

“Can economic growth be achieved in top management consulting using principles from the business federation? Findings from a Norwegian longitudinal study from 1984 until 1998”

|              |                                                                                                                                                                                                                                                                                                                                                                             |
|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AUTHORS      | Carsten M. Syvertsen                                                                                                                                                                                                                                                                                                                                                        |
| ARTICLE INFO | Carsten M. Syvertsen (2016). Can economic growth be achieved in top management consulting using principles from the business federation? Findings from a Norwegian longitudinal study from 1984 until 1998. <i>Problems and Perspectives in Management</i> , 14(3-1), 144-153. doi: <a href="https://doi.org/10.21511/ppm.14(3-1).2016.01">10.21511/ppm.14(3-1).2016.01</a> |
| DOI          | <a href="http://dx.doi.org/10.21511/ppm.14(3-1).2016.01">http://dx.doi.org/10.21511/ppm.14(3-1).2016.01</a>                                                                                                                                                                                                                                                                 |
| RELEASED ON  | Tuesday, 06 September 2016                                                                                                                                                                                                                                                                                                                                                  |
| JOURNAL      | "Problems and Perspectives in Management"                                                                                                                                                                                                                                                                                                                                   |
| FOUNDER      | LLC "Consulting Publishing Company "Business Perspectives"                                                                                                                                                                                                                                                                                                                  |



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

© The author(s) 2026. This publication is an open access article.

## SECTION 1. Macroeconomic processes and regional economies management

Carsten M. Syvertsen (Norway)

### Can economic growth be achieved in top management consulting using principles from the business federation?

### Findings from a Norwegian longitudinal study from 1984 until 1998

#### Abstract

The purpose of this article is to illustrate how management consulting firms can achieve economic growth through operating locally within an international network using the business federation as a new organizational form. Within the business federation, a local office gains access to resources through an extreme form of delegation where top management does not delegate to local offices, but rather gives local offices the permission to deal with tasks, because it is most efficient. The author uses top management consulting firms operating in Norway as the empirical setting operationalizing the business federation through a building block system. The research shows support for the claim that firms move closer to the business federation as over time from 1982 until 1998. It is indicated that firms operating close to principles of the business federation achieve stronger economic growth. The research contradicts claims found in the academic literature that the partnership model supports economic growth.

**Keywords:** top management consulting, the business federation as a new organizational form, economic growth, Norwegian longitudinal study.

**JEL Classification:** L1.

#### Introduction

The aim of the research is to study the extent to which a selected number of management consulting firms in Norway have moved closer to principles of the business federation in order to achieve economic growth.

The top management consulting industry in Norway represents the empirical setting of the research. Given the nature of the consulting industry, it may be expected that consulting services provide an adequate setting for the adoption of changes in design parameters which can move firms towards the business federation. The business federation can balance the need for coordination and local autonomy. Therefore, insights derived from the business federation might be used to explain phenomenon of specific configuration choices in strategy consulting firms.

#### 1. The roaring eighties and nineties in business administration

The 80s and 90s were characterized as a period with great faith in markets. The purpose was to match capital, ideas and talent, leading, it was believed, to higher economic growth. Large corporations were like elephants unable to dance to the tunes of the jazzing entrepreneurial economy. Slogans like "*slim is in*" and "*less is more*" became a part of corporate vocabulary. Managers became obsessed with improving operating efficiency in order to maximize shareholder value. Diversification was viewed with suspicion, in worst cases, regarded almost as a managerial crime.

Economic growth soared to levels of historical heights, the heydays of corporate success seemed to last forever. Globalization was going to bring prosperity, including reduction of poverty, it was believed among certain business leaders and academics.

The Asian crisis in 1997 and the global financial crisis in 2008 put an end to the hyper optimist forecasts for top management consulting. Still, clients of management consultants and the management consultants themselves are realizing that the basis of competitive advantage is built on a strong entrepreneurial orientation, as it allows a firm to be responsive to market opportunities.

#### 2. Movements towards the business federation in times of change

Handy (1992, 1994) is of the opinion that a company can seek growth through operating locally within an international network (Handy, 1992, 1994), defined in this research as the business federation.

The business federation is defined as a number of unitary subdivisions with a holding company acting as a coordinating mechanism (Nohria and Ghoshal, 1997). Divisions within the federation operate interdependently, for example, when they cooperate on projects. Competition between divisions due to limited resources may exist, for instance, on client assignment. Headquarter can take care of "housekeeping" activities by cultural means of control and the use of corporate services.

Handy (1992) is of the opinion that the center's strength is a result of inputs from outlying groups, in a sort of reserve delegation. The center, therefore, does not direct or control, but rather advises, coordinates and influences, being well aware that initiatives

generally come from local levels. Within the business federation, it is not the top management that delegates to local units, but rather local units that give top management the permission to handle certain tasks, because they are handled more efficiently at the top, for example, by introducing corporate services in order to support a collaborative culture.

Researchers advocate a process of renewal of corporations which inevitably will lead them to behave more in accordance with federalist principles (Bartlett and Ghoshal, 1995; Elion, 1992, 1994). However, these authors only provide a partial understanding of the importance of federalist behavior.

We highlight federalist behavior through the use of selected building blocks. Those chosen are autonomy in the client relationship, autonomy in the relationship between local offices, formal interdependence between local offices, cultural means of control, the use of corporate services, and the extent to which local offices have a sense of ownership over intangible resources generated locally (Syvertsen, 2000).

The building block system represents a guide for how to hold a management consulting firm together. The system can also supply information on the relationship between local offices, and whether the relationship with headquarter functions properly.

Based on the writings of Spender (1996), we present a conceptual model that distinguishes the individual level (the local approach) from the collective level (the international approach). We also introduce a dimension where the explicit and tacit knowledge are included.

The two mentioned dimensions constitute a matrix of four specific areas of focus, related to value creating processes in management consulting firms. These areas of focus are “wisdom” and “communication” at the individual level (the local level) and “culture” and “coordination” at the collective level (the international level), as shown in figure one. The recognition of these four areas and the interaction between them constitute the foundations for management knowledge in order to produce economic value within management consulting firms.

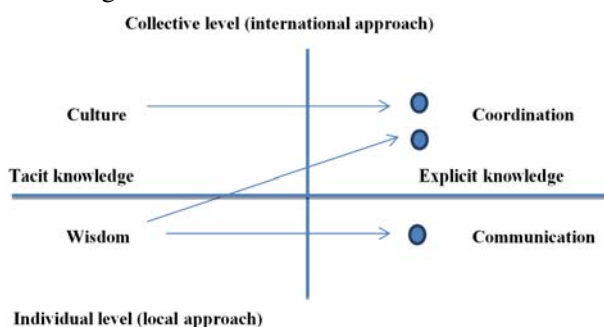


Fig. 1. A model for illustrating a local approach within an international network (the business federation)

At the local level, we distinguish between “wisdom” and “communication”.

“Wisdom” means, the ability to handle the job that lays ahead of us (Johnson, 1988, p. 7), based on Greek thinking. As professionals get more experience, they will have a greater sense of the importance of system interactions, creating value in both the client markets and the professional markets.

“Wisdom” consists after our reasoning of autonomy and resource sharing (interdependence).

“Autonomy”. It is often assumed that autonomy can promote entrepreneurial activities (Hayek, 1945), since it is assumed that local levels may serve clients in a better way than the corporate level can. Our findings support this argument.

“Resource sharing (interdependence)”. Management consulting firms face challenges in providing local offices with access to limited resources without duplicating costs. This requires specialization and coordinated efforts among local offices (Davenport et al., 1997). A positive relationship between resource sharing and economic performance can be expected. Our research supports this argument.

“Communication” consists of a sense of ownership.

“Ownership”. Within management consulting firms, it is generally assumed that a partnership model, with the use of up-or-out promotion policies, make sense, since a firm’s reputation among clients and other market intermediates are closely related to the perceived quality of the partners (Nelson, 1988). Our findings do not support this argument, as the partnership model might not function as expected, since, it may involve a loss of considerable firm-specific knowledge.

At the collective level (the international level), we distinguish between “culture” and “coordination”.

“Culture” can be regarded as cognitive mindsets, manifested through behavior and language (Child, 1984) and used to denote the idiosyncratic knowledge that are difficult to imitate, securing coordinated action and minimizing transaction costs (Gulati, 1999).

“Control mechanisms”. Control mechanisms from head office are often regarded as social means of control. Social means of control, consisting of ideology, culture and sanctions, can regulate behaviors at local levels within the business federation (Syvertsen, 2000).

“Coordination”, in our context, means programd organized practices that give value to clients and other interest groups, transforming knowledge into economic growth.

“Corporate services (boosting units)”. Through the use of corporate services, management consulting firms can leverage cumulative experiences found in client bases. Local offices can concentrate their work on promoting entrepreneurial processes.

### 3. Theoretical foundations focus on networks and managerial cognition

**3.1. Network structures.** Research stresses the importance of network structures in understanding business exchanges (Achrol, 1997; Møller and Rajala, 2007). Researchers in strategic study have focused on groups, either as defined by objective characteristics (McNarara et al., 2003) or as shared understandings (Obborne et al., 2001; Reger and Palmer, 1996). Strategic marketing researchers have focused at value-creating processes (Parolini, 1999, Møller and Svahn, 2006; Normann and Ramirez, 1993), while studies of marketing alliances have emphasized the importance local offices within larger firms operating based on formalized and collaborative agreements (Das et al., 1998; Gulati et al., 2000).

Research on organizational change within networks in less well researched (i.e., Araujo and Easton, 1996). This is the focus of this article.

**3.2. Managerial cognition.** Within this research tradition, we have decided to focus on local initiatives as a result of cognitive aspects of management. We are well aware that managerial cognition represents a potentially intangible, idiosyncratic and proprietary difficult-to-trade dynamic knowledge within a given management consulting firm (i.e., Teece et al., 1997), which we believe is an adequate approach to illustrate the philosophy behind the business federation.

The foundations of the cognitive perspective on management were originally based on cognitive psychology and were, in part, a response to the development of an overtly behavioral focus in management science. Rejecting the central theoretical tenets of behaviorism, cognitive scientists emphasize the analysis of the various intervening mental processes that mediate responses to the environment (Huff, 1997).

The construct of bounded rationality (Simon, 1978, 1982; Foss, 2001), which suggests that actors are unable to take decisions in a completely rational manner due to the fact that they are constrained by fundamental information processing limitations, is a pillar in the development of modern cognitive theory.

### 4. Methodological foundations

**4.1. The methodological position** of the article is within the postmodern perspective. It also incorporates elements of the interpretive perspective. We assume that meaning is locally created, and that decision making is built on a decentralized framework (March, 1994) in accordance with principles of the business federation.

The research in this paper is reported from a subjectivist or phenomenological paradigmatic point of view, as it seeks to explore the factors that can explain federalist behavior (Connell and Lowe, 1997). This holistic view implies that social phenomena are

researched within totality, in order to obtain a “deep”, “rich” and “comprehensive” insight and understanding of the phenomena being studied. A phenomenological inquiry implies that the study object is examined in its natural setting. It implies that phenomenological is closely linked to qualitative methodologies, which are particularly useful when examining change processes in organizations (Gummersson, 2000).

**4.2. Qualitative research.** We used an exploratory qualitative study to describe organizational behavior of top management consultants in the time period from 1982 until 1988. We did a qualitative study, because it would make it possible for us to gain deeper insights. According to Silverman (2005, p. 349), “the point of qualitative research is to say a lot about a little”. This viewpoint suits the present study well, as the objective is to uncover factors that can make top management consultants behave more in accordance with the business federation as a new organizational form. The important role of the subjects has been emphasized by Merriam (1998, p. 205), who argued that, in qualitative research, “researchers seek to describe and explain the world as those in the world experience it”.

**4.3. Case study research.** The research design is a multiple case which permits a “replication” logic (Yin, 1984). This means that cases are regarded as a series of independent experiments that confirm or reject conceptual insights. Top management services are conceived to include strategy, both formulation and implementation, as well as related areas such as restructuring and merger advise.

Within case study research, as with other research, how the research questions are addressed becomes critical. According to Yin (2003, p. 7), the research question should have substance, i.e., what is the study all about, and form, i.e., what type of research question has been posed. As in any empirical study, choices in details of the research design must be carefully be assessed (Sekaran, 1992).

**4.4. Research design details.** Fieldwork is the method used in this study (i.e., Easterby-Smith et al., 1999, p. 33), in order to give real live experiences from the top management consulting industry.

In order to give further information of the research design process, we focus on the selection of interviewees, the information gathering techniques and the analytical procedure.

**4.4.1. The selection of interviewees.** The sample consists of partners in the sampled top management firms. They are the main agents of a given firm interested in moving closer to principles of the business federation and generating economic value. The partners are regarded as being the most skilled and knowledge persons within the management consulting firms.

Also, other consultants in the top management consulting firms were interviewed, but these were

purely contacted in order to support or contradict the arguments found in the partnership group. The same was the case with interviews with professors at business schools and journalists.

In the selection of partners and the other respondents, principles from snowball sampling were used, according to Merriam (1998), “is, perhaps, the most common form of purposely form of sampling. The snowball sampling procedure “involves asking each participant or group of participants to refer to other participants” (Merriam, 1998).

In order to gain insights from respondents secondary sources, particularly press clippings were of great importance, as they gave insights into top management consultants and their clients. Also, doctoral dissertations on top management consulting were of interest. The same is true for books written on top management consulting.

**4.4.2. The information gathering techniques.** According to Esterby-Smith et al., (1999, p. 71), the “most fundamental of all qualitative e-methods is that of in-depth interviewing”. By conducting in-depth interviews, both “depth” and “richness” of data were obtained and, in collecting the data, we followed the advice given by McCracken (1988) strictly followed in letting the respondents tell her or his story in her or his terms. We maximized the yield from the interviews by taking advantage of this “opportunistic” approach. The in-depth interviews, which lasted for ca. 80 minutes, were followed up with new interviews if needed.

In this way, the interviews could be regarded as “loosely structured”. By “loosely structured” we mean that a more structured than unstructured format was used in order to avoid gaining superficial insights (Miles and Huberman, 1984). Because the research took place at multiple locations, it was also important to have a similar format in order to develop a common framework. This also made it easier to compare insights across cases (Miles and Huberman, 1994).

When closing which assignments to analyze, we decided to select the ones with sufficient size to have an interest for the management consultants. Certain assignments were chosen, because they seemed to represent breakthroughs into segments of the consulting market.

Our greatest challenge with the research was that consultants were discrete about their business activities. This made it difficult to get first-hand information on consulting assignments.

In order to achieve access to top management consulting firms, we needed acceptance from senior partners. First, we wrote a letter to a selected number of senior partners introducing new organizational forms within the management consulting industry as the topic. Thereafter, we contacted senior partners by phone asking for permission for an interview. In almost all cases we got a positive response.

**4.4.3. The analytical procedure.** As it is typical in inductive research, we analyzed the data by, first, building case studies, and then comparing findings across cases for the purpose of constructing a conceptual framework (Eisenhardt, 1989). Through the use of interview and secondary sources, we noted differences and similarities between cases. We waited for further analysis until we had completed all case write-ups to maintain a clear logic.

Once the individual case studies were complete, we used cross-case analysis, relying on methods suggested by Brown and Eisenhardt (1997), Eisenhardt (1989) and Miles and Huberman (1994) in order to develop conceptual insights. We created tables and graphs to facilitate comparisons and to develop a theoretical logic. We took several breaks during the analysis to refresh our thinking. The process took about three years leading to the results that follow.

## **5. Organizational design choices in five management consulting firms in Norway in the periods 1982-1988 and 1989-1998**

In order to judge if firms in the sample have moved closer to principles of the business federation, we distinguish between the years 1982-1988 (first period) and the years 1989-1998 (second period).

**5.1. The first period (1982-1988).** The Norwegian economy grew significantly in the years from 1982 until 1988, leading to an increased demand for top management consulting (1).

**5.1.1. First category: McKinsey as an example of a pure strategy practice.** When McKinsey opened their doors in Oslo in 1984, the firm had already established offices in Copenhagen and Stockholm, with leading firms as clients such as Bang Olufsen and Volvo (2), (3).

**Autonomy. Degree of autonomy in the relationship with clients:** In the first years of operation, the McKinsey's Oslo office had a great degree of autonomy in closing clients (4), (5) and (6).

After a successful turnaround project for the industrialized firm Aker in the first parts of the 80s, which involved a change in focus from ship building to oil platform construction, the client won a large offshore contract in the North Sea (7), resulting in that the corporate value doubled in value at the Oslo Stock Exchange (8). The Aker project led to other prestigious assignments such as within Den norske Creditbank (DnC), Elektrisk Bureau and the Norwegian National Bank (9).

**Degree of autonomy with other local offices:** The Oslo office had a high degree of autonomy in its relationship with other local offices. For example, when Norwegian banks started their expansion on the US market in the mid-80s, the Oslo office assisted their clients with a helping hand from their American colleagues (10).

**Formal means of interdependence.** After the Oslo office got to grips with the needs of the local business community, the company managed to win restructuring contracts mostly domestically (11), (12). The merger between the banks Den norske Creditbank (DnC) and Bergen Bank (BB) was large (13), (14), (15), signaling that the consulting firm was a major player in Norway. Due to limited international exposure, formal means of interdependence were less critical.

**Corporate services.** There existed no formal organizational system for supplying corporate services to local offices in the 80s leading to that international contacts took place on an ad hoc basis (22), (23).

**Use of formal means of control.** McKinsey partners stressed how cultural means of control could get local offices run in the same direction (16), (17). A number of social activities were arranged in order to keep the corporate culture alive. Consultants who did not participate had a tendency to miss out on access to important information related to possible future assignments (18).

**Ownership over intangible resources.** After achieving strong growth rates in the second part of the 80s, the Oslo office's reputation grew within the management consulting firm leading to a strong feeling of ownership over intangible resources generated locally (19). However, building funds locally were not regarded as an objective for local offices (20), (21).

*5.1.2. Second category: Local firms that were later bought by international management consulting firms.* The locally-based firms Hartmark-Iras and IKO managed to perform well, due to a great ability to customize services domestically (24)-(30). Hartmark-Iras and IKO tried to establish alliances with foreign management consulting firms, with moderate success (31), (32).

*5.1.3. Third category.* Coopers & Lybrand and Ernst and Young moved into top management consulting in the late 80s (33), (34). In this field, large contracts in the public sector were won, such as the state railways and in post services (35).

**5.2. The second period (1989-1998).** The second period can be divided into the crisis years (1989-1992) and the booming years (1993-1998). The Norwegian economy underwent a deep crisis in the period from 1989 until 1992, leading to a reduced demand for top management consulting services (30), (31). The economy showed a recovery from 1993 until 1998, particularly within oil and gas. The public sector became more important.

McKinsey continued as the only pure strategy firm (first category). PA and Gemini Consulting took an active part in strategic management consulting after buying the local firms Hartmark-Iras and IKO (second category). Also, the original auditing firms Coopers

and Lybrand, and Ernst and Young took active steps into top management consulting (third category).

*5.2.1. First category: McKinsey as an example of a pure strategy practice.* The degree of autonomy became higher, both in the relationship with clients and with other local offices.

**Autonomy. Autonomy in the relationship with clients.** The Oslo office continued to operate with a high degree of autonomy in their relationship with clients, due to an increased reputation within leading firms with financial services and offshore (11), (17), (31).

McKinsey expanded the client base by moving into public sector consulting (18). Management consultants could charge almost as high fees in the public sector as in the private sector (11). McKinsey helped to restructure the Norwegian Postal Bank and the State Railways (32)-(34).

**Autonomy in the relationship with other local offices.** The Oslo office continued to operate with a great degree of autonomy in its relationship with other local offices. The Oslo office played a main role when Norwegian banks losses at international markets were investigated (17), (31).

**Formal means of interdependence.** As markets became increasingly international, it became more desirable for local offices within the management consulting profession to use formal means of interdependence (31), (34), (35). This trend continued when the merger between Finland's largest bank Merita and the Swedish bank Nordbanken occurred. This event marked the starting point of a wave of mergers and acquisitions over Scandinavian borders in many industries (34)-(42).

Leading companies consider the Scandinavian region as their home market. The languages, legal systems and technologies are similar throughout the region, making it possible for the McKinsey's local offices to use formal means of interdependence (43), (45). However, cross-border cooperation is a potential source of problems, as Scandinavian countries are rivals in international business, for instance, in heavy industries and telecommunication (47)-(50). Norway's situation is special, as there has been traditionally a negative outlook on foreign ownership, not always well understood in the international business community.

**Corporate services.** McKinsey has a central office for coordination of corporate services (31), (49). In smaller offices, such as the one in Oslo, such initiatives are rare (31). Local offices do not pay for such services (31). The local offices are free to decide how to use such services (31).

**Use of cultural means of control.** In the 90s, McKinsey continued to place a strong emphasis on cultural means of control through the use of

internalized norms for dealing with clients and professionals (15).

**A sense of ownership over intangible resources.** The client base grew larger, resulting in more prestige within the management consulting group. This led to a great degree of ownership over client relationships (31). However, when it comes to ownership over financial resources, the influence was limited and an international partnership committee played a major role (11), (31).

*5.2.2. Second category: PA Consulting and Gemini Consulting.* PA Consulting and Gemini Consulting offered positions to former consultants from Hartmark-Iras and IKO, making it possible to use their contacts in order to win assignments.

**Autonomy. Autonomy with clients.** PA Consulting had a great degree of autonomy in tailoring services to client needs, for example, in the fishery industry. PA Consulting's reputation grew in the local business community (54)-(61), due to an ability to combine general management principles with hand-on use of information technology (58), (59), (60).

**Autonomy in the relationship with other local offices.** The Oslo offices traditionally had a great degree of autonomy in their relationship with other local offices (59). However, this freedom was reduced, as an international structure was implemented in 1999, limiting the Norwegian office degree of control (59).

**Formal means of interdependence.** When PA Consulting bought Hartmark-Iras in the early 90s, the management consulting firm had 50 offices in 20 countries, but no common budget or computer system. Such a fragmented body of local offices limited the ability to take advantage of formal means of interdependence (71), (72). Over the years, local offices cooperated more due to initiatives from headquarter (58), (59), (73).

**Corporate services.** Due to coordination problems between local firms in the early 90s, it took time before the Oslo office could develop an efficient system for corporate services (70), (73), (76). Over the years, a more formal system was implemented regulating the use of corporate services and the use of internal pricing (58), (59), (76).

**Cultural means of control.** Due to success with local assignments, the Oslo office had a strong position within the consulting group in the sense that headquarters, in general, limited the regulation to cultural means of control (59), (61), (76).

**A sense of ownership over intangible resources.** If local consultants manage to service clients in a satisfactory way, local offices might be given a greater degree of control over intangible resources (59). The office is free to decide how to use corporate services. The Oslo office does not have to pay for corporate services (7). However, the Oslo office had

little sense of ownership over financial resources generated locally (7).

*5.2.3. Third category:* Auditing firms Coopers & Lybrand and Ernst & Young ambitions in top management consulting.

**Autonomy. Degree of autonomy in the relationship with clients.** The management consulting firm had a great degree of autonomy in questions concerning which clients to serve, and how to deliver such services. Gemeni Consulting wished to focus the resources on few large clients, leading to success by focusing on the large telecommunication firm Telenor (65), resulting in that the consulting firm won other assignments (67)-(69). Gemini Consulting had a great degree of autonomy in determining fees in these contracts (61), (62).

**Degree of autonomy in the relationship with clients.** The firms had a great degree of autonomy in tailoring services to meet local needs (88), (89) partly due to having established sub-offices spread across Norway (77).

A large strategic cost accounting contract in the telecommunication group Telenor can be regarded as a breakthrough for Coopers&Lybrand (77), (88), (89). Based on insights gained through the Telenor contract, it was possible to tailor making services to the postal system, the electricity industry and in the state-run railway (27). Ernst and Young won a comprehensive contract for the state-run railways after the client had lost market shares, leading to other assignments in the public sector (78), (80), (89).

**Formal means of interdependence.** Formal means are probably used to a lesser extent, per se, than in many other management consulting firms due to the local nature of their business (87).

The introduction of the bonus card Smart for the oil company Fina in 1991 marked Coopers&Lybrand's first careful steps into international markets (87), leading to more formal means of interdependence in the management consulting firm (89).

Ernst & Young was engaged in formal means of resource sharing internationally. When Oslo gained a new international airport in October 1998, Ernst and Young helped to estimate the revenues for a private railway connecting the airport with downtown Oslo and the suburbs (85), (86), using international experiences as a benchmark (87).

**Corporate services.** The study suggests that Coopers & Lybrand and Ernst and Young have extended the use of corporate services (1), (89). While Ernst and Young's local offices have to pay for corporate services, this was not the case for Coopers&Lybrand (1), (89).

**Cultural means of control.** Both Coopers& Lybrand and Ernst & Young use cultural means of control in their relationship with local offices, for instance,

internalized norms as to how client contact can be carried out (88), (89).

**Ownership over intangible resources.** Consultants in the firms feel a great sense of ownership over intangible assets generated at local offices. This might be due to the fact that the firms' assignments traditionally have been local in nature, giving consultants a desire to protect client relationships and consulting knowledge (88), (89), (90).

## 6. Discussion

We introduce the business federation as a new organizational form.

We believe that the business federation can be regarded as an alternative organizational form, as it tries to answer how local offices operate within an international network. The business federation breaks fundamentally with a traditional organizational logic, as it builds its reasoning on a strong belief in entrepreneurship at the local level, and that head office is only allowed to execute certain tasks after the local offices have given the permission.

We introduce a building block system in order to illustrate how management consulting firms can use insights gained from the business federation.

Our findings show that the sampled management consulting firms operate reasonably close to principles of the business federation defined through the use of selected design parameters. The findings support the claim that the sampled firms have moved closer to principles of the business federation. However, the conclusions provided can only be partial and preliminary as a result of a relatively small sample size.

A main contribution of the study is an attempt to operationalize the business federation through the use of building blocks. We believe that the selected number of building blocks might give a reasonable good description of federalist behavior, even if future research might stress the need to include other blocks, such as twin citizenship and governance mechanisms. The research does not support the extended claim that companies become more bureaucratic as they get older. Rather, management consulting firms operate under a different logic where the business federation can be used as a path. We argue that management consulting firms may reach a federalist form in advanced stages of organizational evolution.

Using a bottom up perspective in order to tailor-make services, we argue that craftwork becomes more important in the knowledge society in the sense that it is critical that it is possible to tailored make services to carefully targeted market segments.

At the same time, there is a growing awareness of the severe limitation imposed upon rational decision making, as is does not adequately attend to the limited

information handling with respect to decision making. We believe that the recognition of bounded rationality and the limited validity of classical economic decision models are essential for coming to grips with the philosophy behind the business federation.

## Conclusion

Management consulting firms need to achieve the benefits of adaptability and efficiency. Such firms seem to go further along the avenue to decentralization leading us to believe that certain companies can become federated. The business federation is not the only path. Some companies are retaining high degrees of centralization as they expand globally, but we suggest that the trend is moving in the direction proposed in this study.

Since the research took place, the business environment has changed dramatically with the financial crisis starting in 2008. Businesses are not growing, profits are under pressure, and shareholders and clients seen to be more demanding than ever. We are of the opinion that research on management consultants can focus on how client portfolios can grow, helping in the recovery of the economic situation with a focus on entrepreneurship.

More than six decades ago, Schumpeter (1949) described entrepreneurial activities as being essentially a chaotic process suggesting that "the entrepreneur destroys the equilibrium with a penitential gale of creative destruction". Over the ensuing decades since Schumpeter's contribution, researchers have struggled to come to grips with the entrepreneurial activity within the constraints of the conventional, Newtonian paradigm. They have attempted to apply approaches that assume linear, equilibrium tendencies to phenomenon that are intrinsically non-linear and unstable. With turbulence, disorder and increasingly rate of change, rather than interspersed, isolated incidence, traditional models may be inadequate in dealing with a more complex and turbulent business environments.

Future research might benefit from linking the business federation to chaos theory, moving the management thinking from a reductive perspective to a holistic one (i.e., Stacey, 2000), focusing on entrepreneurial processes at the local levels. In a business environment with increased complexity and turbulence, markets can become increasingly instable, leading to that small changes in knowledge, technology and globalization can result in dramatic strategic changes within organizations, based on the butterfly concept described by Lorentz (1992) and Waldrop (1992) in the chaos theory literature. Insights on butterfly effects can give more theoretical insights and understand better how management consulting firms take advantage of business opportunities.

## References

1. Achrol, R. (1997). Changes in the theory of interorganizational relations in marketing paradigm, *Journal of the Academy of Marketing Science*, 25 (1), pp. 56-71.
2. Araujo, L. and Easton, G. (1996). Networks in socioeconomic systems: A critical review. In Iacobucci, S. (ed.), *Networks in marketing*. Thousand Oaks, CA: Sage Publications Ltd.
3. Barney, J.B. (1991). Firm Resources and Sustained Competitive Advantage, *Journal of Management*, 17 (1), pp. 99-114.
4. Bartlett, C.A. and Ghoshal, S. (1995). *Transnational Management: Text, Cases and Readings in Cross-Border Management*. 2<sup>nd</sup> ed. Chicago: Irwin.
5. Brown, S.L. and Eisenhardt, K.M. (1997). The Art of Continuous Change: Linking Complexity and Time-paced Evolution to Relentlessly Shifting Organizations, *Administrative Science Quarterly*, 42, pp. 1-34.
6. Child, J. (1984). *Organization: A Guide to Problems and Practice*. London: Harper and Raw Ltd.
7. Das, S., Sen, P.K. and Senguta, S. (1998). Impact of strategic alliances on firm valuation, *The Academy of Management Journal*, 41 (1), pp. 27-41.
8. Easterby, S.M., Thorpe, R. and Lowe, A. (1999). *Management Research: An Introduction*. London: SAGE publications.
9. Eden, C. and Spender, J.C. (1998). *Managerial and Organizational Cognition, Theory, Methods and Research*. Thousand Oaks: Sage Publications.
10. Eisenhardt, K.E. (1989). Building Theories from Case Study Research, *Academy of Management Review*, 14, pp. 488-511.
11. Foss, N.J. (2001). The problem with bounded rationality: on behavioral assumptions in the theory of the firm, *Danish Research Unit for Industrial Dynamics*, DRUIDS Working Paper No. 1-15, August.
12. Gulati, R. (1999). Network location and learning: The influence of network resources and firm capabilities on alliance formation, *Strategic Management Journal*, 20 (5), pp. 397-420.
13. Gulati, R., Nohria, N. and Zaheer, A. (2000). Strategic networks, *Strategic Management Journal*, 21 (3), pp. 203-215.
14. Gunnarsson, E. (2000). *Qualitative Methods in Management Research*. Thousand Oaks, CA: SAGE Publications.
15. Handy, C. (1992). Balancing corporate power: a new federalist paper, *Harvard Business Review*, 70 (6), pp. 59-72.
16. Handy, C. (1994). *The Age of Paradox*. Cambridge, Mass: Harvard Business School Press.
17. Hayek, F.A. (1945). The Use of Knowledge in Society, *American Economic Review*, 35 (4), pp. 519-530.
18. Johnson, C. (1998). *Proverbs: An Introduction*. Edinburgh: Canongate.
19. Lorentz, E. (1973). Deterministic non-periodic flow, *Journal of Atmospheric Sciences*, 20 (2), pp. 130-141.
20. Lyotard, J.F. (1984). *The postmodern condition: A report on knowledge*. United Kingdom.
21. March, J.G. (1994). *A primer on decision-making: How decisions happen*. New York: Free Press.
22. March, J.G. and Simon, H.A. (1958). *Organizations*. New York: John-Wiley and Sons.
23. March, J.G. (1994). *A primer on decision-making: how decisions happen*. New York: John-Wiley and Sons.
24. McCracken, G. (1988). *Qualitative research methods: The long interview*. Newborn Park, CA: Sage.
25. McNamara, G., Deephouse, D.L. and Luce, R.A. (2003). Competitive positioning within and across strategic group structure: The performance of core, secondary and solitary firms, *Strategic Management Journal*, 24 (2), pp. 161-175.
26. Miles, M.B. and Huberman, A.M. (1994). *Qualitative data analysis*. Thousand Oaks, CA: Sage Publications.
27. Merriam, S.B. (1998). *Qualitative Research and Case Study Applications in Education*. San Francisco, CA: Jossey-Bass Publications.
28. Møller, K. and Rajala, A. (2007). Rise of strategic nets-New modes of value creation, *Industrial Marketing Management*, 36 (7), pp. 895-908.
29. Møller, K. and Svahn, S. (2007). Role of knowledge in value creation in business nets, *Journal of Management Studies*, 43 (5), pp. 985-1007.
30. Nelson, R. (1988). *Partners with power: Social transformation of the large law firm*. Los Angeles: University of California Press.
31. Nohria, N. and Ghoshal, S. (1997). *The Differentiated Network: Organizing Multinational Corporations for Value Creations*. San Francisco: Jossey-Bass.
32. Nonaka, N. and Takeuchi, H. (1995). *The knowledge-creating company: How Japanese Companies Create the Dynamics of Innovation*. New York: Oxford University Press.
33. Normann, R. and Ramirez, R. (1993). From value chain to value constellation: Designing interactive strategy, *Harvard Business Review*, 71 (4), pp. 65-77.
34. Osborne, J.D., Stubbart, C.I. and Ramaprasad, A. (2001). Strategic groups and competitive enactment: A study of dynamic relationships between mental models and performance, *Strategic Management Journal*, 22, pp. 435-454.
35. Parolini, C. (1999). *The value net*. Chichester: Wiley.
36. Schumpeter, J.A. (1949). *The Theory of Economic Development*. Cambridge, MA: Harvard University Press.
37. Simon, H.A. (1978). Rational Decision Making in Business Organizations, Lecture by Herbert A. Simon when receiving the Nobel Prize in Economic Science, December 8<sup>th</sup>, 1978.
38. Silverman, D. (2005). *Doing Qualitative Research: A Practical Handbook*. Thousand Oaks, CA: SAGE publications.
39. Spender, J.C. (1996). Organizational Knowledge, Learning and Memory: Three Concepts in Search of a Theory, *Journal of Organizational Change Management*, 9 (1), pp. 63-78.
40. Stacey, R.D. (2000). *Strategic Management and Organizational Dynamics-The Challenge of Complexity*. London: Pearson Education.
41. Syvertsen, C.M. (2000). *Towards the business federation in management consulting firms*, Doctoral thesis at the IESE Business School, University of Navarra, Barcelona (Spain).
42. Teece, D.J., Pisano, G. and Shuen, A. (1997). Dynamic Capabilities and Strategic Management, *Strategic Management Journal*, 18 (7), pp. 509-533.

43. Veil, A.J. (2006). *Research Methods for Leisure and Tourism*. London: Pitman Publishing.
44. Waldrop, M. (1992). *Complexity: The Emerging Science and the Edge of Order and Chaos*. London: Simon and Schuster/Penguin.
45. Yin, R.K. (1984, 2003). *Case Study Research, Design and Methods*. Thousand Oaks, CA: Sage Publications.

## Interviews

1. Interview with managing partner of Coopers & Lybrand Mr. Terje Andersen in his office in Oslo, February 8<sup>th</sup> and May 15<sup>th</sup> 1997.
2. Lecture with Professor Reiar Ness, Norwegian Business School, 2<sup>nd</sup> of February 1983, Graduate source in international market research at the Norwegian BI Business School (course number 7031).  
See also Harkmark, J., Sagen, J. and Skare, L. (1954). *Business organization in practice*. Oslo: Tanum; Hellern, B. (1972). *Articles in Rationalization in Norwegian press 1932-1957*. Habberstad, A. and Rand, C. (1965). *Management and organization in a change process*. Oslo: A Habberstad Publication.
3. OECD Economic Outlook no. 63, May 1997. OECD report on the Norwegian economy, Oslo.
4. Lie, E. (1998). *Den norske Creditbank-A large banks rise and fall*. Oslo: Universitetsforlaget.
5. *International invasion*, Management Consultant International, March 1994, quote from former head of Grant Thornton's Oslo office, April 30 1997, Mr. Paul Bellamy.
6. *Largest firms in management consulting*, Aftenposten 12<sup>th</sup> of June 1989.
7. *Good times for Norwegian consultants*, Aftenposten 5<sup>th</sup> of June 1989.
8. *Enormous appetite on information*, Dagens Næringsliv 8<sup>th</sup> of December 1997.
9. Interview with partner Mr. Terje Bjølseth of Indevo Management in Oslo 7<sup>th</sup> of February 1997.
10. McKenna, C.D. (1997). *The American Challenge: McKinsey & Company's role in the transfer of decentralization to Europe, 1957-1975*. Paper presented at the *Academy of Management Conference* in Boston Massachusetts, August, 8-13.
11. Interview with partner Mr. Joakim Olsson of Montoni in his office in Oslo 9<sup>th</sup> of February 1997. Follow-up telephone interview 21<sup>st</sup> of November 1998.
12. *Last spring with the guys*, Dagens Næringsliv 13<sup>th</sup> of March 1999, interview with CEO of the Norwegian Federation of Business and Industry, Mr. Karl Glad.
13. Telephone interview with vice president of R.S. Platou, Mr. Vollert White 15<sup>th</sup> of November 1998.
14. *The Norwegian Central Bank gets a new organizational form*, Aftenposten 11<sup>th</sup> of December 1985.
15. *McKinsey helps to restructure Elektrisk Burrau*, Aftenposten 5<sup>th</sup> of September 1985.
16. Imset, G. and Stavrum, G. (1993). *The growth Norwegian banking*. Oslo: Gyldendal.
17. Breakfast meeting with Chairman of the Board of Den norske Bank Mr. Gernard Heiberg at Hotel Rey Juan Carlos I in Barcelona 29<sup>th</sup> of January 1998.
18. Interview with partner of McKinsey's Oslo office Mr. Odd Chr. Hansen in Chicago, 28<sup>th</sup> of November 1988. Hotel Hilton.
19. Chakravarthy, B.S. and Lorange, P. (1991). Elkem. In "*Managing the strategy process-a framework for a multi business firm*", Prentice-Hall International Editions, pp. 226-253.  
See also Elkem's annual report 1996 with an emphasis on *Message from the Board of Directors*, pp. 6-9.
20. Interview with lecturer Kåre Hansen of the BI Norwegian Business School 15<sup>th</sup> of June 1996 on the turnaround project in the town Mo i Rana in the 1980s.
21. *Norsk Jernverk- an economic waste*, Aftenposten 15<sup>th</sup> of October 1989.
22. *Sparebanken Sør to decide next week on the future of Vindholmen Offshore*, article in Dagens Næringsliv 30<sup>th</sup> of April, 1990.
23. *Haugesund Mekaniske Verksted to cut 260 jobs*. Article in Dagens Næringsliv 9<sup>th</sup> of November 1990.
24. *Bad results reported by Lefac will make it difficult for Christiania Bank to sell its shares*, Dagens Næringsliv 26<sup>th</sup> of April, 1988.
25. Løwendahl, B.R. (1992). *Global strategies for professional service firms*, A Ph.D. dissertation in management, University of Pennsylvania, Wharton Business School (USA).
26. *European independent consultants in a winning business*, Financial Times, 22<sup>nd</sup> of March 1989.
27. Telephone interview with partner of Coopers & Lybrand Mr. Espen Fiane 12<sup>th</sup> of February 1999.
28. Managing partner of Ernst & Young Mr. Thorbjørn Overholt gave an interview to Consulting News Nr. 6, 1998.
29. *Lack of leadership in the state-run railway*, article in Aftenposten 31<sup>st</sup> of May 1995.
30. *From auditing to sales cruising*, Dagens Næringsliv 26<sup>th</sup> of May 1997.
31. Interview with McKinsey consultant Mr. Håvard Belbo in Oslo 14<sup>th</sup> of February 1997. Follow-up telephone interview 15<sup>th</sup> of January 1999 and 5<sup>th</sup> of November 1999.
32. *Living for dying people*, Aftenposten 17<sup>th</sup> of February 1998.
33. *The state-run railway buys advice expensively*, Article in Aftenposten 21<sup>st</sup> of December 1994.
34. *When good advice is expensive*, Kapital (10), 1998, Oslo.
35. *McKinsey gives advice to the banking sector*, article in Finanstidningen 25<sup>th</sup> of March 1998.
36. *The secret that stopped the mega merger*, Dagens Næringsliv 10<sup>th</sup> of October 1998.
37. *Focus Bank and the Post Bank about to merge*, Dagens Næringsliv 21<sup>st</sup> of May 1999.
38. *Den norske Bank and The Postal Bank intend to merge*, Dagens Næringsliv 5<sup>th</sup> of September 1998.
39. *SE-Banken set to buy Trygg-Hansa for 2.2 bn pounds*, Financial Times, October 3<sup>rd</sup> 1997.
40. *Den Danske Bank intends to buy Focus Bank*, Dagens Næringsliv 21<sup>st</sup> of September 1999.

41. Beujean, M., Bø, B., Muth, M.M., Simensen, S.V. and Wels, T. (1998). "Can European insurers create value?", The McKinsey Quarterly (3), pp. 20-31.
42. *The Christiania project may be turned down*, Dagens Næringsliv 4<sup>th</sup> of March, 1997.
43. *Storebrand turned down the offer from Christiania Bank*, Dagens Næringsliv, 8th of June 1997.
44. *The Union Bank of Norway and Gjensidige about to merge*, Dagens Næringsliv September 5<sup>th</sup> 1998.
45. *Largest in the field*, Dagens Næringsliv 11<sup>th</sup> of May 1998. Interview with Chairman of the Board of Merita Nordbanken Mr. Veasa Vaino.
46. *Impossible with a Nordic insurance merger*, interview with former CEO of Scandia Mr. Bjørn Wolseth in Dagens Næringsliv 20<sup>th</sup> of May 1998.
47. Kjell Fjerdal. (1998). *Oslo Stock Exchange looks for a partner*, Dagens Næringsliv 20<sup>th</sup> of May 1998.
48. *Aker RGI has sold 35 percent of its share in the real estate company Avantor*, article in Aftenposten 7<sup>th</sup> of March 1997. E-mail sent 16<sup>th</sup> of October 1998 by an anonymous top executive.
49. *Eat or be eaten*, article in the newspaper Affarsvarden 23<sup>th</sup> of April, 1997.
50. Speech given by director of McKinsey's Atlanta office Mr. Kevin Coyne at the *Strategic Management Society Meeting* in Orlando, Florida, 1-4<sup>th</sup> of November, 1998.
51. *McKinsey & Company: Managing Knowledge and Learning*, Harvard Business School (1997), Case 9-396-357, written by Professor Christopher A. Bartlett.
52. *Enormous possibilities in sea farming*, Article in Aftenposten 28<sup>th</sup> of September, 1998.
53. *Five in the final round for the top job in the Red Cross*, Aftenposten 12<sup>th</sup> of December 1991.
54. *Two strong applicants for the job as boss of the secret services*, Aftenposten 7<sup>th</sup> of July, 1992.
55. *A different kind of king in art*, Aftenposten 28<sup>th</sup> of March, 1998.
56. *New boss at the National Theatre*, Aftenposten 25<sup>th</sup> of February, 1993.
57. Interview with management consultant Ms. Marit Vik in PA Management Consulting's offices in Lysaker (Norway), 18<sup>th</sup> of November 1998. Follow-up interview 4<sup>th</sup> of November, 1999.
58. Interview with management consultant Mr. Eivind Bardal of PA Management Consulting by phone 19<sup>th</sup> of November 1998. Follow-up interview 2<sup>nd</sup> of November, 1999.
59. Interview with Mr. Rolf Svendsen 9<sup>th</sup> of February, 1997 in Electronic Data System's (EDS) offices in Oslo. Follow-up interview 2<sup>nd</sup> of November, 1998.
60. Interview with partner Mr. Bjørn Fusche of Gemimi Consulting in Oslo 7<sup>th</sup> of February 1997.
61. Interview with partner Jostein Fjalestad in Gemini Consulting's office in Oslo 18<sup>th</sup> of June, 1998.
62. Mr. Magne Enger, marketing director of Telenor Private, quoted in the book *Market orientation in practice* (1996), p. 232, editors Andreassen, T.W. and Bredal, D. Ad Notam Gyldendal, Oslo.
63. Telenor annual report 1995.
64. Telenor annual report 1996.
65. Telenor annual report 1997.
66. Consulting profile 1995, Økonomisk rapport (Economic report), Oslo.
67. *The Federation of Business and Industry can cut 150 million*, article in Aftenposten 4<sup>th</sup> of March, 1996.
68. *Employees lose their bonuses*, article in Aftenposten 24<sup>th</sup> of July, 1996.
69. *British Consultancy Found Client in Its Own Office*, Article in Financial Times July 9<sup>th</sup>, 1997.
70. *Bad strategies avoid take-overs*, Aftenposten 2<sup>nd</sup> of October, 1993.
71. *Teaching Hungarian firms the art of privatization*, Aftenposten 3<sup>rd</sup> of September, 1991.
72. Interview with managing partner Mr. Roar Thoresen in PA Consulting's office in Lysaker 18<sup>th</sup> of November, 1998.
73. Telephone interview with partner in Gemini Consulting's Stockholm office, Mr. Pehr Blom November 18<sup>th</sup> 1998. Follow-up interview 5<sup>th</sup> of November 1999.
74. Telephone interview with management consultant of Gemini Consulting's Johannesburg office Ms. Hanne Kock 17<sup>th</sup> of November 1998. Follow-up interview 3<sup>rd</sup> of November 1999.
75. Interview with partner Mr. Oddmund Fjellheim in PA Consulting's office in Lysaker (Norway), 18<sup>th</sup> of November 1998. Follow-up interview 3<sup>rd</sup> of November, 1999.
76. *Auditing firms diversify into new markets*, Aftenposten 18<sup>th</sup> of September, 1996.
77. Market director Wenche Høybye quoted in the book *Market orientation in practice*, p. 69, eds. Andreassen, T.W. and Bredal, D. Ad Notam Gyldendal, 1996, Oslo.
78. Telephone interview with partner of Arve Særvold PA Consulting 17<sup>th</sup> of February 1998.
79. *Consultant as a railway director*, article in Dagens Næringsliv 12<sup>th</sup> of May, 1997.
80. Telephone interview with partner Mr. Helge Rydning of Coopers & Lybrand 17<sup>th</sup> of November 1998.
81. *Go together to arrange a safe Olympic*, Article in Dagens Næringsliv 3<sup>rd</sup> of December 1991.
82. Interview with managing partner Mr. Lars Henriksen 9<sup>th</sup> of February 1997 in Anderson Consulting offices in Oslo. Follow-up interview 19<sup>th</sup> of May, 1997.
83. Coopers & Lybrand report on state and regional development (1998), in the agricultural sector.
84. Interview with Mr. Per Krosby-Mathisen of Coopers & Lybrand was conducted by phone 18<sup>th</sup> of November 1998.
85. *Gardermoenbanen technically bankrupt and great losses for the state*, Norsk Telegrambyrå 15<sup>th</sup> of February 1998. See also *Stock scenario for Gardermoenbanen*, article written by Norsk Telegrambyrå 17<sup>th</sup> of December 1997.
86. Telephone interview with ex-management consultant Ms. Sandra Hovland PA Consulting, 16<sup>th</sup> of November 1998.
87. Telephone interview with management consultant of Coopers & Lybrand Mr. Hans Henrik Hiltun 14<sup>th</sup> of November 1998. Follow-up interview 5<sup>th</sup> of November 1999.
88. Kjetil F-Larsen (1998), *Knowledge Management-A market oriented perspective*, Magma, nr. 1.
89. Interview with partner of Ernst & Young Steinar Simonsen 15<sup>th</sup> of June 1998 in his Oslo office.