by Matthew Stewart,

It was 1988, and I was just finishing a D.Phil at Oxford University on the topic of "Nietzsche and German Idealism". The annual recruiting season had long since gone. My life savings had dwindled into three digits. It came to me in a pub, over a game of pool. I was losing badly to a pair of undergraduates who had recently received offers from a prestigious management consulting firm. They were about 22-years-old; I was going on 26. As I gazed at the pool balls ricocheting around the table, it hit me that, instead of spending the next year watching daytime TV, I too, could earn some ready cash by offering strategy tips to CEOs of Fortune 500 companies.

The more I thought about it, the grander it seemed. The next morning, I sent out 10 CVs. One ended up in the hands of the founding partner of a small and enlightened consultancy firm based in New York. I landed the job by providing a credible response to this question: How many pubs are there in Great Britain? The purpose of that question, I realised after the interview, was to see how easily I could talk about a subject of which I knew almost nothing, on the basis of facts that were almost entirely fictional. It was an excellent introduction to management consulting.

Over the past three decades our civilisation has made a massive investment in people like me – the kind of people who can allegedly practice or sell management expertise. Within a few months of the interview in New York, I was suited up and billed out at a rate of about a third of a million pounds per year (only a fraction of which landed in my pocket in those first years). I soon discovered that my lack of a proper business education was no disadvantage on the job, which turned out to be more interesting and enlightening than I expected. I would eventually leave the business in 1999 to work full-time as a writer, but during the previous decade, I would advise French businessmen on how to succeed in Germany; tell Americans what to do in Eastern Europe;

show the Spanish how to become more like the Americans. I spent one particularly haunting year advising bankers in Mexico.

Wherever I was in the world, at the beginning of every consulting project, one thing was certain: I would know less about the business at hand than the people I was supposed to be advising.

"The Whale" is a graph. Its official title is "Cumulative Customer Profitability" and it also goes by the generic name "skew chart". The Whale is my madeleine. One glance at its distinctive curves and in my mind I'm back, cutting and pasting charts and text, running through airports, hovering over a transparency projector in front of sceptical men in suits, and trading boozy stories with team-mates in an overpriced hotel restaurant.

I learned the art of whale-hunting – as we called the art of landing a big client – from a partner I will call Roland. He was a jolly, well-rounded figure, with a face like a pink bowling ball. He had a thick French accent and drew heavily on a limited stockpile of American colloquialisms, cheerfully painting the world in the bold strokes and primary colours, in a style typical of those who live their lives in a foreign language.

In the firm, Roland was the harpooner. His specialty was sinking the barbed hook of our services deep within the flesh of unsuspecting clients. Roland would say: "I asked Joe (or whoever the client was) 'Joe, can your people tell you, right now, which of your customers are profitable?'" (It always sounded like he was calling them "profiteroles".) Joe would have had no idea how his profiteroles were doing.

The analysis Roland and his team performed for Joe followed a prescribed course. Firstly, they constructed a database of the client's customers, detailing each customer's product and transaction activity over the preceding year. Next they established a clean profit and loss statement for the whole business, including all overheads but excluding extraordinary items. Then, to allocate the revenues and costs of the business to each customer, they devised algorithms based on detailed models of each kind of product and transaction. The complexity of these algorithms, naturally, was such that they were far beyond the powers of most clients to comprehend. The result was an analysis of the exact revenue, expense, and profit to the client attributable to each of its customers. Finally, the team lined up the customers according to their profitability, thus allowing the client to see how much of its profits could be attributed to its most profitable customers, and how much to the least profitable.

"Et voilà!" Roland would announce, revealing his graph. It was the leviathan.

The typical Whale showed that the top 20 per cent of the client's customers accounted for significantly more than 100 per cent of its profits. That is to say, if the client had served only these star customers, it would in theory have made much more money than it did. For the next 70 per cent or so of the customers, the line went flat, indicating that they made little additional contribution to the bottom line. For the final 10 per cent of customers, the line took a nosedive, meaning that these dogs were subtracting from the client's profits. Toss in lines to track the cumulative revenues and expenses of customers, and the whole thing assumed the distinctive shape of a giant fish.

I eventually came to understand that it is possible to construct a Whale chart for just about any business anywhere. It makes no difference whether the business is inherently good or bad, well-managed or in the hands of chimpanzees. It doesn't even have to be a business – it can be a football game or a population chart. In fact, you don't even have to do the analysis. You can save 80 per cent of the effort by just borrowing data from a previous analysis. There's always going to be a skew. It isn't science; it's a party trick.

But it is also something close to a universal law. Joseph Juran, a Romanian-born engineer who championed quality control in industrial and manufacturing settings, called it the principle of "the vital few and the trivial many". The Whale is about focusing on the things that really make a difference. It is the number one item on every management guru's to-do list. It's about the big break, the main chance, the sweet spot, the Big Kahuna.

It was just one among a variety of quantitative models that occupied the analytic core of my consulting career, but it best represents the data-driven approach to life that stayed with me long after I left the business. In its best moments, management consulting is a recognition of the quantitative nature of our reality – of the fact, too easily overlooked by innumerate arts graduates, that a hard look at the numbers can explain much of the structure of the world around us.

The management consulting industry depends on a small number of gargantuan clients; we thought we were doing pretty well out of one of our clients who spent $12m annually on our services – until we learned that this behemoth's total spending on "strategy" consultants was about $100m per year. In order to grasp why some large organisations (but not others) spend so much money on something as ethereal as "strategy," one must dispose of the naïve idea that consulting involves the transfer of knowledge.

The savvier consultants and their clients understand that the basis of the business is not technological but anthropological – and that this is not always a bad thing. Among human beings, it turns out, the perception of expertise, however unfounded, can sometimes be used to good purpose. As the shamans who poison chickens and the soothsayers who read entrails have long demonstrated, sometimes it is more important to build a consensus around a good decision than to make the best possible decision; sometimes it is more useful to believe that a decision is sanctioned by a higher authority than to acknowledge that it rests on mere conjecture; and sometimes it is better to make a truly random choice than to continue to follow the predictable inclinations of one's established prejudices. Consultants, following in the footsteps of their pagan forebears, understand that they must adopt the holy mien of a priestly caste.

So, cufflinks matter; flying first class and ritual feasting, too, are part of the job. But consultants also know that an outrageously unjustified level of self-confidence can add several points to one's perceived expertise quotient.

The most important of the all-too-human functions of shaman-consultants is to sanctify and communicate opinion. Like ministers of information, consultants condense the message, smooth out the dissonances, unify the rhetoric, and then repeat and amplify it ad nauseam through the client's rank and file. The chief message to be communicated is that you will be expected to work much harder than you ever have before and your chances of losing your job are infinitely greater than you ever imagined.

Those who are determined to find fault with the honourable occupation of shaman-consulting should not do so on account of its anthropological nature per se. There is little point in criticising people for being human. Rather, they should focus their rage on the exemption from very ordinary requirements of accountability and transparency which that anthropological nature makes possible for both consultants and their clients. The pretence of knowledge where none is to be had, after all, is also a licence to represent private interest as a public good. Managers of client organisations easily abuse this licence, using shareholder money to pay for consultants in order to confer legitimacy on actions that deserve proper scrutiny from truly independent sources. For consultants, the arrangement has all the beauty of writing your own report card.

In this respect, the problem of consulting is the problem of the "knowledge economy" in a nutshell. When you put forward the fiction that management is an exercise in calculus, you tend to assume that integrity is a cost of doing business rather than its foundation. When you stipulate that management is the province of experts, you lose sight of the fact that organising fruitful co-operation among human beings is principally a matter of building trust. And you forget the most elemental truth of political philosophy, that in any system that does not have the features of transparency and accountability, no one trusts anyone.

I was taught about charts early in my career. Another important lesson was that a management consultant must learn to be loathed by his client's employees. It was while working on one project at a bank, early in my career, that I received instruction on this matter – from Luigi, a senior manager. Luigi was the sworn enemy of Lorenzo, the man who had hired us.

"So, you are Lorenzo's boys?" Luigi said through thick rings of cigarette smoke, when he eventually deigned to meet with me. The contempt in his voice was as thick as cement. I guessed he was about twice my age, and he probably weighed about twice as much too. His face and his hair looked like they had been rolled around in an ashtray.

"Do you know why consultants like to have haemorrhoids?" he asked.

I looked at him with some alarm. "Because it makes them look concerned!"

Many employees in the client companies hate us, of course, because we watch them. We track their every move as we hunt down inefficiencies. Then we fire 10 percent of them and tell the rest to make up for the difference.

But disgruntled victims of the process should know that no one is more watched than the consultants themselves. After every project, and often in the middle, consultants at elite firms receive multiple evaluations on their performance. Every six months, they sit down for a formal, paranoia-inducing assessment of their value to the global economy. At the end of the year, in a typical firm, 20 per cent are then "counselled" that they should seek "development opportunities" elsewhere.

It is a challenging environment, psychologically speaking, and it is with some appreciation for the stressful nature of the business that one should reflect upon the chief paradox of the consultant's lifestyle – that the quest for efficiency seems inextricably bound up with monumental luxury.

For long stretches of my career I was literally homeless; I hopped from hotel to hotel and spent weekends at exotic locations on the theory that this cost the client less than sending me back to a home that didn't exist. But I did not hop from just any hotel to any other. On the contrary, I sometimes felt compelled to rearrange my schedule so that I might stay in the five-star hotel of my choice. As a consultant, I developed a taste for hand-fed Japanese beef and the kind of truffles that can only be found by a particular family of pigs that lives near an inaccessible Alpine village.

Yet I was a positive model of frugality compared with some of my fellows. At one legendary dinner – around the time that the eerily Enron-like consulting firm I helped to found was being sold to the public as part of a visionary, dotcom enterprise – a group of partners allegedly set a company record for a restaurant meal at around £20,000. "Living well is the best revenge," as one of my peers put it, and we certainly believed in revenge.

It was with a sense of confidence – or possibly overconfidence – in the power of numbers, accumulated over my first few years as a consultant, that I readily accepted Roland's proposition that I should lead a team of five on a four-week "diagnostic" project for a large bank in Mexico.

"It's a fantastic project," he assured me. "It's about risk management. They need a lot of help. It's pretty scary down there. I'm going to position you as a risk management expert."

"You know I never did any work in the risk management area, right?" I said. He replied: "Relax! We have three weeks before the project starts."

As both Roland and I knew, however, my supposed preparation for the job was beside the point. All we needed was a handful of models and pile of numbers. We'd find our Whale alright.

Sure enough, in Mexico, after four weeks on the job, we spotted him. In a windowless conference room deep within the bank headquarters, a skinny, stooped-shouldered man named Fernando sat in front of a laptop computer and placed stupendous, one-directional bets on the Mexican stock market. Appearances notwithstanding, Fernando was a world-class optimist. And with the market charging forward like a bull in the ring, he looked like a world-class genius, too. He was making so much money for the bank that everyone just kept shouting "Ole!".

My year in Mexico followed in the well-worn trajectory of the consulting business in general. The quantitative models with which we supplied our client were fine indeed, and sometimes quite elegant. But they could not explain why the project morphed from a four-week, deeply discounted "diagnostic" to a highly profitable, year-long "implementation". Nor did they produce much substantive change in the prognosis for the client. Fernando continued to place his bets; the bank continued to print money. Everyone believed the market would go up, and they believed this because it was very much in their interest to do so. It was not in our interest to push them too hard to conceive of the alternative.

Toward the end of that year, I sat down to dinner with Roland over a feast of fried crickets, ant eggs, and other exotic specialties produced by large armies of Mexican workers. Roland was ecstatic. He was dreaming of landing even bigger fish, of building a global firm trading in whale blubber. He opened his arms wide, as though outlining a larger version of his ever-expanding midriff. I glanced down at my midsection and once again I felt the horror. My belly was evolving into a miniature bowling ball. I – once a proud member of Worcester College's third eight rowing team – was fat.

In December 1994, the Mexican government decided to relax the controls on the peso exchange rate. Investors responded by dumping the currency, which lost about half of its value in a matter of days. The stock market crashed. The financial system would have collapsed entirely, had not the US government intervened. Our client could ill afford our already-outrageous fees and so my year in Mexico came to an abrupt end.

The best that can be said about my work south of the border, in common with many other projects I worked on during my career as a consultant, is that perhaps it amounted to a palliative, making the pain slightly more bearable for our client. The more plausible judgment, however, is that we were an expensive irrelevance, not so different from the Mesoamerican priesthoods of earlier centuries. We spent our time and energy squabbling over the spoils in the unlit corridors of power at the top of the economic hierarchy, riding our vastly-inflated claims of expertise all the way to the bank, wilfully oblivious to the systemic risk rising up from below.

According to the rules of management consultancy, I escaped intact, first to New York, briefly, then on to London. Neither of which were as far from Mexico as I had once imagined. The food was different. The business of peddling "knowledge" was the same.

Auditing the business: Consultancy in figures

- Big Four. The name given to Pricewaterhouse Coopers, Deloitte, Ernst & Young and KPMG, the world's biggest consultancy firms.
- £9bn. The estimated value of the British management consultancy market.
- 56,000. The number of management consultants in Britain.
- £53,655. The average salary for a management consultant, according to government statistics.
- £300m. The amount the NHS spent on external consultancy last year, according to the Management Consultants' Association.
- 25 per cent. The cuts the publishers of 'Vogue', Condé Nast, are reportedly about to make following a two-month audit of their business by McKinsey & Co.