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The Development of Management Consulting in Spain

von

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Zusammenfassung:

The paper analyses the development of Management Consulting in Spain from its early origins to the latest boom period. Management consulting developed late in Spain which was partly due to the persisting backwardness of the economy, but also to the emergence of functional equivalents to external, commercial consulting. E.g. regarding the spread of Taylorist ideas semi-public bodies played a major role. Till the mid 1970s, under Franco dictatorship the Spanish economy was largely state-led and widely protected from foreign markets. Therefore, US consulting firms entered Spain later than other European markets and did not play a similar role in the dissemination of American management concepts there. With the end of the Franco regime, the emergence of an open economy and heavy FDI inflows, foreign consulting firms increasingly gained a foothold on the market while the semi-public agencies declined in importance and also some local consultancies emerged. In the end the paper discusses some of the implications of the Spanish case for the development of management consulting in CEE.

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1 Introduction

Today management consulting is taken for granted. It is a business institution in all developed economies and increasingly so in many newly developed and developing countries. Its most visible part is the large, almost globally operating firm.

“Globalisation became a question of credibility: How could a consulting firm advise a global client if it was not global itself?” (Czerniawska 1999, 103).

This quotation points out that nowadays being or becoming global is not only perceived as an achievement but in fact as a prerequisite for market status, further growth and internationalization. In former times, during the first two waves of management consulting development, the large management consulting firm's credibility and reputation was much more attributed to its U.S. origin. In many regions of the world management ideas and concepts from the U.S. were perceived as superior and modern and the U.S. consulting firm was seen as its natural “carrier”. It was in these times of management consulting development that the predominance of consulting firms originating in the U.S. was established that can still be found in today's worldwide ranking lists. And it goes back to these accounts that internationalization of management consulting is mostly told as the story of firms of U.S. origin expanding to European core countries, the European periphery and later on to other newly developing countries or world regions (McKenna 2006). In this perspective the expansion of management consulting is only a sub-theme of a U.S. dominated modernization process. However, this grand narrative has several shortcomings. Firstly, it firmly ties modern business institutions in general to the emergence of management consulting and thereby neglects the fact that specific institutional conditions in the U.S. gave rise to the early development of management consulting there whereas other paths of modernization could - for a long time - do without this “World's newest profession” (McKenna 2006; Faust 2005). Secondly, this points out the need for more systematic consideration of “functional equivalents” for some of the functions we nowadays quite naturally attribute to external and commercially operating consulting firms (e.g. “learning from others”) (Schneider/Faust 2008). Thirdly, it overlooks that not only the reputational background of the internationalizing consulting firm is of relevance but also the target country or region's receptiveness which is itself depends on the institutional and cultural preconditions of the respective society or business system and its specific integration into the world economy. Finally, especially regarding more recent times, the grand narrative tends to ignore the possibility that consulting firms other than the predominant players could be relevant at all. This refers both to consultancies of non-U.S. origin from developed countries that may target newly accessible and receptive

regions where they can draw on spatial and cultural proximity, and to consultancies that newly emerge from the respective locality itself.

Since the fall of the iron curtain Central and Eastern Europe (CEE) has become such a newly accessible and potentially receptive world region for the ongoing internationalization of management consulting where all these issues mentioned above are of importance (Birkner et al.2007; Child/Czegledy 1996; Meaney 1995; Poor 2003; Poor/Gross 2003). As we are currently undertaking research on the internationalization of consulting firms from Germany to CEE (Birkner et al. 2007; Birkner et al. forthcoming) we are interested to eye and consider developments in former phases of the internationalization process to other regions. The case of Spain is of particular interest in this respect as it has some aspects in common with CEE and therefore serves well for a comparison. The general comparability stems from the fact that Spain's path of development is quite similar to the one of CEE: Thirty years ago Spain belonged to the European periphery, was economically less developed than core Western Europe and underwent a political, economic and cultural transformation that finally led into EU membership. Therefore, in some respect the southern expansion of the EU parallels the later eastern expansion.

Our starting point, therefore, is the identification of a "late and slow development" (Amorim 1999b) of the Spanish consulting market that was followed by a fast and large scale growth in more recent years. In 2004 the Spanish market ranked fourth in Europe in terms of market turnover defying markets like Italy and the Netherlands (FEACO 2004). In this paper we trace the roots of management consulting in Spain from the early 20th century to the latest boom period. In addition to the question to what extend commercial consultants operated under the Franco dictatorship, we will also address the following: Did private business consultancies in Spain start from the scratch after 1975 or could most of them rely on a prehistory of ongoing business relations? The large US-consultancies that drove market development in Western European markets – what role did they play in Spain? We also analyze whether and in how far the restrictions from the Franco dictatorship and the perceived overall "backwardness" of the Spanish economy was an obstacle to the emergence of indigenous consultancies and a market entry "hurdle" (Glückler 2004) for foreign consulting firms. Furthermore, we explore the prevalence of functional equivalents to external and commercial consulting (Schneider/Faust 2008), e.g., in the form of (semi-) public state bodies leaving just a small market share for commercial consultants.

The paper is structured as follows. The first chapter (Chapter 2) introduces the theoretical framework dealing with of the notion of functional equivalents to external and commercial consulting, theories of (consulting) internationalization, and a

conceptual framework for distinguishing specific phases of management consulting as a pattern for the Spanish case. Chapter three shortly explains the Methodology. Chapter four explores the (late) development of the Spanish consulting market that can be characterized as the combination of passive internationalization from abroad and indigenous emergence. Chapter five provides a detailed picture of the structure of the more recent Spanish consulting market. Finally, we summarize the main results with respect to the questions being raised in the introduction and suggest some conclusions for the development of CEE consulting markets on the grounds of this research.

2 Theoretical Framework

2.1 Defining consulting and functional equivalents

Most scholars more or less explicitly refer to “consulting” as a specialized role, which is “external” to the client, and is mostly conceived as an organization (the consulting firm). Additionally, the respective organization is seen as a pro-profit commercial organization, a firm, competing on a market with other firms providing similar services (see e.g. Greiner and Metzger 1983; Jahn 2007). There is nothing wrong about defining an object of study that way. However, such a definition blinds for an analysis of functional equivalents.¹ We come closer to this task by referring to consulting or (better) to advice giving as a distinct “communicative category” that is increasingly institutionalized in modern societies (Schützeichel 2004).² This implies the need to focus on an interaction relationship consisting of an advice giver and an advice taker. Schützeichel borrows the notion of “communicative category” from Luckmann (1986). He distinguishes a class of such categories that all refer to decision making of individuals or organizations. In contrast to “instruction”, for instance, advice giving contains that the advice taker has to take the decision on its own without being evaluated according to the advice afterwards. “Consulting” is defined as a voluntary relationship in which the advice taker cannot be blamed for not

¹ The notion of “functional equivalents” goes back to Luhmann (1973) and is directed at comparative analysis of different effecting entities to a given effect (“function”) and reveals that functional arguing always is based on an attribution. It marks *one* cause-and-effect relationship out of the complex causal texture as the function of a cause towards a specific effect, thus neglecting both other effecting causes and other resulting effects (see in more detail Schneider/Faust 2008).

² Whether the institutionalization of consulting as a communicative category is a modern, post-modern or late-modern phenomenon is discussed in more detail in Schützeichel 2004 (see also Faust 2006a). Explanations could refer to the characterization of today’s modern societies as “Entscheidungsgesellschaft” (“decision society”) according to Schimank (2005).

following a given advice. The consulting relationship is characterized by some kind of knowledge asymmetry. In reference to a decision problem the specific problems of a client need to be taken into consideration by the advice giver. Therefore a consultant cannot be seen as a mere expert, not doubting that he is an expert in some respect.³ Advice giving as a communicative category presupposes a distinction between the two basic roles during a consulting episode but not necessarily the evolution of a distinct specialized, not to speak of a commercially motivated advice giver: the consultant as we usually think of. Advice giving roles may be episodes in everyday life where even the roles may change over time (e.g. peer consulting) or they may be partial roles in broader professional role descriptions. Furthermore, even where specialized roles emerge and are institutionalized they are neither necessarily "external" to an organization (of course always external to an individual) nor pro-profit or commercial activities.⁴ We contend that this ideal type definition of advice giving as a communicative category delivers valuable insights into a variety of research questions (Faust 2006a). For the question at hand the approach gives two main results. On the one hand, it allows for a more precise distinction between the overall services "consulting firms" deliver.⁵ On the other hand, it does include advice giving and corresponding relationships and opportunities that are a) neither external, nor b) refrained to a specialized role nor c) to a commercial supplier or a "market relationship." Hence based on such an understanding of consulting or advice giving relationships we are prepared to look for alternative modes and relationships that contain advice giving and may actually or potentially serve as alternatives to or be complementary to hiring external and commercial consultancies.

³ Hence, the advice giver is an expert who applies his expertise to the decision problem of the client and not only disseminates his unfocused expertise to a more or less restricted public. Most training events are of such a kind. However, trainings may shift more into the direction of consulting in so far as the trainer deliberately takes up problems of the trainees.

⁴ These distinctions have consequences for the respective role definitions e.g. following the distinction between true professions and commercial approaches. This implies that commercially motivated advice givers are more prone to dramatization of newness because they have to distinguish themselves from competitors while true professions rely on a codified body of knowledge that may change over time, albeit in slower pace.

⁵ To some extent consulting firms deliver only expertise which cannot be judged as consulting in this definition as they do not refer to the decision problem of the client. Other services as for instance the function to overcome capacity bottlenecks do not meet the requirements of advice giving, either. This has already led to the distinction between consulting in a broader or a narrower sense in the consulting research literature and is applied by our respondents as well. Furthermore, client-consulting relationships which are enforced by some constituents of the respective organization (e.g. banks forcing borrowing companies to accept their consultancies) could not be qualified as consulting according to this definition as it is not voluntarily chosen.

The perspective of functional equivalents to management consulting has not been applied explicitly very often. But it has been implicitly forming the basis of quite some empirical work. Out of the more recent phenomena “Inhouse Consulting” has received most attention as an alternative to external consulting. Pros and cons have been discussed intensively (Armbrüster 2006: 101ff; Mohe 2002). Other functional equivalents (e.g. learning by transorganizational “communities of practice”) are discussed in academic discourses on managerial and organizational learning or knowledge management but have mostly not been dealt with in this perspective (e.g. Giroux and Taylor 2002). Unsurprisingly, the perspective of functional equivalents has most explicitly been applied in historical and comparative studies. Most prominent is Matthias Kipping’s analysis of functional equivalents to the commercial “efficiency engineers” in the case of the German adoption and adaption of Taylorist ideas (Kipping 1999, 1997; see also Faust 2005).⁶ McKenna came across (delegitimized) functional equivalents to management consulting when he analyzed the specific institutional preconditions for the early rise of the “profession” in the US (1995; 2006). Faust (2005) tried to integrate this approach into a more comparative institutional analysis. Different institutional arrangements (including corporate governance, horizontal relationships within and between industries, modes of state intervention, sources of managerial or entrepreneurial authority) have a different affinity to the emergence of external and commercially operating knowledge intermediaries. These institutional arrangements cannot only be seen as governing the relations between the different types of actors, organizations and state authorities. They also provide a distinctive infrastructure for knowledge production and diffusion, i.e. they define the arenas for the communicative validation of management knowledge and the types of actors to whom the status of an (supra-) expert is ascribed to. Finally, these institutional arrangements define criteria for the legitimacy of organizations and authority of entrepreneurs and managers (see also Byrkjeflot 1998).

⁶ In general postwar “Americanization” of European and/or Japanese management and economies was far less (and only in later phases) based on knowledge transfer by consultancies than often quite generally assumed in consulting research. More comprehensive historic studies (Zeitlin/Herrigel 2000; Kipping 1996; Djelic 1998; Kipping/Bjarnar 1998) point at “functional equivalents” (invitation of experts, training events, observation missions) and stress the relevance of “autonomous Americanization”, the role of local modernizing elites, and the receptiveness of the targeted country in general (for Japan: see Sasaki 2003), at the same time resulting in the limits to and the changing meanings of “Americanization” (Zeitlin/Herrigel 2000).

2.2 Consulting internationalization: combining two perspectives

Within the field of research on consulting firm's internationalization two strands of research can be distinguished, each having quite different interests and diverse theoretical frameworks. One strand consists of scholars who are interested in consulting itself, seeing it as an institution of modern business, that has got an institutional imprint by the US business environment and its institutional model that had taken shape since the 1930s (McKenna 1995, McKenna et al. 2003; Faust 2005b; Reihlen/Veit 2006). Hence, the interest in internationalization of consulting was closely linked to the "American Management Mystique" (Locke 1996) and the transfer of American organizational models to Europe (McKenna 2006, 1995; Djelic 1998)⁷ and other world regions and its further development as a key actor of globalization itself (McKenna et al. 2003). Pursuing this line of research, since the 1980s globally acting consulting firms have been identified as main creators and carriers of management fashions and fads (Abrahamson 1996). These "transitory collective beliefs" are spread around the world and consultancies are involved in dissemination as well as "translation" of these ideas (Czarniawska/Joerges 1996) accordant to the specific local institutional and organizational contexts. By looking at consulting from this angle the active role of a specific type of consultancy in the transfer of ideas and concepts across borders is emphasized on. However, it has to be kept in mind that for a successful breed and reproduction of this new type of actor not only specific institutional preconditions have to be met but also the level of receptiveness in the targeted countries needs to be adequate. This shall also include that for functions like cross-border knowledge transfer, nowadays naturally ascribed to consultants, there may and in fact in history have existed functional equivalents (see above) that prohibit or attenuate international consulting firm expansion. In regard to the historical political setting of the Spanish economy we expect that institutional preconditions played a major role in shaping and constraining the development of the commercial consulting industry. From this we can learn in general that the institutional receptiveness of a targeted country or region to new ideas and concepts from abroad has to be considered more explicitly than it comes into consideration by only focussing on dyadic client-relationships or networks of relationships. As research on post-war "Americanization" has shown, receptiveness goes back to to a locally perceived economic crisis or 'backwardness' in which the foreign, alleged superior model sounds promising, leads to an alignment of local business elites to a (considerably malleable) new model that will be 'translated' when

⁷ As already noted, the impact of U.S. consultancies on post-war "Americanization" is more restricted than often assumed, especially it mostly refers to a later phase (1960s et seqq.) and not to the 1940s and 1950s (Zeitlin/Herrigel 2000).

adopted (Czarniawska/Joerges 1996). This view gives more weight to the “importing” actors who can select and adapt aspects of the respective model.

Thus, as a starting point of our study, we look at management consultancies as carriers of management knowledge across borders and institutional contexts. That way we can pay attention to reputation-building due to country-of-origin effects and due to institutional and structural conditions of receptiveness in the targeted country as well. Of course, we do not assume and believe that commercially operating consultancies are necessarily the main or even exclusive “carriers” of management knowledge across borders.

The second strand on management consulting internationalization refers to the broad research field of service firm internationalization that emancipated as a special research field from earlier work on internationalization of manufacturing firms (for an overview: Jahn 2007). As we have discussed elsewhere in more detail (Birkner et al. 2007; Birkner et al. forthcoming), consulting can be seen as a ‘professional service’ that most clearly is defined by the constitutive criteria of services: intangibility and co-production. If consulting additionally refers to the consulting firm (see above) we can add externality as a basic criterion.

Within the literature on consulting internationalization these characteristics of consulting received serious attention by the approach of Glückler (2004, 2006) and Armbrüster (Glückler/Armbrüster 2003; Armbrüster 2006). Based on a critique on the “atomistic” concepts of internationalization in the predominant theories of internationalization and its undersocialized concepts of market selection and market entry, he develops a ‘relational theory’ of internationalization based on economic sociology in the tradition of Granovetter (1985). This approach proves to be especially insightful for the consulting business being affected by its characteristic institutional and transactional uncertainty and the resulting demand for trust (Armbrüster 2006). This makes consulting an experience and trust good (Glückler 2004) where both competence and goodwill trust are involved. Due to the lack of mechanisms of institutional or systemic trust (e.g. full profession, industry standards) the client-relationship is heavily enmeshed with personal trust. However, the need for person-bound trust relationships is a clear obstacle to market expansion both within and even more across national borders. This is reflected in the high proportion of so-called repeat business in the industry and in the significance of “follow-your-customer” strategies in cross-border consulting. Therefore, acquiring new clients is based on the effects of (public) reputation (see also Kaas/Schade 1995) and “networked reputation”. Glückler (2004, 2006) attaches importance to the mechanisms of “networked reputation” both for market selection and market entry decisions (see also O’Farrell et al. 1999, 1996). In a structural network perspective (Burt 1992, Podolny 1993) reputation emerges from the specific network position

bridging “structural holes” (Burt 1992), while the reputation attribution can flow through the communicative channels of the wider network. However, the question can be turned the other way around, asking how and which actors come into such a “brokerage” position in the first place. This leads to the question of other sources of reputation, especially the ones that stem from the institutional context of origin and the related attribution processes.

Published findings of the first strand of analysis highlight the reputation advantages of US consulting firms in foreign countries (at least for certain time periods) as well as the receptiveness of actors in these countries due to a perceived institutional crisis (e.g. for France McKenna et al. 2003; for Germany Faust 2005, 2002). At least for large consultancies, nowadays perceived as truly global, we suggest paying more attention to a greater variety of sources of reputation and put more focus on the relational perspective, irrespective of the fact that the emergence of reputation may have shifted from specific national backgrounds to “globality” (Czerniawska 1999, 113). Foreignness or “psychic” or cultural distance (Johansson/Vahlne 1977) can in some way be seen as an obstacle to the development of trust-based relationships. However, foreignness can also be associated with access to superior knowledge, and thereby indicate a certain amount of ‘otherness’ that is deemed necessary. As Kipping and Armbrüster (2002, p. 208) explain:

“[T]he otherness of management consultancies and the different types of knowledge they offer have been suggested as the major reasons d’ être and main driver of their success [...]. Externality alone allows for a view on an organization that cannot be formed from inside.”

This might be especially true for cases of consulting internationalization in which the newly targeted countries undergo a fundamental economic, political and cultural transformation that dismantles previously given expertise and authority. The studies done on the earlier phases (in the first and second wave according to Kipping 2002) emphasize the diffusion of knowledge between different national institutional contexts given with cross-border consulting activities and the reputation effects of the country-of-origin of its main carriers. However, these studies (McKenna 1995, 1997, 1996; McKenna et al. 2003; Kipping 1997, 1999, 2002; Dyas/Thanheiser 1976; Faust 2005) also acknowledge that consulting firms of U.S. origin “merely” followed their customers when entering Europe without a deliberate strategy for European expansion. After realizing that there is more potential they managed to establish themselves as a taken-for-granted part of the respective business communities only by using mechanisms of “networked reputation”. Again, this is not to be seen in contrast to deliberately undertaken efforts to make their firms publicly known, gain access to the relevant arenas of management knowledge exchange and education,

and to get connected to the broader public and political authorities (Faust 2002) – “networking” is not only an emergent effect of ongoing business activities but may have a deliberate and proactive component, too (Armbrüster 2006). However, as we have argued above, the reputation which the large consultancies of U.S. origin could rely on was not only a matter of a public “perception of a consulting firm’s past performance” (Armbrüster 2006: 76) or of “networked reputation” that flows through trusted informants (ibid: 78), but in fact also a matter of a more general credibility stemming from a specific type of otherness derived from and associated with the country-of-origin or, more recently, globality. Therefore, we suggest combining these two perspectives especially in cases of consulting internationalization in which the newly targeted countries undergo a fundamental economic, political and cultural transformation dismantling previously given expertise and authority. In this respect 1970s Spain and 1990s CEE have quite some aspects in common.

2.3 Phases of consulting industry development

In order to integrate the development of the Spanish consulting market into a broader European setting we loosely couple our conceptual framework with Kipping’s concept of “generations” in business consulting (2002: 28ff). In accordance with Kipping the development of the European consulting markets can be divided into three historic generations each having carried a different set of concepts and ideas. The first generation started in the 1920s and was based on the concept of “scientific management” focussing on engineering and shop-floor-related consulting services. By the late 1950s the second generation sets in bringing consultancies into spotlight who concentrated on strategy and organization and directly addressed the boardroom. With the beginning of the 1980s Kipping identifies the last generation for the time being which he relates to the appearance of IT-related consulting. By the notion of generations Kipping stresses on the fact that the development of the consulting industry did not occur in completely separate, successive phases. By doing so, Kipping withdraws from his earlier approach of “waves in consulting” (1999) that carried the idea of a linear stage model with one set of consultants washing away the former. In the modified approach Kipping now highlights that “at different periods in time, some of them (consultancies) expanded very fast, while others grew slowly or declined and, sometimes disappeared” (Kipping 2002: 29) Whereas we agree on the finding of varying growth phases we want to underline that faster growth rates of consultancies of a certain generations do not serve as a sign for a relative increase in the importance in comparison to consultancies of a different generation. Instead, the miscellaneous consulting concepts offer solutions to different business spheres and hence generate varying turnover rates in different fields of consulting. Whereas shop-floor-related consulting is restricted to the production sphere and the organization of work, the second generation’s concepts address general

management and aim at the overall business organization. IT consulting in contrast acts as a handyman-service open to all business levels. Up to the burst of the Internet and IT-bubble in the early 2000s IT consultancies tried to challenge the established strategy consultancies based on the idea that IT had become a top strategic issue. Moreover, as some of the IT consultancies were parts of or spin-offs of the large tax-and-audit firms (“the big five/four”) the rise of IT consulting can also be seen as an attempt of these companies to more generally arrive at the boardroom and thereby enhance their market status. However, much of this ambition remained a dream (Armbrüster 2006: 101ff). Still, as a result the boundaries between (general) management consulting firms, tax-and-audit service providers and IT-consultancies are becoming indistinct. We can imagine that in every newly-addressed market all these players are struggling for a better position and a higher status in the market anew. Above all, in the field of IT-consulting we can least rely on the assumption that the turnover and employment numbers in fact reflect consulting activities in the narrower sense of the term (see chapter 2), as their activities also comprise other services like IT- and business process outsourcing. In some cases IT-consulting firms are more like an additional sales force for software vendors. Thus, the high turnover rates of IT consulting since the 1990s apparently outperforming other consulting services should be treated with caution.

3 Methodology

Our study is completely based on a secondary interpretation of previous research on management consulting in Spain and on more general studies on the development of the Spanish society and economy. Additionally, and especially for the more recent development the Spanish consulting market we draw on publicly available data (e.g. FEACO). Therefore, the task is to re-interpret previous research that has partly been conducted for other research questions. And even in the case in which scholars explicitly deal with the development of consulting in Spain, to some degree we have to readjust their findings to our theoretical perspective, thereby correcting some of the previous interpretations that in our opinion too heavily rely on the notion of a uniform modernization process.

Our approach considers and connects both the externally and partly internally driven market expansion and the changing institutional preconditions of the Spanish economy and society over time, armed with awareness for functional equivalents for external and commercial consulting that are provided by the specific institutional arrangements. Hence we will draw special attention to historical turning points and the overall economic development on the Iberian Peninsula. When finishing the historical view at the 21st century we will slightly change our perspective and explore

the latest data on the Spanish market in comparison to the leading European markets.

4 The Development of Consulting in Spain

4.1 Origins and first steps: 1940 – 1950s

In comparison to the three large western European consulting markets – UK, Germany and France – the development of the Spanish consulting market started with a time gap of more than thirty years. Whereas in Spain business consulting did not exist before the 1940s (Amorim 1999b: 190ff; 1999a: 142ff; 2001: 47ff) the first consulting services in Britain, Germany and France had already come into life at the beginning of the 20th century (Kipping 1997: 69; 1999: 195; Armbrüster / Kipping 1999: 98ff). Hence the first feature of the Spanish consulting market is that of being “a late developer” (Amorim 1999b: 199).

Amorim (ibid.) identifies the birth of consulting in Spain with the adoption of the production concepts of F.W.Taylor. As being reflected in the expression “grandfather of consulting”, the (asynchronous) diffusion of “Scientific Management” methods are commonly considered as the starting point for consulting in Europe. Although Arthur D Little is judged to be the first consulting company it was Taylor as well as Frank Gilbreth who became the first “management gurus” to gain momentum in the industry (Hoopes 2003: XXI f.). Nevertheless the influence of gurus and consulting firms promoting scientific management ideas varied across Europe.

Consulting in “scientific management” needs to be seen in the larger context of the broad efficiency movement that started in the second half of the 19th century and captured large parts of the society and not only manufacturing and the economy (Kieser 2002: 84). In UK, France and Germany individual engineers (“Consulting engineers” Kipping 1997: 69) had become influential actors for introducing the ideas of the efficiency movement to the industry. These engineers prevalently operated with business issues at shop-floor level (Kipping 1996; 1997). The consulting approaches were based on the “systematic observation, optimal organization and stimulation of individual activities” (Kipping 2002a: 30). The objectives of the efficiency engineers circulated around increasing worker’s performance by changing the work organization and introducing new performance-based compensation systems (Kipping 2002a: 30; McKenna 2006: 34-39). At about the same time as “The Principles of Scientific Management” was published in 1911 these engineers had established their own specific associations. In Germany the “Verein beratender Ingenieure” was founded in 1903, the French “Chambre syndicale des ingénieurs-conseil de France” was established in 1912 and the UK “Association of consulting

engineers” followed in 1913. Taylor was not only the harbinger in praising efficiency but initiated the first organized growth of the consulting industry.

In the UK and France Taylor’s ideas were marketed by commercial business consultants, such as Bedaux, Wallace, Emerson and Thompson.⁸ Charles Euegène Bedaux, a US citizen of French origin, opened his first office 1916 in Grand Rapids, Michigan USA and founded the “British Bedaux Company” in 1926.⁹ Harrington Emerson opened his first office in Paris in 1914 and was followed by Bedaux setting up his first French affiliate in 1929.

In Germany commercial consultants played a less important role in the diffusion of Taylorist methods. Bedaux was the only American consultancy that opened an office in Germany (1927 in Berlin) but the company did not succeed in the market and was shut down by the Nazi regime in 1933.¹⁰ “During the 1920s and 1930s there were about one thousand companies in 21 countries worldwide that were running the Bedaux system, mainly in the USA but also in Great Britain and France. In Germany, however. the Bedaux system was carried through only in the rubber and tire industry” (Erkner 1996: 139).¹¹ The missing demand in commercial consulting did not equal a missing interest in and adoption of efficiency driven management concepts. Contrariwise, Germany was highly involved in the efficiency movement. Whereas in UK commercial providers carried scientific management knowledge, in Germany public institutions organized a collective learning process. Within the corporatist array the two main actors involved were the RKW that steered the transmission of scientific management into the industry and the REFA that

⁸ Interesting to note here is the division of labour in the diffusion of management knowledge. Whereas Taylor and Gilbreth need to be considered as the “gurus of scientific management” who became famous by single studies and publications the part of actually selling the concept to the industry was taken over by a different set of actors.

⁹ Bedaux lost control over the London office in 1938, when the British affiliate stepped out of the network, then removed the name Bedaux and formed the Associated Industrial Consultants (AIC) (Kipping 1999: 202).

¹⁰ The Bedaux office was reopened in 1937 under a different name and a German partnership. The “new” office nevertheless didn’t prove more successful. Bedaux himself believed in the compatibility of his system and the national socialists’ production system. Erkner quotes a letter from Bedaux to the Continental CEO Tischbein: “reorganize a new German Bedaux – Company strictly in accordance with the directives of the new government and very possible under the leadership of a man who is high in authority in German affairs at the present time.” (Erkner 1996: 155).

¹¹ In 1916 the first customer of Bedaux was an US American furniture store. By the 1930s 500 US American, 220 British, 114 French, 50 Italian and 30 Dutch companies had introduced the Bedaux system. In Germany the Continental – Gummi AG remained the only renowned client. (Erkner 1996: 146).

generated and diffused (amongst others by vocational trainings) a specific practice in applying efficiency ideas on the shop floor. Hence advice-giving and learning was primarily channeled through these functional equivalents that were both founded (REFA (1924) and the RKW (1921)) before the arrival of Bedaux (1927) and clearly dominated the diffusion of scientific management: "By 1933 [REFA] had trained more than 10.000 engineers in applying the new methods (...). The predominant role of the REFA in the diffusion of scientific management in Germany had obvious advantages, especially concerning the uniformity of approach and terminology" (Kipping 1997: 71).¹²

In Spain the impact of functional equivalents is of particular importance. At the beginning of the 1940s the introduction of Taylor's "scientific management" was organized by the state in order to overcome a phase of economic stagnation that had started in 1939. With this move the Franco administration aimed at transforming the fragmented and little productive industry into a modern mass production economy. At that time the most influential actors diffusing Taylorist concepts were the state holding companies "Instituto Nacional de Industria (INI)" and the "Instituto Nacional de Racionalización de Trabajo (INRT)". INI was established by the Law of September 25, 1941 and modeled after Mussolini's Italian "Istituto per la Ricostruzione Industriale (IRI)" (Liebermann 1982: 170). With INI the Franco regime tried to implement economic autarky and reduce the dependence of foreign resources. The function of INI was described as following: to "propel and finance, in the service of the nation, the creation and reappearance of our industries, specially those which will have as principal end the solution of the problems imposed by the need of the defence of the nation or which will direct themselves to our economic autarky, able to offer Spanish saving a safe and attractive investment" (Liebermann 1982: 170). The basic idea of the creation of INI was that the Franco regime believed the private

¹² Erkner's thesis that Bedaux did not succeed in Germany because of a conservative attitude on behalf of the entrepreneurs and an aggressive antipathy on the behalf of the trade unions and workers does not seem to proof stable when the development in other European countries are taken into account. Kipping states that "In Britain, it [Bedaux system] met with considerable resistance from workers and supervisors in a number of cases and was widely criticized for simply trying to "peed up" work" (Kipping 1996: 155). For France Kipping stresses that existing consultancies tried to distance themselves from the bad reputation associated with the Bedaux system in the 1930s (p. 115). A Governmental Evaluation of Scientific Management in the US in 1912 concludes: "In practice scientific management must, therefore, be declared autocratic in tendency – a reversion to industrial autocracy, which forces the workers to depend on the employer's fairness (and) limits the democratic safeguard of the workers." (see Chandler et al. 1996: 4-64). Hence we suppose that antipathy was a common feature addressed to scientific management and so it is more valid to argue that the adoption of a particular concept like Bedaux is linked to the existence of different competing actors involved in the diffusion of similar concepts.

sector to be incapable of achieving industrialization because of a lack of capacities, technological knowledge and “spirit of initiative” (Tortella 2000: 318). With INI Franco decided explicitly against the import of capital and technology to uplift the private sector fearing that Spain would get dependent on the will of foreign interests (Tortella 2000: 318). ... that Spain would become the pawn of foreign powers (= zum Spielball werden – ist das die gemeinte Aussage?)

In its best sense the INI could be conceived as a huge holding company that financed and supported those industries and companies that seemed worthy for the regime and its autarky approach. Juan Antonio Suanzes was INI's first head (from 1941 to 1963) and “supported the anti-liberal and anti-Marxist social doctrine of the Catholic church (...) which favoured the formation of self-governing professional associations of employers and of employees. He found no fault with the government taking control of these professional associations in order to further the interests of the state” (Liebermann 1982: 172). Although little can be said about the extent INI was actually directly involved in consulting, the institute did set the institutional and political framework for doing business in Spain.

INRT in contrast was providing consulting to a large extent. The Institute was founded in 1945 “in collaboration with industrial engineers and top managers and developed to be an active and influential organisation for the diffusion of scientific – management” (Amorim 1999b: 191). According to Amdam et al. (2000) the key institution involved in the INRT was the Spanish administration (Consejo Superior de Investigaciones Cientificas). The main tasks of INRT as a whole consisted of disseminating scientific management ideas and conducting studies in related fields.

With the duo INRT/INI the Franco regime of the 1940s tried to readjust the perceived imperfect allocation of scarce resources, industrialize Spain regardless of the costs involved and educate “Spanish industrialists (that) lacked even the most elementary business acumen.” (Harrison / Corkill 2004: 75).

Despite the anti-liberal political climate and the strong position of public providers two commercial consulting suppliers - Elodie Gombert and Bedaux - managed to get a foothold in Spain by the 1940s. Bedaux opened his first office on the Iberian Peninsula in 1940 in Madrid. The Bedaux company under the guidance of Ferdinand Bedaux Jr. restructured the office in 1953 in order to form Ibérica Bedaux with his Spanish partner “E.Maso” who he had started working with. In the 1960s Bedaux opened a second office in Barcelona. By 1975 Bedaux employed 68 people altogether in both its Spanish offices (Amorim 1999b: 192 f.)

The years in which both INI / INRT and the Bedaux' offices were founded (1945 and 1940) show that Spain's demand for “Taylorist Concepts” developed about 30 years later than it did in other Western European countries. The late arrival of

scientific management in Spain can be ascribed to a mismatch of the objectives and methods of “Taylorist Concepts” and their applicability in the Spanish industry in the first half of the 20th century. Scientific management was first and foremost addressed to large industrial enterprises. In Spain up to the 1950s the population of larger industrial companies was low compared to other European economies. Thus the demand for scientific management in general and consulting advice in particular was basically low due to the general state of industrialization in Spain. “In Spain scientific organization methods had been introduced in the interwar years. Only a few firms, however, implemented them, provided that foreign contacts were intense, engineers enjoyed a strong position, and labour intensity justified it. The productivity drive only took place from the 1940s onwards” (Pérez / Puig 2004; 88). In the US and Europe, the client lists of Bedaux contained an unexceptional number of the “modern industrial enterprises” (Chandler 1977) of the early 20th century inter alia including Eastman Kodak, Du Pont and General Electrics in the US, ICI and Rover in the UK and Fiat and Pirelli in Italy (Erkner 1996: 146). In contrast, the Spanish economy “was among the least industrialized countries in Europe (with) only the Balkans, Greece, Russia, Poland and Finland” showing smaller percentages of industrial workers (Harrison and Corkill 2004: 71). It could not create a demand for “scientific management” ideas equal to the second sector driven economies of other Western European countries in the early 20th century. At the beginning of the 20th century Spain’s industry was more backward than the British or even French had been at the beginning of the nineteenth century (Prados 1988). Several studies (Nadal 1975, Carreras 1987, Prados 1988, Tortella 2000) stress that Spain did not experience an industrial revolution at any point in time: “it is not possible to detect anything like a sudden setting in motion, a jumpstart of industrial activity in any sense of the word” (Carreras 1987: 284). Nadal (1975) clearly states “the failure of the Industrial Revolution in Spain”. Whereas during the second half of the nineteenth century Spain received large amounts of foreign investment (mostly British) in mining and railroad infrastructure the turn to an autarky approach in 1891 “started closing the Spanish market, the Spanish nation, to the rest of the world” (Lieberman 1982: 128). However, the isolationist policy did not fully interrupt foreign investments. From the 1920s onwards there were substantial foreign investments primarily coming from the US (Fernández and Rozalén 2006). Up to 1950, 21 US multinationals had established in Spain including a series of “modern industrial enterprises” as described by Chandler (1977).¹³ With the massive financial support by the “INI group”

¹³ Ford opened an assembly plant for its T Model in Cádiz in 1921, Worthington Pump & Machinery settled down in Madrid in 1932, General Electric settled down in 1929. Further included in the list: Singer, Kodak, General Motors, GE, Western Electric, Coca Cola (see: Fernández / Rozalén 2006: 5).

the state tried to boost mass production and the emergence of giant indigenous companies. From 1940 onwards INI specialized in petroleum and electricity helping to create large companies like the Calvo Sotelo, REPESA, ENDESA and ENHER; in iron and steel under ENSIDESA; in automobile manufacturing under Pegaso – ENASA (1945) and SEAT (1950); in aviation INI acquired CASA (in 1943) and HASA and was further involved in shipbuilding, mining, transportation, chemicals, engineering and metallurgy (see Tortella 2000: 318). As one of few exceptions the state railway company “Red Nacional de los Ferrocarriles Espanoles (RENFE)” founded in 1941 remained outside the direct control of INI.

The births of the first large industrial enterprises and the arrival of multinational companies enabled consulting in scientific management to come into life in Spain. Amorim (1999b) shows that ENASA, RENFE, SEAT as well as Hispano – Olivetti became the first clients of either Bedaux or INRT. Pérez and Puig (2004: 87) state that “in some (large) family firms, like the Rivières in Barcelona, scientific-based management ideas were studied and applied with the support of foreign consultants such as Bedaux and Gombert.” Unfortunately, there are no sources available to judge whether American multinationals operating in Spain called in other American consultants temporarily.

Hence the findings on the roots of consulting in Spain support our explanatory approach and stress the importance of considering the economic context and functional equivalents when assessing the development of the Spanish consulting market. As has been shown the “late developer label” attached to the Spanish consulting market didn’t derive from a missing perceptiveness of business (or state) leaders for efficiency concepts but from an economy that had missed its industrial revolution. Further on, when Spain arrived at a substantial level of industrialization it were public bodies rather than commercial consultants to which consulting engagement was directed.

4.2 Slow development and the dominance of functional equivalents to commercial consultants: 1950s onwards

Though by the end of the 1950s the Spanish economy experienced a substantial growth phase (Harrison/Corkill 2004: 76) the speed of industrialization and economic upswing in Spain was still low compared to the rapid developments taking place in other Western European countries. The Spanish economic structure was still dominated by a disproportionately high number of small-sized and family-owned businesses to which modern management concepts seemed inappropriate. In

1958 there were only few industrial sectors comprising a larger proportion of companies employing more than 100 employees, with iron and steel and the tobacco industry being the key sectors (see Lieberman 1982: 186). Moreover, almost 45 % of the Spanish industry still used pre – 1920 equipment (Lieberman 1982: 186; citing an UNESCO report).

For the creation of a Western Europe industry that would be aware of and perceptive for (new) management topics Kipping and Bajnar accent the important role of the Marshall Fund Scheme and the so called Technical Assistance Program: “Between 1948 and 1958, several thousand missions with participants from industry, labour and government from all the OEEC countries visited the United States to explore the reasons for the superior performance of its economy” (Kipping / Bjarnar 1998: 3; Djelic 1998). The Marshall Fund promoted the US economy’s image of being the dominant role model and facilitated opportunities for European managers to learn and adopt an allegedly superior American type of management. The diffusion of American business knowledge through the Marshall Fund Schemes relied heavily on the exchange of experts and journeys that took managers from Europe to the US to gain firsthand experiences. The promotion of the activities was driven by the state, academic institutions and, especially in the case of Germany, by corporatist actors like the RKW (Kipping 1996). Hence the level of involvement of US-consultancies in diffusing management knowledge and advice giving in Europe at that time was rather limited: “Some of the smaller American consulting firms, like Stevenson, Jordan & Harrison and Mead, Carney & Company opened offices in London (!) by the early 1950s, but the leading American management consulting firms did not expand to Europe until a decade later” (McKenna 2006: 168). The importance of the Marshall Fund for the expansion of US consultancies to Europe should – nevertheless - not be underestimated. Though large consulting houses that had become dominant in Europe in the 1960s weren’t directly involved in spreading management knowledge in Europe in the post war years, the Marshallian praise of US superiority and the believe in “progress by copying” provided the breeding ground for the coming generations of consultancies.

Although Spain remained excluded from the Marshall Fund it received large-scale support from the US after World War II. According to Amorim (1999b: 191) the Spanish state took the lead to foster the autarky of the economy due to Spain’s exclusion from the Marshall Fund. Nevertheless, Spain received as much US aid in the post war years as Germany did from the Marshall fund (Chislett 2005: 22).¹⁴In

¹⁴ In the time period from 1946 till 1975 Spain received \$1,97 billion altogether. \$1.5 billion were spent in the decade after 1953 (Chislett 2005: 21f.)

contrast to the Marshall Fund scheme the US support in Spain lasted longer (fourteen instead of four years) and the monetary support mainly consisted of concessional loans instead of grants. An important corner stone in the history of American Aid is the 1953 “bases agreement” increasing the economic, military and technical support for Spain which in turn eased military bases on the Iberian Peninsula to the US. Another program to enhance the exchange between Spain and the US was the “Fullbright Program” in which around 7000 Spaniards and Americans took part. Citing an US report Chislett notes that the purpose of the program was “to make Spaniards feel confident about the capacity of the United States to lead and defend the free world from the communist thread, through greater knowledge of its history, culture, economy and scientific techniques.” (Chislett 2005: 28). Hence despite the exclusion from the Marshall Fund management knowledge generating from the US was introduced and spread in Spain on a large scale. With regard to the consulting market in Spain it is important to stress that the diffusion of knowledge from the US to Spain was almost exclusively organized by public institutions: “The evolution of the Spanish consultancy market after 1946 has been largely determined by the existence of semi – public institutions, such as INRT or NCIP [CNPI], which have played an important role in the promotion of scientific management” (Amorim 1999b: 199). The 1950s in Spain present an emblematic picture of how the task of diffusing management knowledge was primarily ascribed to functional equivalents to external and commercial consulting. In contrast to other Western European countries where from the 1960s onwards the spreading of management knowledge was performed by commercial consultants to a large extent, they did not play an significant role in Spain at all.

Interesting to note is that the most influential public institutions in charge of the diffusion of management knowledge in Spain were founded with financial and ideological support from the US. Even though INRT had already increased its influence the Franco regime opened six more associations involved in disseminating scientific management and/or giving lessons on management topics. Five of these were established with funding from American Aid (Amdam et al. 2000: 24). In 1952 the Comisión Nacional de Productividad Industrial (CNPI) was opened by the Spanish administration and American Aid. Its key activities were training and implementation of scientific management and it was supposed to handle the technical exchange with the US. Puig defines the CNPI’s purpose “to disseminate the core ideas of capitalism and free enterprises and to convince the local population of the goodwill of the Americans and the superiority of their economic model in order to accept the presence and the risk of foreign soldiers at home [referring to the bases agreement]” (Chislett 2005: 25, citing Puig 2003). The CNPI was run by Fermin de la Serra who had visited the US in 1946/47 and become acquainted with both the new

management models taught at the business schools and their implementation in the industry (Chislett 2005: 25) Between 1953 and 1963 2222 Spanish technicians and senior managers studied in the United States and the rest of Europe, while several thousand people benefited from trainings given in Spain (ibid.).

Additionally, as part of its programs the CNPI created the first Spanish American-style business school in 1955, the “Escuela de Organización Industrial” (EOI), as well as regional productivity branches in Catalonia, the Basque Country, Asturia and other industrial districts.¹⁵ The main aim of the EOI was to increase the industrial labor productivity, e.g diffuse knowledge in scientific management as well as human relations. “The school [EOI] was the first US- style business school aimed at large companies to be set up in Spain. It was run by the INI in Madrid” (Fernández / Rozalén 2006:6). The EOI offered two postgraduate schemes, one recreating the University of California and one copying the Carnegie Institute of Technology. “The basic principle [of the EOI] was to make engineers more business-minded (who dominated the large and medium-sized companies) and managers more industry-minded. (...). Around ten US professors taught at the EOI, which the INI (...) and the Industry Ministry had hoped would be a training ground for INI managers” (Chislett 2005: 25).

In 1956 another influential business school that benefited from the American technical program was the Jesuit “Instituto Católico de Administración y Dirección de Empresas (ICADE)”, “established as a managerial branch of the Instituto Católico de Artes e Industria (ICAI)” (Pérez / Puig 2004: 88) in Madrid. The main topics addressed by this school were related to banking and commercial business. Under the support and influence of “Opus Dei” the Barcelonan based “Instituto de Estudios Superiores de la Empresa (IESE)” followed in 1957/58 (and since 1974 in Madrid) and was the first European business school to offer a two year MBA program starting in 1964.¹⁶ In the same year the Jesuit ESADE business school followed that today operates campuses in Barcelona, Madrid and Buenos Aires.¹⁷ The fifth organization involved in management issues was the “Asociación para el Progreso de la Dirección (APD)” established by a group of Spanish business men (founder José Maria Aguirre,

¹⁵ The life of the CNPI nevertheless did not last long. Fernández and Ronzalén state that already by 1962 the CNPI had been gradually dismantled (2006: 6). Nevertheless, the CNPI was not long-living.

¹⁶ IESE was founded in the same year as the French business school INSEAD. Both schools are deeply influenced by the Harvard Business School model.

¹⁷ Another but private business school is the “Instituto de Empresa” established in 1973 in Madrid.

owner of the Agtoman construction company) under the guidance of American Aid in 1956 (Amdan 2000: 24). The APD promoted the introduction and exchange of new management ideas and was created in the likeness of the American Management Association (Chislett 2005: 25). An important member of the APD was Antonio Garriguess who was Franco's ambassador in the US (1962 -1964) and became a key actor for introducing US American companies to Spain (ibid.).

The public institutions' dominance concerning the spreading of management knowledge made it certainly difficult for consultancies to enter and / or establish in the Spanish market. The first consultancy prevailing to some extent over the public service providers was "Técnicos Especialistas Asociados (TEA)". TEA, a firm of Spanish origin, was established in 1952 by Robert Cunat and Javier Benjuema with the latter being a long lasting president of the ICAI / ICADE board of trustees (Pérez / Puig 2004: 89). TEA further expanded in 1957 with the formation of "TEA Ediciones" the arm of TEA responsible for the creation and evaluation of psychological tests. In 1960 TEA associated with the French group CEGOS to create TEA – CEGOS. CEGOS had emerged from the "Commission Général de l'Organisation Scientifique due Travail" founded in 1936 by the initiative of employers like Louis Renault and André Citroen and receiving support from the government and the peak employers' associations (Kipping 1997: 70). By 1938 CGOST was renamed as CEGOS and gradually transformed into a private business consultancy putting its focus on training and human resources (Kipping 1997: 77; Amorim 1999b: 191). During the 1950s and 1960s TEA – CEGOS evolved into an important actor in the diffusion of the concepts of the "human relations school" (Amorim 1999b: 194; 1999a: 143).¹⁸ According to Amorim the "human relations concept" led to some extensive management tourism that brought Spanish managers to the US and back in order to soak up some new managerial spirit (1999: 192).

The notion of "human relations" found the support of a large group of intellectuals (including José Ortega and Gasset) who keenly endorsed the diffusion of the concept. The outcome of this dedication was the creation of the "Advancement of Management (AAM)", an association by which parts of the intellectual elite received consulting subcontracts for the most important firms (Amorim 1999b: 195).

¹⁸ TEA – CEGOS is still active in the consulting market today and has developed into a multi – service offering consultancy. Beside TEA - CEGOS and TEA Ediciones the company did set up TEA – Consultur, TEA- Deployment (in 1998) and TEA Franklin Covey. The association with CEGOS provided TEA an international profile as CEGOS operates with offices throughout Europe and China. Whereas in the other European markets CEGOS operates solely under its "single name" the Portuguese market is served under the cooperation with TEA (TEA – CEGOC Portugal).

Needless to say, the competition on the commercial consulting market further increased when two more consultancies established in the market seizing more and more influence, and today ranking among the largest consultancies of Spanish origin. (Amorim 1999a: 145; based on Management Consultant International, various issues). In 1957 the consultancy “Idom Ingenieria / consultoria” was founded by Rafel Escolá with support of the engineer Luis Olaortúa. The company has been focusing on civil engineering, architecture and consulting issues and employs more than 2000 people working on three continents in 26 offices (in 2007). In 1959 IOR Consulting was established now operating offices in Barcelona and Madrid and employing 65 people (43 consultants).

The level of internationalization in the consulting market increased with the large international tax and audit companies settling down. These companies soon began to offer consultancy type work additional to their key business (CEMP 2001: 37; Jones 1995). At the forefront of this movement was Price Waterhouse Coopers that opened its first office in Spain in 1956 (Amorim 1999b: 193).

4.3 Growth and liberalization: 1960s onwards

Whereas the years from 1939 till 1959 are considered the years of Spain missing the chance to modernize its economy, the years following 1959 are considered “the Spanish industrial revolution of the 1960s” (Lieberman 1982: 199ff.). From these years onwards the Franco regime distanced itself from its former autarky approach and gradually brought Spain closer to an open market system. The turning point can be dated back to 1958-59 when Spain joined the International Monetary Fund, the World Bank and the OEEC (1959). Under the guidance of the IMF and OEEC the government introduced the “The Stabilization Plan” (1959). It broke with the autarky paradigm and lowered the isolationist barriers by restructuring the public sector. A new monetary policy and a new approach to manage the economy was introduced that both liberalized trade and foreign direct investments (Lieberman 1982: 200; Harrison / Corkill 2004: 6ff). During the industrial take – off years in the 1960s Spain’s GDP growth mostly exceeded the rates of West Germany.

Due to the increasing competition with foreign firms Spanish private enterprises felt the need to modernize: “(...) the Plan confronted domestic inefficient firms with the choice between increasing their productive efficiency or having to face probable business failure. It thus induced many firms to modernize their methods of production and to develop new products.” (Lieberman 1982: 215).

Unlike in other Western European countries, the will to change could not spur the growth of the consulting market considerably. In the decade of the 1960s US – American consultancies of the second generation crossed the Rubicon to invade the Western European markets. Two factors have to be considered when analyzing their

expansion. In the first place a higher demand for US management knowledge developed: Similar to the success of the Bedaux consultancy more European companies felt the need to get access to new managerial expertise, now addressing the general management agenda (Kipping 1999: 209). Quite commonly a new “American challenge” (Servan-Schreiber 1968) was perceived. US management knowledge stood out due to its (alleged!) superiority in organizational design (McKenna 2006). The second factor was the massive increase in US direct investments to Europe from the late 1950s onwards that were made in “in order to guarantee access to the continent before the European Common Market put up trade barriers in 1958” (McKenna 2006: 171). The leading US consultancies like Booz Allen Hamilton, Arthur D. Little and Mc Kinsey followed their US multinational clients into the “new” markets. The most prominent concept introduced by the consultancies of that time was “the multidivisional structure, or M-Form, which (...) had been adopted by American companies from the 1920s onwards (...). McKinsey played a particularly important part in the decentralization of many British, French, and German companies during the 1960s” (Kipping 1999: 210). The adoption of the „decentralization movement” by European companies marks an important turning point in the internationalization of US consultancies. Though unintended at first US consultancies like McKinsey or Booz Allen Hamilton quickly acquired new clients of European origin and expanded their presence on the continent: “Although both Booz Allen & Hamilton and McKinsey & Company had planned to work primarily for American subsidiaries, the consultants soon abandoned that initial strategy as European demand rose” (McKenna 2006: 172). In a short period of time after their first step onto the European continent the large US consultancies opened offices in Germany, France, UK, Switzerland, Netherlands and Italy. Although the M-Form was the main “product” offered by US consultancies in the 1960s its practical dissemination was far less sweeping and clear-cut than one would expect from its prominent promotion.

“It was only during the 1960s the US management consultancies, notably McKinsey & Co., established a major role for their overseas operations in transferring the multidivisional form of corporate organization to large British and to lesser extent French and Western German companies. Even then, however, (...), the multidivisional structure was often implemented incomplete, ‘corrupted’, or modified form especially in Britain, while an important group of West German steel, automobile, engineering, and electrical equipment firms either never adopted the multidivisional form at all, or returned to older functional and holding company structures during the 1970s” (Zeitlin 2000: 26; see also Kipping 1996: 119f.).

Whereas the actual influence of US consultancies in Western Europe is up to discussion, the Spanish industry of the 1960s indisputably remained untouched by the harbingers of the second wave consulting firms. McKenna (2006), using the example of McKinsey, provides an interesting case of political and institutional hurdles that attenuated the evolution of the Spanish consulting market and may have hindered the diffusion of new management concepts.

“The contrast between the widespread adoption of the multidivisional form within the European Union during the 1960s and 1970s and its absence in Spain is particularly instructive. In 1965, a leading Spanish bank contacted the consultants in McKinsey, anxious to hire them to reorganize the industrial companies under the bank’s control. McKinsey’s directors, however, decided not to take the assignment and not to use the study as a bridge to open an office in Spain (...) because Marvin Bower argued that Spain’s position outside the European Common Market and the risk of operating under a dictatorship mitigated the potential gains from establishing yet another European office” (McKenna 2006: 176 f.).

Obviously, political-institutional conditions of the targeted country were seen as major obstacles for an expansion to Spain. Whether the McKinsey decision not to open an office in Spain had the “important structural consequence” that no large Spanish company decided to adopt the decentralized organizational form, as McKenna (ibid.) argues, is doubtful. McKenna too strongly connects the diffusion of management knowledge to consulting firms. If Spanish firms had felt highly inclined to adopt the M-form they would have had other possibilities to make themselves familiar with the new management concept. Moreover, it can be doubted that the structural receptiveness of the Spanish economy for the decentralized organizational model was given at that time. The predominance of small and medium-sized companies throughout the Spanish economy and the comparably small population of multinationals naturally decreased the number of possible customers on the demand side. Concepts like the multidivisional organization addressed (even more than scientific management) large, diversified companies, scarcely to be found in Spain at that time. Looking at the composition of number of employees per company it can be shown that in 1970 only 0.16 % of all Spanish enterprises employed over 500 workers whereas 97.11% exhibit less than 50 employees. Beside size limitation Amorim alleges that the general low level of bureaucratization of Spanish firms further diminished the need for concepts that were based on decentralization. Harrison and Corkill underline that the “Spanish industry specialised overwhelmingly in activities that were most intensive in (cheap) labour and least intensive in technology” (Harrison / Corkill 2004: 78). The largest industrial sectors in Spain in 1960 were constructing (17.8% of GNP), food, drinks, tobacco (14.7% of GNP), metal

transformation (9.8% of GNP) and shoes, apparel and leather (9.2% of GNP). The relative sector weight reveals that the key industry sectors were also the ones that showed least demand for the concepts in question. Labor intensive industries are more susceptible to consulting dealing with “scientific management” or “human relations” issues than with “strategy and organisation”. Accordingly the longevity of “shop-floor-based consulting” in Spain compared to the rest of Western Europe does not surprise. Even in the 1980s “it appears that scientific management was considered highly attractive” (Amorim 1999b: 195).¹⁹ Although the service sector of the 1960s already accounted for 45% of GDP it could not act as a “substitute” for the missing demand by the industry as it possessed “the features (...) associated with a peripheral economy, based upon the dominant role played by tourism, relatively low export volumes and a large contribution from construction and distribution” (Harrison / Corkill 2004: 98).

Beside the limitations evolving from the sector composition commercial consultants still faced strongest competition from the large state consortia like INRT / INI that even enhanced their position by “either acquiring or merging with small consulting firms, or creating independent consulting units from their previous consulting departments” (Amorim 1999b: 194).

Accordingly the growth of the Spanish consulting market in the 1960s took place on a smaller scale than in other parts of Western Europe and involved different consultancies as key actors. Concerning the development of indigenous consultancies three companies of Spanish origin shall be mentioned: Seresco (1962), Grupo CP (1966 / 1973)²⁰ and the state owned market research consultancy Metra Seis (1964). “Many of the earlier consultancies in Spain had grown out of the associations of individual engineers or other academics and the governmental national institutes that were set up during the 1940s” (Amorim 1999a: 142).

In addition these local initiatives associated with the state-led modernization path during the 1960s the Spanish consulting market also grew due to the arrival of several foreign consulting firms most of them having a background in the tax and audit business. The first group of foreign arrivals consists of: Grupo Metra / SOFEMASA (FR / 1962), Coopers and Lybrand (1963), Arthur Andersen (USA /

¹⁹ More generally it can be proposed that there are large differences between industries concerning the exchange of management knowledge and skills. “More mature and less technology-intensive industries typically provide less room for exchange of skills and knowledge than technology-intensive industries” (UNCTAD 2006: 177)

²⁰ Whereas Amorim states that the Grupo CP was set up in 1966 the companies webpage announces 1973 as the year of birth.

1965), AC Nielsen (USA / 1965) and Fraser (1968). Almost all of these consultancies worked together with Spanish partners, most of them Spanish banks (Amorim 1999b: 193).²¹ The close linkage to banks may have arisen due to the tax and audit focus of some of these consultancies (e.g. Arthur Andersen, Coopers and Lybrand). Taking into account that Price Waterhouse Coopers entered Spain as early as 1956 it seems as if tax and audit based consulting firms compared to classical management consultancies faced fewer problems to move their services across the Spanish border. The higher standardization of tax and audit services and clear professional norms seem to lower institutional and cultural barriers usually attached to the international expansion of consulting firms. On the other hand the variety of services tax and audit companies offer makes it difficult to judge in how far the companies had been involved in spreading management knowledge and providing management advice in the narrower sense of the term. Amorim allows the assumption that management consulting was at least partially included in the spectrum of activities that tax and audit consultancies offered in Spain: "the large international accountancies that set up offices in the late 1950s and early 1960s also carried out some consultancy-type work" (ibid 1999a: 144).

4.4 Crisis, transformation and the arrival of the US second wave consultancies: 1970s onwards

With the beginning of the 1970s Spain's political system and economy tumbled into a crisis that found its peak in the breakdown of the Franco regime in 1975. It is the coincidence of global economic crisis (breakdown of the Bretton Woods system / energy crisis) on the one hand and the end of the Franco regime on the other hand that made Spain suffer exceptionally hard from the economic distortion. The uncertainty in the business community increased massively at that time and as a matter of course aggravated the transition towards democracy and a free market economy (Tortella 2000: 340). The "new institutional framework" after 1975 provoked anxiety and a number of questions that lamed investments and economic life in general: how was the labor market to be organized? What roles will the employer organizations, the unions, and the state play? How will the new democratic system function related to real life? Will the left wing party that had been excluded from political life since 1939 resume power? What economic policy will be followed? (see Tortella 2000: 341).

²¹ Grupo Metra worked with Banco Bilbao (ESP) and Sema Metra (FR). The Spanish affiliate was called SOFEMASA. Metra Seis cooperated with the Grupo Banco Atlantico and Seresco worked with Banco Ind. Cataluna.

Under the pressure of this institutional uncertainty the Spanish economy underwent a painstaking restructuring process. From 1973 till 1984 1.33 million jobs were lost in the non-competitive industrial sectors (textiles, footwear, electrical goods, iron and steel, shipbuilding). The disturbance in the employment market was accompanied by a rocketing inflation rate that reached 40 % in 1977. The economic turbulences abated when the first democratic government of the 1980s, the socialist government under Felipe Gonzalez, assumed power based on a vast majority (Harrison / Corkill 2004: 16f.). "The state of uncertainty diminished starting in 1982 and contributed considerably to the upturn in investment from 1985 onwards" (Tortella 2000: 341).

Within the turbulent times the large US consultancies that entered Western Europe as co - constructors and redeemers of the "American Challenge" in the 1960s arrived at the Iberian Peninsula. At the forefront of the development was Hay Management Consultants (founded 1943, today Hay Group) that settled down in 1972 and runs offices in Madrid, Barcelona and Bilbao today. Just five years later, McKinsey & Company opened their first office in Madrid, the second in Barcelona in 1986 (Lisbon 1985). Today McKinsey Espana employs around 200 people under the guidance of office manager Josep Isern. Alike McKinsey Arthur D. Little established the first Spanish office in Madrid in the year of 1977. .

But not only firms of US origin increased their share on the market; French companies were also on-site early on. About 1968 the French Bossard Consultants opened their first office in Spain.²² The French company Gemini consulting (today Capgemini) settled in 1971 and has established six offices in Spain since then (Madrid, Barcelona, Valencia, Sevilla, Asturias and Murcia). One year earlier, in 1970, the Sema Group opened their first Spanish office. Sema was sold to the IT service provider Schlumberger in 2001 who sold the group again in 2004 to the IT consultancy consortium Atos Origin. The French IT consultancy Atos came into life in 1997 outgrowing the merger of Axime and Sligos with the latter originating from the 1972 merger of Sliga and Cegos. The Boston Consulting Group had carried out assignments in Spain since 1979 but did not open an own office before 1987. The office in Barcelona followed the one in Madrid in 2002. According to Amorim (1999b: 193) there are two additional US consultancies (A.C. Nielsen and Diebold / ICOSA) and the French COC consultancy that have operated in Spain before 1975.

It has to be noted that the large foreign consultancies entered Spain in times of a severe economic crisis and an all-embracing state of uncertainty. According to

²² In 1997 Bossard was bought by the Cap Gemini Group (www.de.capgemini.com/wer_wir_sind/facts_and_figures/historie/)

Lieberman in 1977 the inflation and unemployment rates were at a level at which the state was forced to take “dramatic attempt(s) to rescue the economy from probable collapse” (Lieberman 1982: 276). These prevailing problems in Spain (not to forget its drive towards a democratic political system) and the way Spain approached its economic disturbances need to be looked at in the broader context of EEC integration. In 1970 the technocrats of the late Franco administration had signed a “preferential trade agreement” with the EEC removing trade barriers between Spain and the EEC concerning agricultural and industrial products. The end of the Franco regime in 1975 cleared the way for Spain’s application for full EC membership in 1977. The free trade arrangements and the EEC “entry – obligations” for Spain were regarded as a vital ingredient in the transition from dictatorship to democracy and as a key element in the drive for economic and social modernization. Gradually exposing the economy to free competition was nevertheless quite painful for the indigenous companies as “Spain’s overly protected internal market (...) withered away to expose its uncompetitive products, inexperienced management and antiquated labour relations” (Harrison / Corkill 2004: 172). At the same time Spain’s labor cost based advantages diminished with the uprising newly industrialized countries of South East Asia and South America. While Spanish companies had to fear the fierce competition it was the “foreign multinationals (...) that would reap the benefits” (Holman 1996, 151). The removal of trade and investment barriers sparked a strong growth in inward investment as foreign multinationals penetrated the Spanish economy in great numbers, chiefly into manufacturing and services (Harrison / Corkill 2004: 174 f.). Spain became a popular target of FDI with the USA, Switzerland, West Germany, France and the UK being the main contributors. “By the early 1970s, foreign multinationals accounted for more than half the turnover in industries such as chemicals, oil refining, ‘white technology’ goods, transport equipment and motor vehicles” (Harrison / Corkill 2004: 129). In 1973, 209 of the worldwide top 300 multinationals had affiliates in Spain (Fernández / Ronzalén 2006: 10). In this process the motor manufacturing industry provides an emblematic example with Renault, Peugeot, Citroen, Ford, General Motors and Nissan controlling about three – quarters of the Spanish motor industry in the early 1980s.²³ According to Harrison and Corkill, it was the “multinationals” that helped to modernize the Spanish economy bringing in new forms of business organization and state of the art technology (2004: 20). Fernández and Rozalén (2006: 8) show that from 1960 to 1973 foreign direct investments increased more than tenfold (1960: 2.175 million pesetas / 1973: 23.504 million pesetas). Furthermore, Fernandez and Rozalén (2006:

²³ With Volkswagen buying out SEAT from INI in 1986 the dominance of multinational enterprises in the motor industry was completed.

8 f.) stress that in the 1970s “foreign investments played a fundamental role in (...) strategic sectors in which the US was a leading player. The help received from consultancy firms such as Bedaux and Maynard MEC (Methods Engineering Council) was also a shot for the modernisation of Spain’s industry. Among their customers and partners were Banco Urquijo, the INI and US multinational affiliates, which were all instrumental in driving the Spanish modernization process.” This underlines the importance of multinationals for consultancies to gain foothold in foreign markets. Amorim underlines that foreign consultancies of the second generation relied heavily upon multinationals as their first clients in Spain: “Only few large and mostly foreign owned companies had somehow introduced decentralized units or matrix structures” (Amorim 1999b: 194f.; see also 1999a: 144). The fast growing FDI inflows and increasing integration of Spain into Europe was the main driver for foreign consultancies to make the move to Spain and establish in the market in the long run. Moreover, the transformation of the Spanish economy and society, perceived as a break with the old regime, also dismantled and de-legitimized the old system of assigning expertise and authority. Earlier attempts to modernize the Spanish industry based on “scientific management” were mostly supported by (semi-) public consulting organizations that were clearly associated with a state-led economy. Thus, also from this perspective the establishment of an open consulting market was enforced by the fact that the newly entering consulting firms did not face competition with the former “functional equivalents” to external commercial consulting any more. With INI’s closure one of the most influential public organization involved in the diffusion of management knowledge left the consulting field. Beginning in 1981 INI underwent several restructuring processes due to the fostered privatization of the Spanish industry. In 1992 Téneo was established as a new subholding of INI with the purpose of supporting firms allegedly capable of competing under normal market conditions, irrespective of their future ownership (Harrison/Corkill 2004: 91). After another restructuring wave in the industrial and energy sectors INI was closed 1995 followed shortly after by the shut down of Téneo in 1996 (Harrison / Corkill 2004: 92). However, after the breakup of INI a small number of Spanish consultancies managed to evolve out of former INI departments to set up independent consulting units (e.g. the Auxiesa, Incesta and Dragados y Construcción - all three large firms in consulting engineering) (Amorim 1999a: 143). Thus, at least some of the “outdated” INI consultants became part of the new era of commercially operating consulting. Thereby grounds were laid for an indigenous consulting segment that can partially be seen as competitors to the new entrants that had been dominating the scene since the 1980s.

4.5 The Post Franco years and the golden years of consulting: 1980s onwards

By the mid 1980s Spain had arrived at a turning point and the economy gradually managed to pick up speed. The turnaround of the economy was accompanied by a “u – turn” in the fiscal and economic policy of the state. When the socialist party (PSOE) and Felipe González came into power in 1982 “the left” had discarded the Marxist ideas enshrined in the party’s status and followed a neoliberal approach of orthodox monetarism. To the annoyance of the PSOE the minister for Finance and Economics (Miguel Boyer a former economist from the Bank of Spain) even adopted the Maggie Thatcher’s slogan “Tina: There is no alternative” (Harrison / Corkill 2004: 18). By about 1987 the painful adjustments had led Spain to “a phase of vigorous expansion of output and employment accompanied by a marked slowdown of inflation” (OECD 1987). During the second half of the 1980s Spain once more expanded faster than most of the other European countries driven by domestic demand and a new wave of foreign investments (Harrison / Corkill 2004: 18).

At the same time the Spanish consulting market had “taken off”. By the end of the 1980s literally all leading US consultancies had settled down on the Iberian Peninsula. Already in 1977 the first Spanish consulting association “La Asociación Española de Empresas de Consultoría (AEC)” was created and by 1993 the Catalanian arm of the AEC - “La Asociación Catalana de Empresas Consultoras (ACEC)” – was founded being the second independent association.

The development of the consulting market coincides with a restructuring phase of the Spanish business system and an increasing awareness of the backwardness regarding technological development and management concepts (Amorim 1999b: 191). Accordingly, the exceptional long-living demand for shop-floor consulting decreased and the consultants of the second generation gained more influence on the market. Key drivers for the demand were consulting services in organization, market and viability studies (Amorim 1999a: 144). Although there is no specific data available it can be assumed²⁴ that the generous funding schemes of the EC after 1986 played a noteworthy part in the increasing demand as well (Amorim 1999b: 191).²⁵

²⁴ For several years (from 1997 onwards) the FEACO announced the relative amount of consulting fees spend by EU support for each country. The figures are extremely high for countries in the phase of EU accession, e.g in 2002 40% of all fees spend in Romania were financed by the EU.

²⁵ Since the beginning of the accession process, EU funds have distributed 150 billion € to Spain (source: EU - Commission)

Among the consultancies that entered the Spanish market in the 1980s some influential European players can be found. With Roland Berger Strategy Consultants the first German and today's largest consultancy of European origin arrived in Spain. Berger approached the market by acquiring 50% of Ibérica Bedaux contemporaneously with Spain's entry into the EC in 1986. The company was renamed into Roland Berger Bedaux S.A. and kept on offering classical shop-floor-related consulting enriched by Berger's focus on strategy. In 1987 the British tax and audit as well as consulting offering company "Deloitte" settled on the Iberian Peninsula. Today the company runs twenty offices in Spain. Regardless the presence, the European consultancies did not manage to challenge their American colleagues who took the leading role in Spain. By 1996 six of the top ten Spanish consultancies came from the US (and 12 out of the Top 20) (Amorim 1999a: 145).

An outstanding example for the American market control proved Andersen Consulting (Amorim 1999a: 146). As already mentioned Arthur Andersen – founded in 1913 as an accounting company - entered the Spanish market as early as 1965. By that time Arthur Andersen was still a single unit firm. Due to the rocketing demand for IT services Arthur Andersen split up into Andersen Consulting (IT consultancy) and Arthur Andersen (Accounting) in 1989 with both firms operating under the umbrella "Andersen Worldwide Société Coopérative (AWSC)". After years of severe altercation Andersen Consulting split from AWSC in 2000. In 2001 Andersen Consulting was renamed to "Accenture" (acronym for: Accent on the Future). Arthur Andersen in turn created Arthur Andersen Business Consulting (AABC) to gain a foothold in the management consulting market. By 1996 Spain was the third largest market for *Andersen Consulting* following the US and UK with a total turnover of 196 million €. The turnover of Andersen Consulting alone was higher than the cumulated turnover of the rest of the top five consultancies in the market (Amorim 1999b: 197). Little is known about the influence that *Arthur Andersen* managed to gain in Spain since 1965. When Arthur Andersen collapsed in 2002, due to the involvement in the US Enron scandal, the "bidding battle" for the Arthur Andersen Business Consulting (AABC)'s non-US operations began. Although it first looked as if KPMG (the consulting arm of KPMG is operating as Bearing Point since 2001)²⁶ would take over all European subsidiaries of Andersen, Andersen Spain decided to merge with Deloitte & Touche, making KPMG withdraw their bid.²⁷

²⁶ Bearing Point has run offices in Madrid, Barcelona and Bilbao in Spain since 2002. Today around 400 employees work for Bearing Point in Spain.

²⁷ www.crn.com/sections/breakingnews/dailyarchives.jhtml?articleId=18820174

The years between 1988 and 1990 seem to be the “gold rush period” for foreign consultancies. Within these three years 11 consultancies set up their offices in Spain: A.T. Kearney, Booz Allen Hamilton, Boston Consulting, Drake Beam and Morrin, Ernst & Young, BDO Binder, Towers Perrin, Mercer, Steria, Monitor Group and Right Management Consultants.

Besides the foreigners two consultancies of Spanish origin were established in the 1980s that managed to gain momentum in the market. In 1988 and 1990 Sistecal and Europa Management Consulting were founded. Both of them grew rapidly (in terms of turnover) as they appear in the Top 20 of the largest consultancies in Spain in 1997. In the same ranking the long established Grupo CP achieved the third position (the largest Spanish consultancy in 1997 was acquired by the Dutch Geotronics in 1998) and Idioma Ingenieria ranked fifth (Amorim 1999a: 145).

The outstanding position of Andersen Consulting noted above already highlighted the relevance of IT-consulting for the Spanish market that was reinforced by a wave of new market entrants during the 1990s. Kipping identifies three big players of IT consulting in Europe including EDS, CSC and CapGemini (Kipping 2002a: 35f) all of them having set up their first affiliates in Spain during the 1980s.²⁸ Beside the “Big Three” a number of international IT consulting consortia came to Spain and companies of Spanish origin were founded during the 1990s: the French Altran Group (1993); the French Atos Origin created “Atos Origin Espana, Portugal y Andorra” employing 4700 people; the Canadian DMR Consulting (1996) now called “everis”; the Dutch Geotronics (1998 acquiring Grupo CP), the Spanish Indra consultancy (1993); The Spanish Informática El Corte Inglés (1988 as a unit of the well known retailer); the Spanish Sadiel (around 1985); the French Steria Group (1986); the US origin Unisys.

The fundament for the services of these consultants is priorly built on developments in information technology based networking. Additionally these firms offer their expertise in the fields of outsourcing and classical management consulting issues. IT consulting takes place in a conjuncture with strategic and organizational consulting (Kipping 2002: 36f) but does not offer genuinely new management concepts. As the boundaries between IT consulting services and the selling of IT products are blurry it is hard to judge how much of their turnover IT consulting firms generate with management consulting in the narrower sense of the term. This needs

²⁸ EDS established in Spain 1980 with offices in Madrid, Barcelona and Saragossa. CSC Spain was founded in 1985 with offices in Madrid, Barcelona and Asturias. Capgemini opened its first office Madrid in 1971 and owns further dependances in Barcelona, Asturias and Valencia.

to be kept in mind when comparing the size and turnover rates of IT consulting with classical management consulting firms.

Though the importance of IT-related services, measured in market shares, is indisputable, the latest developments present a relative decrease. In Europe IT consulting obtained the largest share of all services in 2001 accounting for 33.2%. Thereafter, the market share of IT-related consulting declined continuously for several years. Regarding 2004 IT “only” accounted for 25.8% losing its pole position to Operations Management that accounted for 27.3%. The same trend can be discovered in Spain. The IT market share in Spain was considerably higher than in other countries and also remained dominant for a longer time. By 1997 59 % of all consulting fees were linked to IT. One year later these services reached their peak with 73.1% of all fees spent being connected to IT services. In the following four years IT-related services accounted for more than 60% on average. But this impressive period was followed by a steep drop of 24.3% in 2003 to arrive at 40% in 2004 (followed by Outsourcing Services (33%) and Operations Management (20%)) (All data above taken from FEACO 1998 – 2004).

It is presumed that the high demand for IT consulting in Spain co – developed with the overall economic boom of the late 1980s accompanied by a technological catching-up process. However, the market share of IT consulting services compared to other segments also mirrors the overall composition of the Spanish economy. In Spain the numbers of local and foreign multinational firms that are receptive for strategy consulting services are low compared to core European countries. Strategy-related consulting services remained marginalized in Spain as these services explicitly address the headquarters and units of large multinational companies that have strategic responsibilities for the overall corporation. Only few multinational companies of Spanish origin emerged from the 1980s onwards and foreign multinationals rather used Spain as a low cost production location than a strategic hub. Spain’s attractiveness as a low labor cost location, at least during the 1980s and early 1990s, may also account for the high share of outsourcing-related services. The dominance of IT services can be ascribed to the large audience it addresses. Along with medium sized local companies that require IT advice, multinational companies leverage the demand for IT consulting services. To roll out a new IT system in all parts of the company multinationals often involve IT consultancies to drive the implementation process. Hence IT consultancies can access multinational firms at all levels, not just the board room.

5 The consulting market at the dawn of the millennium

By the dawn of the new millennium the Spanish consulting market had taken on a form (e.g. turnover, number of consultancies) comparable to the leading Western European markets. The adoption of free-market principles and a neo-liberal orientation at the beginning of the 1990s had provided the breeding ground for commercial consultancies to substitute their functional equivalents. Regarding the US influence more than 30 consultancies have settled down in Spain by 2005 (Chislett 2005: 141; Fernandez / Ronzalen 2006) (see table **Fehler! Verweisquelle konnte nicht gefunden werden.**).

Table 1: Internationalization of the Spanish Consulting Market

Company	Offices	Est.
Bedaux (US)	Madrid, Barcelona	1940
TEA Cegos (FR)	Overall seven offices	1952
PWC (US)	Overall twenty-one offices	1956
A.C. Nielsen (US)	Madrid, Barcelona	1965
Bossard Consultants (FR)		1968
Fraser		1968
Capgemini (FR)	Overall six offices	1971
KPMG (US)		1971
Sema Group (FR)		1971
HayGroup (US)	Madrid, Barcelona, Bilbao	1972
American Appraisal Associates (US)	Barcelona, Bilbao, Madrid, Majorca	1976
A.D. Little (US)	Madrid	1977
McKinsey (US)	Madrid, Barcelona	1977
EDS (US)	Madrid, Barcelona, Zaragoza	1980
Burson - Marsteller (US)	Madrid, Barcelona, Valencia	1981
Development Systems (UK)	Madrid, Barcelona	1981
Watson Wyatt (US)	Madrid	1982
Heidrick & Struggles Intl. Inc. (US)	Madrid, Barcelona	1983
CSC	Madrid, Barcelona, Asturias	1985
Roland Berger (D)	Madrid, Barcelona	1986
Deloitte (UK)	Overall twenty offices	1987
AT Kearney (US)	Madrid, Barcelona	1988
BDO Binder US)	Overall nine offices	1988
Booz Allen Hamilton (US)	Madrid	1988
Boston Consulting Group (US)	Madrid, Barcelona	1988
Drake Beam Morrin (US)	Madrid, Pamplona	1988
Ernst & Young (US)	Overall fourteen offices	1989
Mercer (US)	Madrid, Barcelona	1989
Steria (FR)	Overall nine offices	1989
Towers Perrin (US)	Madrid	1989
Monitor (US)	Madrid	1990
Right Management Consultants (US)	Madrid, Barcelona	1990
Altran (FR)	Madrid, Barcelona, Seville, Valencia, La Coruna	1993
Bain (US)	Madrid	1994
American Management Systems (US)	Madrid	1995
DMR (CAN)	Madrid, Barcelona, Seville, Valencia, La Coruna	1996
Geotronics (NL)		1998
Accenture (US)	Madrid, Barcelona, Bilbao, Seville	2001
Bearing Point Inc. (US)	Madrid, Barcelona, Bilbao	2002

ATOS origin (FR)	Overall ten offices	2004
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Nevertheless it needs to be stressed that Spain did not transform into an Anglo-Saxon kind of economy. State influence is still an attribute of the Spanish economy. In 1997 the OECD judged Spain to be amongst the most interventionist countries within the member states (OECD, 1997: The OECD report on regulatory reform). In this context Amorim (2001: 55 f.) presents a number of “public and semi-public bodies aiming at the promotion of R & D, the strengthening of greater communication at the European level and the simplification of often bureaucratic management structure.” Most of these Business Innovation Centres, Industrial Promotion Societies and local agents were brought into life by regional governments. The Department of Industry, Trade and Tourism of the Basque country launched the „Sociedad para la promocion y reconversion industrial”. The same department in Catalonia started the initiative “Linea Cidem” including direct consulting and training centres for firms in the process of internationalisation “COPCA” and the “Catalan Small Business Support Agency” which is linked to the network “Vivers d’empreses”. By 2000 Spain had 23 such centres for small business start ups in Spain (Amorim 2001: 56). Thus it can be expected that the development of the Spanish consulting markets since the mid 1990s reveals an ambiguous structure: sparked by privatisation, IT demand and organisational modernisation on the one hand and constrained by state intervention and historical path dependencies on the other hand.

5.1 A closer look at the market

The available data sets for the Spanish consulting market present a rather patchy picture. Available sources are provided by the INE, AEC (Spanish consulting association), Alpha publications (a private research company) and FEACO (European Consulting Association). Unfortunately the figures for market growth, market size and employment differ immensely between the different publications, impressively revealing the problem when it comes to determine consulting as a service sector (cp. Glückler 2004: 37 – 50; Jahn 2003). The main goal of this chapter is to present the development of the Spanish consulting market in a European context. Most data will originate from the FEACO reports as these reports compose facts and figures for a maximum of European 16 countries.

5.1.1 Market growth 1998 – 2004

From 1998 to 2001 the Spanish consulting market grew rapidly. The Total Fee Income rocketed from 0,938 billion € up to 2.372 billion € in 2001.²⁹ The upward trend for the Spanish market came to an abrupt end in 2002 when the European consulting market fell into a deep crisis. For the first time in 25 years the European market diminished by minus 2%. The negative development can tentatively be ascribed to two facts. On the macro level the crisis of the global economy slowed down the demand for consulting. On the intra consulting industry level the involvement of Arthur Andersen in the Enron scandal led to a loss in the liability for the whole consulting profession. Subsequently the demand declined, especially for the large consultancies. Although the Spanish market had to face even more trouble due to the intense linkages with the pressured Latin American market (FEACO 2002: 18), the market managed to remain its over proportional growth rate in comparison to the overall European trend. In the following years the growth rate regained speed reaching 3,7 % for Europe and even 7 % in Spain. In 2004 the Spanish business consulting market accounted for 2.8 billion €.

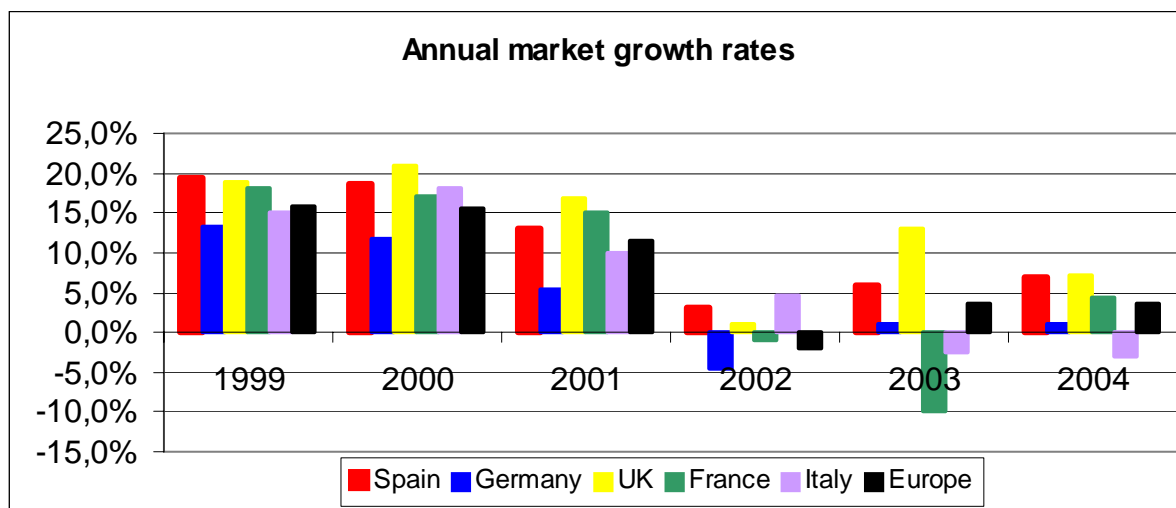


Figure 1: Market growth rates in Spain and other major European countries (Source: FEACO Reports 1999 – 2004)

²⁹ If not cited differently all data in the following chapters originate from the annual FEACO reports 1998 to 2005/6

5.1.2 Spain's position in Europe

The constant and high growth rates helped the Spanish consulting market to increase its importance within Europe. The breakdown of the total fee income for Europe shows how Spain increased its market share in Europe from 3.7% in 1998 to 5.8% in 2004. Within this six years Spain overtook Italy and the Netherlands and now ranks fourth largest market behind the UK, Germany and France.³⁰ Although Spain as well as France (5,9 billion € turnover, 2004) managed to catch up, the supremacy of the UK (14,2 billion €, 2004) and Germany (13, 3 billion €, 2004) remains indisputable. Spain also benefited from the struggling Italian market (1,95 billion €, 2004; in comparison to 2,25 billion € in 1998).

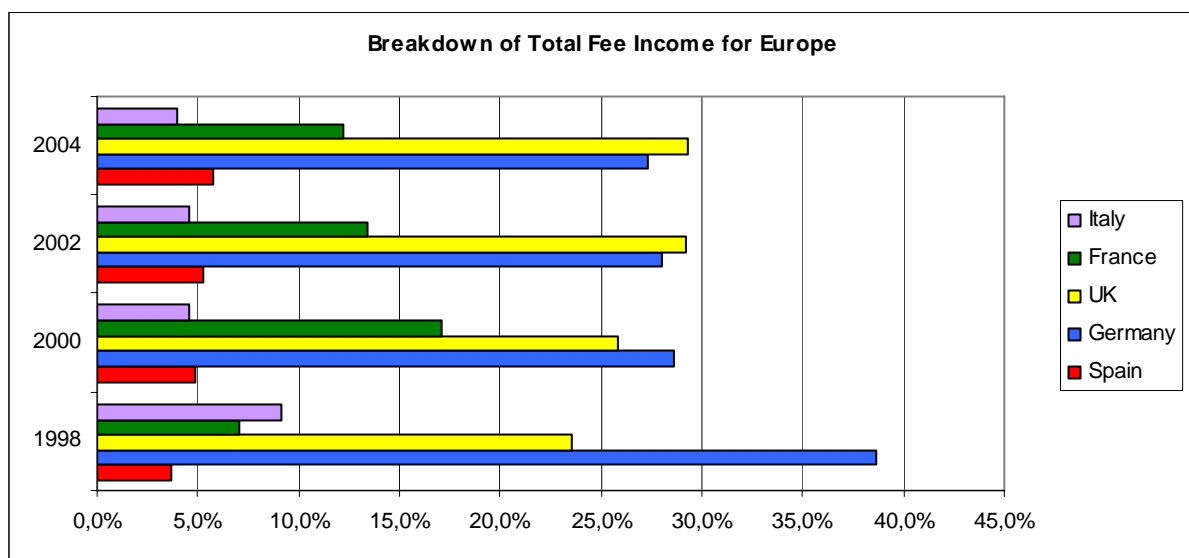


Figure 2: Breakdown of Total Fee Income for Europe; Data taken from the FEACO Reports 1998 – 2004; Composed by the authors

³⁰ Depending on the composition of the data Spain ranks even third in 2005 / 06 (when a higher proportion of IT services are considered as "Consulting" (FEACO 2005 / 06: 10)).

5.1.3 Stable and high growth rates

In comparison to the other markets Spain not only proves to be one of the fastest growing markets (with only the UK growing faster) but also being one of the most stable. Concerning the cumulated growth rates the UK grew by 78%, Spain 67% and Italy 42 % between 1999 and 2004.

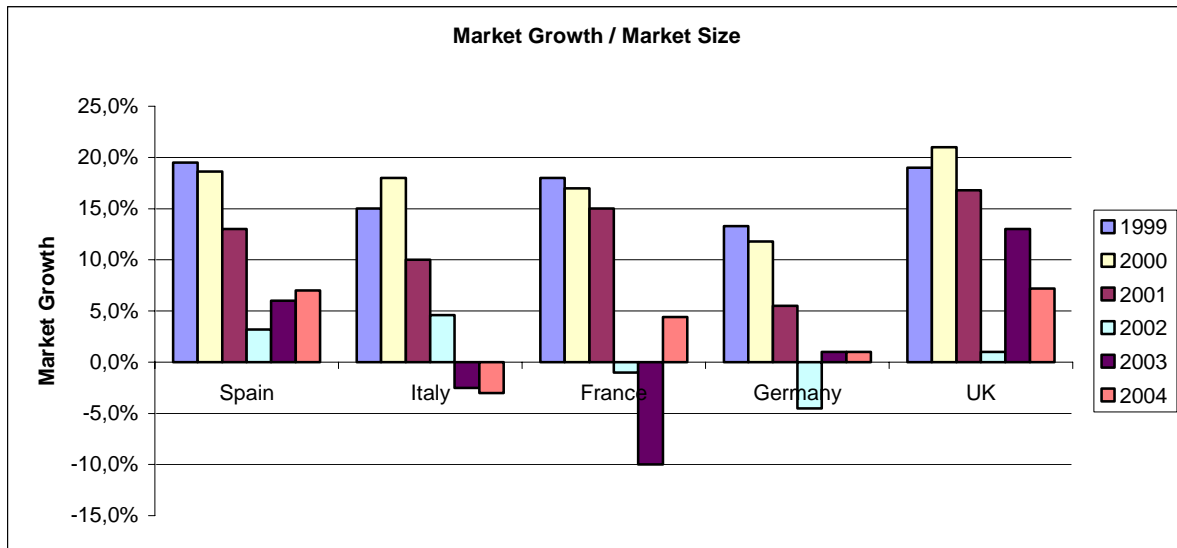


Figure 3: Market Growth / Market Size, comparing the five largest markets. Data taken from the FEACO Reports 1998 – 2004; Composed by the authors

That the cumulated growth rates do not reflect the growth in Total Turnover (Spain's market more than doubled between 1998 and 2004) needs to be credited to changes in the composition of data.

Concerning growth volatility (16 percentage points) Spain managed to maintain a positive growth rate. In contrast France experienced a massive irruption in 2003 that helped Spain to narrow the gap between the two markets.

5.1.4 Client structure

The drive towards maturity of the Spanish consulting market is presented through the changes in the client structure. In 1998 the demand side was highly concentrated in the financial sector with more than 40% of every Euro spend on consulting coming from this sector. Over the years the financial sector lost its dominance presenting "only" a quarter of all fees spent on consulting in 2004. The other three largest private sectors more or less remained at a constant level, with manufacturing showing the highest volatility. The most striking feature is the growing public and non-profit demand for consulting advices. The share of this sector more than tripled reaching around 14 % in 2004 / 2005. The growing figures in other

sectors than the leading five reveal that over the years consulting had managed to create a higher demand both in smaller sectors and those formerly resistant to consulting, especially “Transport (9.2%), Healthcare & Pharmaceuticals (8.9%) and Consumer Goods (7.7%) (2004)”.

Table 2: Client Structure in Spain (Source: FEACO reports 1998 to 2005/6, own composition)

Key sectors	1998	1999	2000	2001	2002	2003	2004	2005
Banking / Financial Sector	41.6%*	35.9%*	30.6%	30.0%	23.0%	18.3%	18.1%	24.0%*
Telecommunication & related Sectors	18.1%	18.3%	18.4%	17.8%	18.0%	15.4%	18.8%	19.0%
Manufacturing	13.9%	29.2%	18.4%	24.9%	12.0%**	16.1%**	10.6%**	11.0%***
Energy, utilities & natural resources	10.6%		10.5%	10.3%	14.0%	14.8%	10.8%	10.2%
Non profit and Governmental	4.2%	7.0%	5.4%	4.2%	8.0%	9.8%	14.6%	14.0%
Others	11.6%	9.6%	16.7%	12.8%	25%	25.6%	27.1%	21.8%

* including insurance; **consumer goods + automotive + aerospace & defence; *** industry in general

5.1.5 Market structure

There is little data available for changes in the market structure. The FEACO Report 2001 states that at the beginning of the 21st century the market structure in Spain became more and more concentrated leading to merger and acquisitions on the one hand and closures of small consultancies on the other. In contrast to these finding the figures by INE present that the number of consulting firms in Spain had actually increased from 9448 (2001) to 10652 (2003). INE further calculates that the average consulting firm employed only four consultants, revealing a market structure that is still dominated by small consultancies (www.ine.es).³¹

Fairly new is Spain’s stronger drive for consulting projects outside the Iberian Peninsula. Whereas in overall terms the market remains largely local with 80% of the turnover derived from activities within Spain, 11% came from activities in other European markets and 9 % from outside the EU, mostly South America (FEACO 2005/06).

³¹ The French and British markets show the highest concentration rate. Germany in contrast is highly fragmented; the Top 20 consultancies having a share of less than 20% of the total consulting market (CEMP 2001: 47)

5.1.6 Market Intensity

Market intensity can be defined as “Consulting as an overall Percentage of GDP” (Kipping 2001: 77). In accordance to our argument market intensity not only reflects the demand for consulting in an economy but also the level to which this demand is addressed to commercial providers of consulting.

In Europe UK is the undisputed leader concerning market intensity with consulting ranging between 0,78% and 1% of GDP. In comparison Germany reaches a maximum 0,60%, Spain 0,35% and in Italy, though the fifth largest market, consulting only accounts for a maximum of 0,18%.

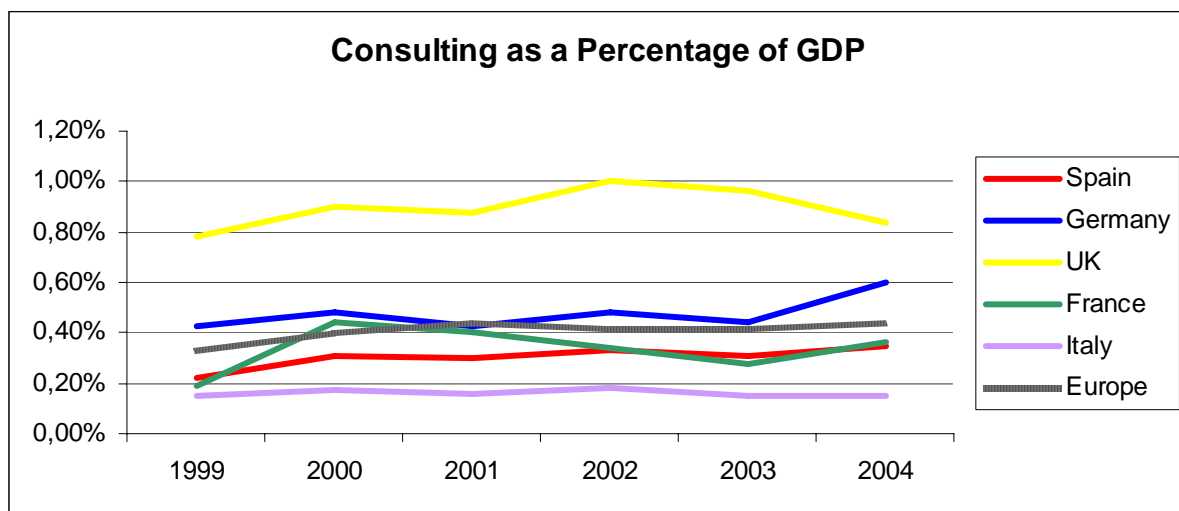


Figure 4: Consulting as a Percentage of GDP; Data taken from FEACO reports 1999 – 2004; Composed by the authors

The consulting market has constantly increased its intensity in the Spanish economy starting from 0,22 % in 1999 and arriving at 0,35% in 2004. Among the Southern European countries (Portugal, Italy, Greece) Spain is the country with the highest share of consulting (Kipping 2001: 78).

5.1.7 Employment figures

The employment rates in the Spanish consulting market grew simultaneously with the growing demand. In 1998 there were about 16.000 consultants providing their services for the market. The number increased steadily to 40.000 consultants in 2004. The highest increase took place in the years 1999 to 2000 jumping from 18.000 consultants to 37.000. Compared to the other five largest European markets Spain has already conquered the third position concerning “number of consultants” leaving France (30.000) behind.

Table 3: Number of Consultants and Turnover per Consultant in Spain (Source: FEACO Reports, own composition)

Number of Consultants in Spain	Turnover per Consultant
1998: 16.000	-
1999: 18.000	1999: 76.333 €
2000: 37.000	2000: 57.000 €
2001: 38.500	2001: 62.000 €
2002: 39.700	2002: 62.000€
2003: 38.000	2003: 70.000 €
2004: 40.000	2004: 70.000€

The impressive growth in employment figures nevertheless led to a decrease in the “Turnover per Consultant” showing that the employment rate grew faster than the market. In 1999 the average turnover per consultant was at 76.333 € per year. The number decreased to 57.000 € in 2000 and slowly moved up to 70.000 € again in 2004. Considering the fact that the average turnover per consultant in Europe is 150.000 € (in the UK even 270.000 €) these numbers reveal that daily effective fee rates paid per consultant in Spain are relatively low in comparison to the leading consulting markets. As “the big players” generate higher turnover per consultant on average the assumption is backed that the Spanish consulting market had developed a highly segregated market structure with just a small number of large consultancies and a large range of one-man-enterprises.³² Further it can be assumed that a relatively high proportion of IT consulting firms had an impact on the average turnover per consultant due to the fact that the fees paid in the IT consulting sector are generally lower compared to classical management consulting services (see FEACO 2004: 15; Armbrüster 2006)

³² FEACO provides no reliable data concerning the number of operating consultancies in the market. The estimated number of 350 companies in 2004, is obviously way to low. In contrast INE counted 10652 consultancies in 2003 which in turn leads to less than 4 employees per company.

6 Conclusion

Today the Spanish consulting market is one of the largest in Europe. In most respects it exhibits European normality, including the fact that the largest and most prominent players come from abroad. However, considering a more extended time span, the Spanish consulting market is characterized by a “late and slow development” (Amorim 1999b) through most of the 20th century while the fast and large scale growth is a phenomenon of more recent years.

In opposition to the oversimplified diagnosis of long-lasting “backwardness” of the Spanish economy and society we tried to reconstruct the development of the consulting market resulting from the interplay of economic and political-institutional factors including the changing position of the Spanish economy and society within Europe.

We briefly highlight the most important findings:

Similar to Germany, the ideas of scientific Management, developed elsewhere, did not essentially enter Spain via the “carrier” of external commercial consulting firms nor were they further spread by these actors. Of course, the comparatively late receptiveness of the Spanish economy and society for Taylorist ideas was partly due to the “backwardness” of the Spanish economy, especially the missing development of a large-scale manufacturing sector. However, as the Spanish elites considered initiatives to modernize the Spanish economy and to pick up Taylor’s ideas it was mostly the task of semi-public bodies to spread and translate these ideas. The Spanish economy of the 1940s remained largely state-led and isolated. The emerging modern sector of the Spanish economy was state-owned and state-led and correspondingly the semi-public knowledge intermediaries diffusing modernization initiatives were its natural descendants. As a result, in Spain functional equivalents to external commercial consulting were dominant and a semi-public and state-led knowledge mediating infrastructure emerged that persisted till the end of the Franco era.

After World War II the broad picture did not change much. As the US government decided to make Spain an ally in the new power constellation of the Cold War, despite its political “backwardness”, all modernizing efforts - as restricted as they were - mostly went through the publicly supported and organized channels, including organized missions and expert exchange. Moreover, based on US support these channels were even extended and differentiated, now also covering US type business schools. However, the restricted “Americanization” of postwar Spain in terms of knowledge dissemination was not so different from similar efforts in Germany and Japan, although not covered by the Marshall Fund but directly by US

Aid. Contrary to some assumptions, during the early postwar period US-origin management knowledge to be spread by commercially motivated consulting firms was an exception, and not the general rule. In this respect the Spanish development does not differ immensely from that of other European countries. The difference refers to the fact that US geopolitical interest supported a mottled modernization while the same interest legitimized support for an authoritarian Franco regime and its largely state-led economy isolated from competitive pressures from abroad. Continuously increasing foreign investment from the US, the gradual renunciation of the autarchy policy and the advancement of large indigenous enterprises under state authority opened up opportunities for foreign consulting firms either by ways of following their existing customers to Spain or by addressing typical issues of the emerging large-scale indigenous enterprises. However, the existence of Franco's regime hindered the internationalization and the general growth of the Spanish market to develop more than it could have. Firstly, the authoritarian regime itself discouraged foreign consultancies to enter the Spanish market. Secondly, the demand for consulting companies was distorted due to the existing functional equivalents, the state-led semi public "consulting" infrastructure. It was only the firm break with the past, a severe economic and political crisis that ended in the demission of the Franco regime that opened up new opportunities and reduced risks for foreign consultancies to enter the Spanish market. The further opening of the economy finally leading to EC accession put heavy competitive pressure on the indigenous firms on product markets and simultaneously fostered the inflow of foreign investment. Together these processes widened the opportunities for foreign consulting firms for two main approaches to the market: first, follow-your-customer and second, advising local firms struggling with European competition.

Moreover, the transformation of the Spanish economy and society also dismantled and de-legitimized the old system of assigning expertise and authority. Earlier attempts to modernize the Spanish industry based on "scientific management" were mostly supported by (semi-) public consulting organizations that were clearly associated with a state-led economy. Also from this perspective the establishment of an open consulting market was enforced because the newly entering consulting firms did not face competition of the former "functional equivalents" to external, commercial consulting any more. However, the decline and subsequent dissolution of the former semi-public "consulting" infrastructure did not result in a complete irrelevance of local commercial consulting and a sweeping victory of foreign consulting firms on the Spanish market. Some of the semi-public bodies managed to transform themselves into private consulting firms that still have some impact on the Spanish market, not to speak of the majority of indigenous small firms that dominate all European markets in terms of sheer numbers.

Finally, comparing the Spanish experience with the more recent CEE experiences the commonalities are far more striking than the broad classification of Spain to the Western hemisphere and the former CEE countries to the “East” would suggest. Spain under Franco was politically strictly seen in opposition to the state-socialist block under Soviet Union predominance. However, regarding economic affairs there were striking commonalities although in Spain basic institutions of a capitalist economy (private property, wage labor) were in place. A high proportion of state-ownership in core industries, a state-led economic modernization, and semi-public bodies for management knowledge dissemination combined with a considerable protection from capitalist world markets prevented the emergence of a consulting market and hence also did not provide points of contact for foreign consulting firms.

Of course, state-socialist CEE countries and Spain under Franco dictatorship differed in many respects. However, on a more abstract level of comparison there are common features that facilitate the emergence of a “modern” consulting industry that is dominated by foreign players. These common features include: the overcoming of the old order, combined with the dismantling of previous knowledge orders and “management” authority, the concomitant opening to world markets and foreign investment, and a perceived crisis that - in the eyes of the new elites - makes disseminators of management knowledge from “advanced” countries highly attractive.

However, the main difference between the two cases lies in differences of the knowledge orders and the degree of disruption of previously held beliefs and convictions regarding the societal designation of the enterprise and the role of management and leadership. Whether indigenous consulting - in Spain partly emerging out of the former infrastructure of knowledge intermediation - will play a comparable role in CEE countries is one of the questions waiting for further inquiry.

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