

**THE GROWTH, DIVERSIFICATION AND FORMS DE DISPUTE IN THE
INTERNATIONAL MARKET OF CONSULTING:
*Their relationships with the forms of corporate control and changes in the
space and activity's forms of state***

Julio Cesar Donadone
Adjunct Professor
Dept. of Production Engineering
Federal University of São Carlos

Abstract

The present study intends to contribute to understanding the growth process of the consulting market, its forms of activity and relationship to other organizations, starting with two reference points. First, focusing on the international consulting market, seeking to identify its characteristics and major changes over recent decades. In the second part, the focus is on changes in the business and management over recent decades as a way of visualizing the activity of managers in private companies and state in the face of the new organizational shapes and demands, From this starting point, I refer to the formulations that come to support the concepts associated with the growing influence of financial logic in management forms and the privatization process seeking to relate them to the issues of growth and forms of consultant activities as well as the role carried out by the ranks of management in midst of these circumstances.

Key words: Consulting, institutional Investors, privatization, managers.

The configuration of the international consulting marketing in recent decades

The 1980s mark the start of important transformations in the organizational consulting market. The growth and greater visibility of the sector, associated with changes in forms of activity, of the relationship to the contracting companies and insertion into markets for the dissemination and sale of management packets imprinted characteristics that serve as support for the shape and importance that the sector took on during the 1990s.

During this period the implementation of management tools inspired in Japanese management ideas stand out. Such tools, backed up by the dissemination of the success of Japanese industries, especially those having to do with the conquest of considerable portions of the North American automobile market, became references for businesses.

Attempts to transfer Japanese practices to a new context served as fertile terrain for the expansion of consulting firms. New areas of activity opened up. At a first, there were attempts to interpret and introduce elements of Japanese management practices into western companies, with the discussion of implanting Quality Control Circles (QCCs) being emblematic. Another highlight during this period which provided new fields for activities was the growing market for certification of management procedures and production processes, represented mainly by the ISO norms and in the following years, specific versions such as QS in the American automobile sector.

Over the course of the decade, the spaces for consulting activity took on new dimensions, moving their focus from the functional characteristics of Japanese practices to management packets which aimed to contemplate the various sectors present in the companies.

Such a transition is evidenced by the semantics and reach of proposals that focused on “Philosophies of Quality” such as Kaizen, and mainly by the content attributed to TQM (Total Quality Management).

As discussed by Cole (1998) in studies of the constitution and dynamic of the Quality movements in American companies, consultants were major vectors for the dissemination and implantation of new management forms of Japanese inspiration. According to the author, during the 1980s there was a process of institutionalization of the various agents and professional and governmental instances that sought to formulate the contents of the theme of quality; and a sharpening of the dispute for dissemination and implantation related to the matter¹⁵. Such a formulation has importance in this study because it indicates the reasons for growth in the use of consulting firms as well as their strategies for conquering space for consulting firms’ activities in the 1990s.

Information technology (IT) was another component that contributed to the scenario for consulting firms of begin acting in the 1980s. At first, due to changes occasioned by the diffusion of personal computers in the companies and later with the introduction of “management packets” based on information technology.

Increased computerization of administrative aspects and of production aiming at gains in productivity the utilization of software devoted to the management of organizational aspects, for example the MRP, opened up an important market for consulting firms and also served as the basis for the transformations in segmentation and the forms of acting of the central pole of international consulting firms in the following decades. For example, as technical assistance in the introduction of issues related to the use of the internet as a business tool and the activities of companies specialized in management software, such as SAP and ORACLE.

The end of the 1980s also presented a component central to understanding the shape and constitution of the present consulting firm sector: the creation of Andersen Consulting. The company was created in 1989 by the process of dividing the business of Arthur Andersen Co. Andersen was born as the largest consulting firm in the world, with a contingent of 21,400 jobs, and billing of US\$1.6 billion in its first year.

Its creation introduced a number of characteristics that the consulting market would take on in the 1990s. The first to highlight is the new forms of composition between consultants and auditors. Consultants left the large auditing and accounting firms to occupy their own space. Strategies based on the development and implantation of information technology constituted a new stage in the polarization between accounting firms and the so-called strategy consulting firms, so well represented by Mckinsey.

The decisive movement of the accounting firms of which Arthur Andersen was part, also merits note during the period. It aimed to occupy the growing market for consulting more effectively. In addition to the example of the creation of Andersen consulting, there were a number of mergers between large representatives of the sector, meant to gain scale and greater activity in the consulting market.

¹⁵ Of the works Robert Cole has developed on this theme, we highlight: *Fads, imitation, and learning. The case of American Quality Movement*. Center for Research in Management. University of California Press. Berkeley. CA. EUA.1994; and more recently *Managing quality fads: How American business learned to play the quality game* University of California Press. Berkeley. CA. EUA. 1998.

The creation of the KPMG¹⁶, Deloitte Touche and Ernst & Young at the end of the 1980s would, together with the presence of Price Waterhouse, Arthur Andersen and Coopers & Lybrand, form the so-called Big Six Accounting Firms. This constituted an important new pole of influence in the forms of activity and in shaping the consulting sector in the 1990s.

The 1990s

If the 1980s there had been a number of positionings and events which opened up new space for consulting activity; in the 1990s the sector gained highlight and importance in the business and managerial worlds. The sector stood out due both to its rates of growth in billing and size of the companies, and for its exposure in the media. Income rose from 22 billion in 1990 to more than 100 billion ten years later, and among the ten largest companies it is common to find contingents of more than 50,000 employees and income of more than five billion dollars. It is worth recalling that Andersen was the largest consulting firm in the world in 1989, with 21,600 employees and billing of 1.5 billion.

The first component that contributes to understanding the dynamics of the period is the reengineering processes present from the start of the 1990s. Organizational changes related to organizational redesign, starting with the “Core Business” of the company, contributed to expanding the space for consulting in the management and business areas.

This did not happen just as an increase in opportunities for consulting firms’ activity, but due to mainly features that contemplated aspects of the dynamic of the consulting sector in the period. Among them, one can highlight issues related to forms of interaction between consulting firms, the business press and academic sectors - these latter represented mainly by the business schools.

A first point to note is the issue of “one man, one idea, a new consulting firm”, made explicit in discussions about management fads and gurus. With the dissemination of the organizational redesign process, James Champy and Michael Hammer, considered to be the fathers of reengineering, leapt to be the first team of the international management gurus. These ideas were first presented in an article that Michael Hammer published in 1990, *Reengineering Work: Don’t automate, Obliterate* in the *Harvard Business Review*, and in 1993, transformed into the book *Re-engineering the Corporation*, which reached the mark of 17 million books worldwide, i.e. reengineering became one of the most influential forms of management and business fad of recent decades.

To understand the relation between gurus/management fads and the consulting dynamic, one needs to recall that during the 1980s there were many example of actors taking turns in formulating and selling “managerial packages”. P. Crosby/*Quality is Free* Porter, M.

¹⁶ KPMG is an abbreviation for the names of its main founders. The letter **K** represents Klynveld. Piet Klynveld. Piet Klynveld was the founder of the Dutch firm Klynveld Kraayenhof & Co. In 1979, the company merged with Deutsche Treuhand-Gesellschaft and McClintock Main Lafrentz, giving rise to Klynveld Main Goerdeler (KMG); The **P** represents Peat. Willian Barclay Peat & Co. was founded in London in 1870; The **M** represents Marwick. James Marwick and Roger Mitchell created Marwick, Mitchell & Co. in Nova York in 1897. In 1991, the firm merged with Barclay Peat & Co., forming Peat, Marwick Mitchell & Co, which later became Peat Marwick International, one of the largest international auditing and accounting firms. The **G** represents Goerdeler, the last name of the president of Deutsche Treuhand-Gesellschaft and later of KMG. In 1987, KMG and PMI undertook the first large fusion in the auditing and accounting market, creating KPMG (see Fig. 2).

/Competitive Strategy and Kanter. R. /The Change Masters ¹⁷. Thus, the dissemination of reengineering came from this form of activity in the consulting market and backed up possible candidates for this type of consulting.

Dissemination based on articles in renowned management journals, in the publication of a book, to function as a flagship for ideas and later to transform the author into a guru and best seller, had elements that would join the growing activity of professors, mainly from the business schools, and consulting firms specialized and small size consulting firms, for example. For these companies the success of the reengineering format provided the opportunity to reach the restricted world of consulting firms represented by the accounting firms and strategy companies.

But it was not just the manner in which they were disseminated that the reengineering processes provided new elements for understanding the world of consulting in the 1990s. One of the most central formulations of the ideas of reengineering, *Downsizing*, also contributed elements to the characterization and dissemination of consulting firms, with organizational changes in the companies. Represented by the flattening of the position pyramid, cuts in functions, in some cases of entire departments, and the process of outsourcing, a contingent of managers was displaced from the old companies and sought a way to reconvert in the related consulting field, whether as consultants associated to a firm, or by forming new companies that sought to provide orientation on specific matters, which had been developed formerly inside their jobs.

Company constructions and representations related to the need for a management pyramid also resulted in increased internal competition for managerial positions, which often led the occupants of such positions to consultants, gurus and books on new management forms, seeking in their ideas the opportunity to gain valuable points in the companies' internal disputes.

To summarize and comprehend the transformations and the positioning of the actors in the international consulting space of the time, which includes the 1980s to the mid 90s, I refer to two principal issues. The first is the size that the leading companies of the sector took on beginning at the end of the 1980s. For example, Andersen Consulting went from 21,660 employees in 1990 to 45,000 in 1996. Its billing also shows a significant increase, reaching 5.3 billion in 1996, against 1.6 billion six years earlier.

To understand such growth, one needs to recall the movement of the Accounting Firms which aimed to occupy the consulting market, with the creation of Andersen Consulting or the mergers of enterprises such as KPMG. Independently of the form, the Big Six: KPMG, Deloitte Touche, Ernst & Young, Price Waterhouse, Arthur Andersen and Coopers & Lybrand, presented themselves as the dominant pole in the worldwide consulting market, as much by increase in scale, provided by the size of the companies, as the coverage of their areas of activity. For example, in 1996, Price had 400 offices in 118 countries and Andersen had 152 offices in 46 countries.

Another traditional pole in the formative period of the consulting firms and which stands out in the sector of companies specialized in Organizational Strategy, with such icons as McKinsey and Booz-Allen and Hamilton. One can perceive its importance in the consulting

¹⁷ KANTER, Rosabeth M. *The Change Masters: Innovation and Entrepreneurship in the American Corporation*. New York Simon & Schuster, 1985; CROSBY, P. *Quality Is Free: The Art of Making Quality Certain*. New York. McGraw-Hill Professional Publishing, 1979; PORTER, M. *Competitive Strategy*. New York. Free Press. 1980

market, for example, in McKinsey's billing of 2.9 billion that placed it among the leading companies in the world market. Growth in size and the areas of coverage of the companies is also at issue for these companies. This is the case of McKinsey, which at the beginning of the 1980s had approximately 600 consultants, and in 1996 had 3,900 employees, active in 32 countries.

Another relevant fact is that the growth of the consulting firms related to information technology, first with the leadership of Andersen Consulting, but also with the movement of the giants in the computer branch, such as IBM, to diversify their businesses.. They sought to occupy space in the consulting market, selling solutions that allied the processes of changes and formulating company strategy with the support of information technology.

It is also possible to point to the growth of the space occupied by companies, which that originated and whose major activity lay in transforming theories and ideas developed in academic areas into marketing packets, more specifically by the positional of BCG Consulting. From the 1970s on, this company sought to offer tools based in concepts about the business world that could be easily assimilated and manipulated by companies, its portfolio matrix being emblematic and in many cases confused with the company itself. With this, BCG sought to classify businesses into four groups according to their ability to generate income and occupy sectors of the market. The identification of which group the business was located provided an expectation of return on capital invested and the risks associated to this investment. The functionality and simplicity of the scheme that covered the most varied branches of industry, served as a basis for its success and dissemination, forming a virtual Blue Book in which executives could look at in an automatic way for help in making decisions.

The importance of BCG's position in relation to other consulting firms serves as an indication of the growing space that this kind of activity gained in the consulting market and also for the changes that these companies, characterized as small businesses usually with a maximum of one hundred employees would undergo, becoming firms of considerable size, as was the case of BCG, which in 1996 had 1,500 employees.

In addition to greater visibility and new areas of activity, the growth of consulting firms at the beginning of the 1990s also brought with it questions about consultant efficacy and their ways of acting, represented principally by the discussion about management fads and gurus. Systematic critiques of the ethical conduct of the consulting firms began to appear following the series of "lifesaving formulas for companies". As an example, we can use what happened with AT&T, one of the world giants in telecommunications. The company became one of the consulting firms' main clients, beginning in the 1980s, and spent more than half a billion dollars on these services. Nevertheless, despite arming itself with an army of consultants and the most varied formulas for success, the company performed far below what had been promised by its consultants, as for example in the case of the purchase of NCR at a value far above the market. In the face of these happenings, John Walter, in taking over as the new president in November 1996, decided to fire all the consultants and declare that they were no longer welcome at the company²⁰.

In the business press, which contributed and benefited from the best sellers on new forms of management, articles and books questioning the consulting firms and managerial fads also began to appear. As examples of articles: *In search of Suckers* (Fortune, 1996) e *The rise of guru skepticism* (Management Today, 1996) and of books: *The Witch Doctors: Making*

²⁰ O'SHEA, James E., MANDIGAN, Charles. *Dangerous Company*. The consulting powerhouses and the businesses they save and ruin. New York, NY-USA: Times Business, 1997.

Sense of the Management Gurus, 1996; *Management redeemed: debunking the fads that undermine our Corporations performance*, 1996; *Dangerous Company. The consulting powerhouses and the businesses they save and ruin*, 1997; and *Fad surfing in the boardroom: reclaiming the courage to manage in the age of instant answers*, 1997²¹. Two of Scott Adams' comic books also appeared on the bestseller list, *The Dilbert Principle e Dogbert's Top Secret Management Handbook*²², which among other everyday matters in the large companies, satirized the practices of consulting firms²³.

In the face of criticisms, two movements in the sector began at the end of the 1990s. The first sought to deal with ethical issues and the almost nonexistent barriers to entry in the sector, stating that anyone who had printed business cards could present themselves and act as consultants, provoking disastrous situations. The Institute of Management Consulting – IMC, the major professional association for American consultants²⁴, began to implement certification program for consulting activities. To obtain the certificate it was necessary to pass an exam in which the candidate needed to demonstrate dominion over and proved experience in the conduction and implementation of the areas where he or she intended to act as consultant²⁵.

Criticisms related to the sharpening competition also began to influence the forms of consulting activity. It could no longer, as in the 1980s, just sell analysis and ideas for change, but had to join the diagnostic with a management packet and moves in the direction of implementing the proposed solutions²⁶.

²¹ In search of Suckers, *Fortune*, October 14, 1996. pp. 118-126; *The rise of guru skepticism, Management Today*, March, 1996, pp. 48-52; MICKLETHWAIT, John, WOOLDRIDGE, Adrian. *The Witch Doctors: Making Sense of the Management Gurus*. New York Times Books, 1996; HILMER, Frederick G. *Management redeemed: debunking the fads that undermine our Corporations performance*. New York. The Free Press.1996; O'SHEA, James E., MANDIGAN, Charles. *Dangerous Company. The consulting powerhouses and the businesses they save and ruin*. New York, NY-USA: Times Business, 1997; SHAPIRO, Eilleen C. *Fad surfing in the boardroom: reclaiming the courage to manage in the age of instant answers*. Reading, MA-USA. Addison-Wesley Publishing, 1997.

²² ADAMS, Scott. *The Dilbert Principle: A Cubicle's-Eye View of Bosses, Meetings, Management Fads & Other Workplace Afflictions*. NY. Harperbusiness.1997; *Dogbert's Top Secret Management Handbook*. N.Y.Harperbusiness.1997.

²³ For example, in saying that “*the consultant is a person who takes your money, makes your employees' lives hell, while, with no hurry, seeking the best way to extend his consulting contract*”.

²⁴ The Institute of Management Consulting - IMC was founded in 1969 with the intention of establishing an “ethical code ...and safeguarding the quality of services lent by consultants”. It publishes the main journal for discussion and dissemination in the sector:, the JOURNAL OF MANAGEMENT CONSULTING.

²⁵ To obtain the IMC certificate the candidate had to dedicate more than half time his or her work time to consulting; have at least five years of experience and as head of a project; have a university degree from a recognized institution; obtain six local references from places where he or she had provided services, with a third of these recommendations from people at the top of the management pyramid; and pass a qualifying exam, composed of an interview to gauge professional knowledge, the code of ethics and specific areas of activity. In: KINARD, James C. *The Management Consulting Profession and Consulting Services* In: BARCUS, Saw. W., WILKINSON, Joseph W. (ed.) *Handbook of Management Consulting Services*. New York: Ed. McGraw-Hill. 2nd Ed, 1995.

²⁶ As explained by Bain Clarkson, executive at the Boston Consulting Group: “*Consulting was the art of giving advice that another person would act on; now we have to make sure that good ideas take flight and every consultant claims to be in the results business*”. Cited in: THE ECONOMIST, March 22, 1997. p. 15.

Despite the questioning, the sector continued to show growth that was outstanding in the business world in the second half of the 1990s, ending the decade with billing 150% higher than in 1995, with growth of approximately 354% in the 1990s and with worldwide coverage.

To end the chronology of the period and provide elements that can help in understanding the dynamic of the sector in the transition to the 1990s, it is possible to point out some aspects that can help to understand the transformations in the sector at the end of the 1990s. The first issue that is possible to visualize in this the comparison is the rise of Accenture Consulting²⁷ as the company with the largest billing in the sector. The new firm was the result of a legal dispute between Arthur Andersen and Andersen Consulting. Two central aspects stand out in this conflict: the first is related to the growth of billing in the consulting sector in areas of traditional activity of the accounting firms, exemplified by the fact that in 1997, for the first time management consulting was responsible for more income than auditing and tax activities²⁸. On the other hand, the dispute was rooted in the age, professional training and forms of activity of those involved. On the more traditional side were the auditors, lawyers and people linked to the accounting function, with a relationship founded in longevity, continuity and confidentiality in their transactions with clients. In contrast was the army of young people, recently graduated from business schools and technology centers, armed with MBAs, skilled in information technology and whose relationships were based on the sale of tools and management packages.

This issue also had to do with legal aspects, since the discussions about the legality of having the same consulting firm evaluating operations at companies in the merger process and also implanting changes, evidence by the fact that Deloitte & Touche opted to act in the first areas which had given it origin as an accounting firm and to sell the second segment to Cap Gemini²⁹.

It is also worth noting the continuity of mergers of large companies with the joining of Price Waterhouse and Coopers & Lybrand. The new company was born as the second largest consulting company in the world, with invoices of over 9 billion dollars and representing an even greater concentration than accounting firms operating on a worldwide scale or the consulting originating with them, which now no longer made up the Big Six, but the Big Five: Pricewaterhousecoopers, Arthur Andersen, Ernst & Young, KPMG e Deloitte Consulting.

Another aspect to point out was the expansion of the portfolios of activities of the companies. Firms specialized in strategy focused on disseminating management packets and IT tried also to offer services that contemplated “complete solutions” as much in their specializations as those developed by competitors. This took place by means of developing dedicated sectors and/or alliances between companies. The CSC is an example. This company was formed by the merger of CSC Consulting and Index, joining the growth of the dissemination with the implementation of reengineering processes, in which one of the

²⁷ In 2000, the American courts decided that Arthur Andersen would not be responsible for any action of Andersen Consulting and that the name Andersen could only be used by Arthur Andersen, which led to the creation of Accenture Consulting in 2001.

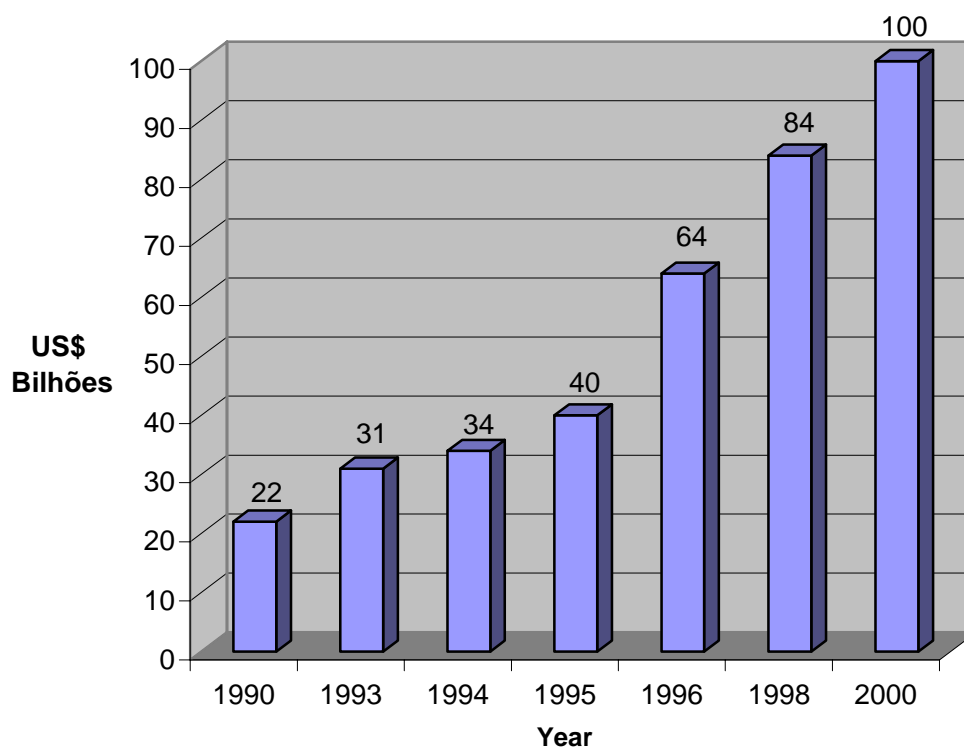
²⁸ The study compared the 100 biggest accounting firms in the United States. In: THE ECONOMIST, September 20, 1997. p. 67.

²⁹ Internal disputes, such as those at Arthur Andersen, appeared as the main reason for separation. The matter also began to merit the attention of the Securities and Exchange Commission (SEC) that had not required the division, but had recommended clearer limits between the functions of different sectors of the US accounting firms. This position found resonance in Europe. In; BUSINESS INSURANCE, March 6, 2000.

company founders, James Champy, was a world reference with the information technology developed by Index. As a result of this merger, the company became the fifth largest consulting firm in the world³⁰.

The growth of the market, along with the processes of mergers and alliances among companies, and the need to act on a world scale accentuated the trend toward significant increases in the size and income of the consulting firms, which had been present throughout the 1990s, even further.

Gráfico 1. The Consultig Market in the 90s



³⁰ The merger of Eletronic Data Systems (EDS), one of the leading companies in the implementation of information technology and A.T. Kearney's Com, the tradition in strategy analysis of companies is another example of mergers among consulting firms seeking to combine their specialties In: MULLIN Rick. Survival of the biggest? *Journal of Business Strategy*, May/June. 1996. pp. 17-19.

Gráfico2. The growth of the Consulting Market

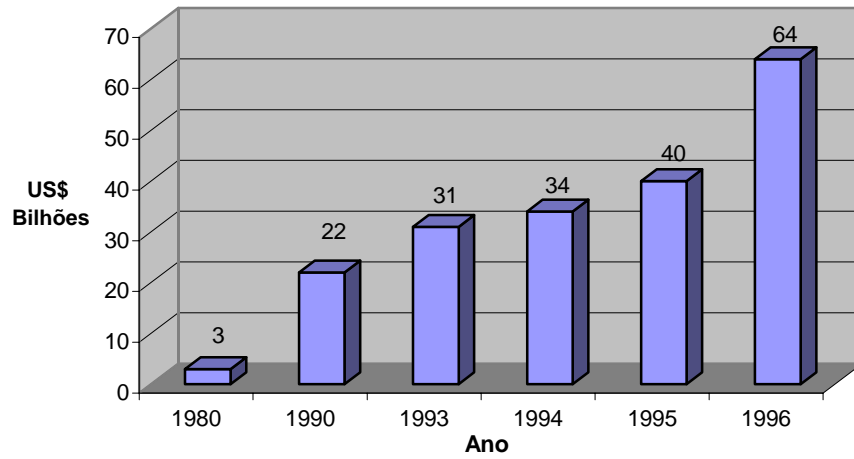


Gráfico 4. The growth of the consultants' number

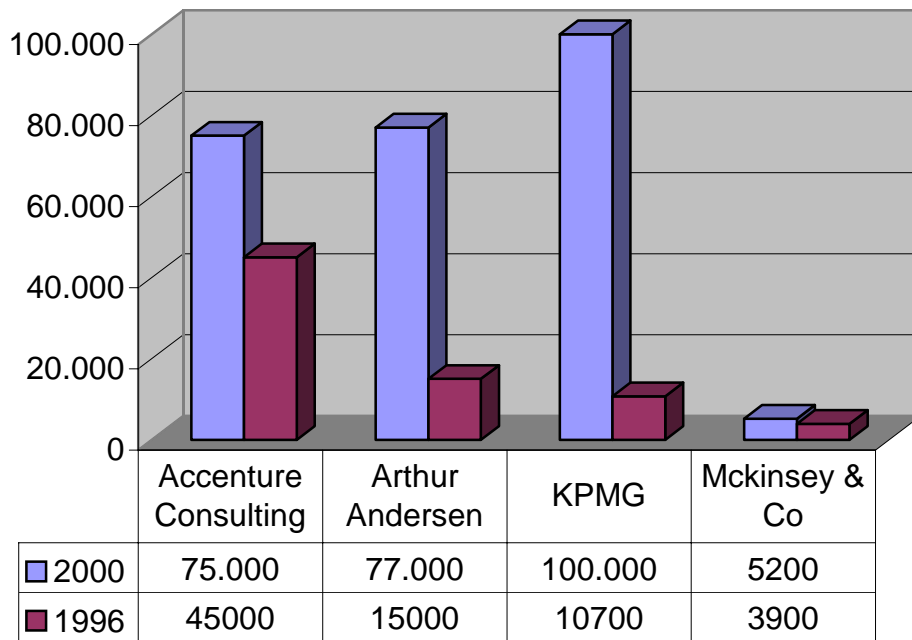
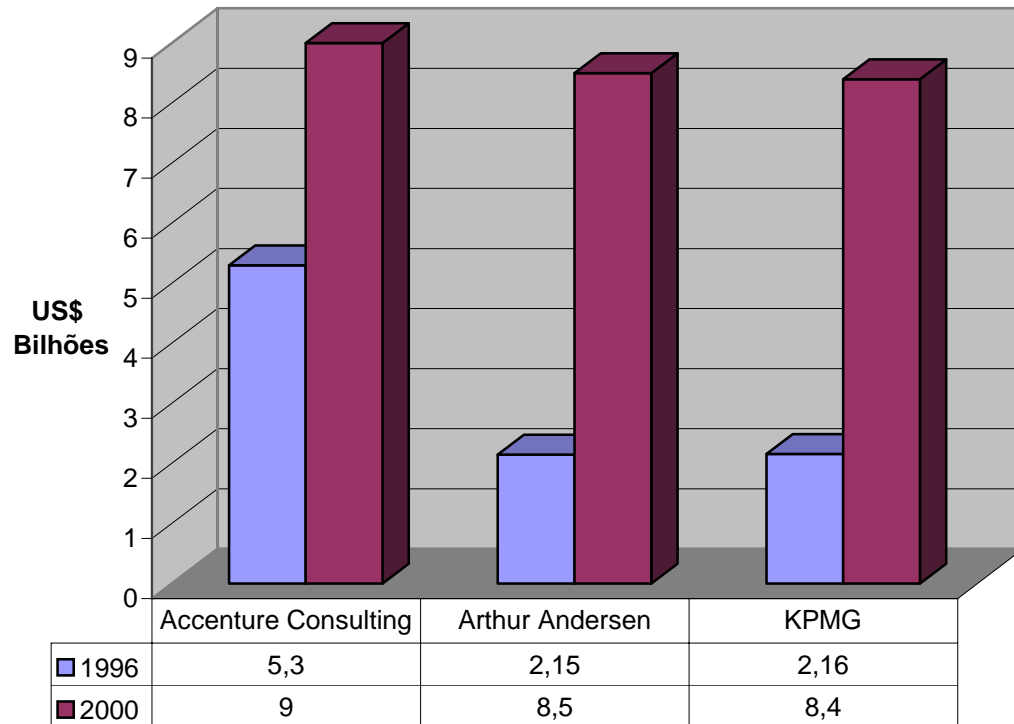


Gráfico 3. The growth of the incomes



Institutional Investors and organizational dynamics in recent years

To be able to understand the growth and importance that consulting firms gained beginning in the 1980s, I refer to formulations about the changes the companies underwent during the period and their interdependence in developing the consulting field. In this work, I specially emphasize the process by which understanding and representations about the organizational world were being colonized by financial logic, and more explicitly, how the change in corporate governance, which began in the United States in the 1980s, occurred with the activity of large institutional investors, represented by pension funds, insurance companies and investment funds. The choice was due to the country appeared as the main historical pole of influence and development in the sector, headquarters of the leading companies and the largest world market. The analysis centers on the dispute between managers and institutional investors for control of the large American companies, which supported the majority of the restructurings that occurred during the 1980s and 90s.

To understand and position the contenders it is necessary to return to the beginning of the 20th century and the so-called American “Managers’ Revolution”. As discussed by Chandler, business development which focused on gains in scale and the consequent increase in organizational complexity, meant that decisions about production, distribution and the dimensioning of resources needed were allocated to people who were dedicated full time and received salaries: the professional managers. Increased competition and business diversification strategies corroborated the development of management space even further.

During this period, a growing number of companies transformed themselves into holding companies, designating managers responsible for each one of the component firms. This format reinforced even further the position of managers to control the large companies, since the majority of the board of the holding company was made up of the top executives of each unit. Such occurrences caused company control to pass slowly from the hands of owners, who were often the founders, into those of professional managers at the majority of American companies. As a reference, one can cite that in 1974, 82 percent of the majority of non financial firms were under the control of managers, against only 40 percent in 1929.

Since the end of the Second World War, the corps of professional managers and the structuring by departments had gained importance, as was represented as one of the factors responsible for the success of professionalized capitalism. It was the consolidation of the “Managers’ Revolution” – the replacement of people in management positions linked to the company owners and of those who had learned at the workplace, with professionals who had specific training to exercise management functions and who became “indispensable” to the good functioning of the company.

In the 1980s, the intrinsic positive value of the management corps was called into questioning. Management’s role as indispensable to the company’s functioning was questioned, and concepts such as downsizing, which stated the need for reformulating the companies’ traditional organizational model, were introduced. In this restructuring process, the intermediate managers came to be seen as responsible for the moroseness in the companies’ communications process, due to their appropriation of a considerable part of shareholders’ dividends through unnecessarily high salaries, correlative benefits and the adoption of business strategies which prioritized company stability, instead of maximizing shareholder profits; and the “now” elevated costs of their maintenance also came under fire. This formulation found support in the theoretical formulations of the “Theory of Agency”. The basis for this theoretical body is the principal-agent model, which emphasizes that a common characteristic of economic transactions is that individuals (principals) contract others (agents) to undertake some service. The problem is that the interests of the two don’t always coincide, and the principal needs to establish incentives and ways to monitor the agent to assure that he or she acts in accord with the interests of the principal. In the organizational context, the model is applicable to explain the relationship of the owners, often shareholders, and managers.

To understand the questioning and provide subsidies to comprehend the organizational changes in the same 1990s and 80s, I refer to two sets of formulations.

The first is related to the rise and consolidation of financial logic in the management of the large American companies. To this end, I use Fligstein’s studies, especially those related to changes in the forms of control of American corporations during the 20th century. According to the author, during the post war period the dominant conception about business management concentrated its attention on increasing sales through the use of marketing, expansion to other countries and product diversification. Nevertheless, beginning in the 1970s, the financial concepts of business control began to gain strength in business and management. It understood the corporation as a collection of assets that could and should be manipulated to increase profit in the short term. Using the tools of financial analysis, it should evaluate the laws of products and divisions, and abandon assets that did not produce according to the expectations for profit.

According to Fligstein, various conditions contributed to the dissemination and implementation of this conception: i) the search for new business opportunities through product diversification made managers give greater attention to new lines and leave aside the more established; ii) a second conditions was related to the organizational structure, which

permitted that the holding be controlled from a main office. When investing in a little known branch, financial analysis was used to support the control of the other company; iii) the decision to grow through mergers, and not by internal expansion, found support in the rate of expansion and heavy capitalization of companies in the post war period. This argument was reinforced by the anti-trust policy of the American federal government, which influenced the kinds of post-war mergers, mainly by vetoing those that tended to increase industrial concentration. Thus, in the 1970s, diversified mergers were legal and horizontal and vertical mergers problematic.

Another difference is that the earlier conception tied to marketing, linked corporate growth to increased sales, while the financial vision seeks increased company profit by rigorously accompanying the contribution of each product line. The main office invested in divisions that showed greater potential and retired funding from those that showed problems or were linked to slow growth markets. It acted like a bank that treated its divisions as loan borrowers. Mergers represented the management strategy adopted, since buying a company that could give the expected return was considered more interesting than creating new internal divisions in those which already existed.

A complementary factor to aid in understanding the changes in businesses at the end of the 20th century and the dissemination of financial logic is the issue of the rise and fortification of institutional investors beginning in the 1970s. During the 1980s, the debate about property and business administration gained an agent: the institutional investors. The transfer of stocks of individual owners to institutions, such as pension and investment funds and insurance companies, made the takeover process possible; in other words, taking over the boards of companies where these investors held shares, resulted in new outlines that redirected the questioning of the function and the importance of managers in the companies. Institutional investors expanded their portion of company shares – in 1965 shares held by individual owners represented 84 percent of the total company shares and institutional investors held only 16 percent. In 1990, the percentage of individual investors had fallen to 54 percent and the institutional portion rose to 46 percent.

During the 1950s, the majority of company shares were in the hands of individual investors. The era of orphans and widows was a time when a large number of small shareholders financed companies with the aim of preserving their savings for the future through the dividends they received. In 1950, this type of investor owned 90 percent of American company shares.

Beginning in the 1970s, the picture began to change as a result of the fortification of institutional investors. According to Lazonick & O'Sullivan, during the 1950s and 60s there were a number of restrictions on insurance companies and pension funds putting company stocks in their portfolios, while the funds and investments still occupied a small place in the stock market. However, in the 1970s, changes would support the activities of institutional investors. The first change was related to legislative changes, which permitted the pension funds and insurance companies to invest considerable parts of their portfolios in company stocks. This positioning by these investors was heavily influenced by a period of inflation, which led the funds to seek new form of profits to compensate their investors. Another change during the period was an end to the differentiation of investment opportunities between commercial and savings banks, which made long term investors seek out income compatible with other more profitable financial applications, such as short term operations.

In the 1980s institutional investors had a more active position in company management, even though in many cases subordinate to management interests. But little by little the

pressure grew for changes that would provide greater control over the companies and greater return to investors. "Shareholders' rights" became more in evidence and the dispute between investors and corporate managers heated up.

The activity of institutional investors also found support in the growing movement toward mergers and acquisitions. In a certain way, the two processes fed each other - on the one hand, the dissemination of corporate practices associated with financial logic; on the other, the taking of positions and the first moves by institutional investors toward takeovers. The values negotiated in the merger and incorporation processes grew from 44.3 billion in 1980 to 226 billion by 1988. For Fligstein & Markowitz, more modern anti-trust policies and the tax cuts of the Reagan era provided incentives and money that served to support the growth of mergers and incorporations during the period.

Nevertheless, the power of the owners versus managers emerged most significantly in the transformation of the companies into open capital ventures. This occurred by means of buy offs of majority blocks of company shares and as a result control of the company. The buyer came to be the new company owner. At first, the process was concentrated in the small and middle size firms with transactions involving values of 281 million in 1986 and 469 million by 1987, which reached an almost insignificant part of the 500 largest American companies.

Yet, the 38 billion dollar buyoff of Borg Warner and the 5.4 billion buyoff of the Beatrice Companies began to indicate that institutional investor activity had entered a new stage in the dispute for control of the large companies. Their moves became more incisive, going beyond joint arrangements, such as those with company executives for hostile takeovers/buyoffs, that, the takeover of businesses and their assets by groups of investors through arrangements that allowed controlling the shares. Of the 500 largest industrial companies listed in Fortune in 1980, 143 had been targets of takeovers or buyoffs by the end of the decade and a third of the open capital companies ceased to exist as such.

As a reference on the size that institutional investors reached during the decade, take the pension funds that held more than 500 billion dollars in company assets and had 2.226 trillion dollars on deposit. The value of institutional investors' stocks on the New York exchange rose from 31 billion in 1955 to 440 billion in 1980. If in 1995, they had represented 15 percent of the total stock value, by 1980 they represented 35 percent. They also became the largest force in the stock market during the 1980s. In 1965, just three percent of stocks negotiated were exchanged in blocks of 10,000 or more; by the middle of the 1980s this value was over 50 percent. Many companies also had the majority of their shares in the hands of these institutions, for example, institutional investors held 52 percent of General Electric, 59 percent of Johnson & Johnson, 83 percent of Intel, 53 percent of Ford and in 1990, they achieved 50 percent of the ranking of the 1000 largest American companies.

In the 1980s institutional investors gained notice and accumulated a significant part of the stocks of the large American companies; in the 1990s this entire arsenal was used in the dispute with managers over control of the corporations. Pressure by the new owners of the companies had consequences for organizational design and the composition of power in the companies.

Changes in the composition of forces within the companies took place on two fronts. First, measures to knock down barriers that could prevent them from exercising influence over the directions of the firms, favored the boards of directors or made it more difficult for investors to takeover companies by means of stockholder arrangements (takeovers). As an example, there was the growing use of Poison Pills as an instrument for managing the companies. According to this mechanism, when the board of directors refused an offer to of

change in control of the firm but the proponent acquired it anyway, by means of stock purchases, the stockholders right to purchase stocks at a discount from the company or from the agent who had acquired control over the stocks was guaranteed, thus discouraging possible attempts. On another front, this took place by expanding the power of institutional investors on the boards of directors, as with the creation of upper management positions for the purpose of monitoring the actions of company executives and attending to the specific interests of institutional investors.

In company reorganizations, when investors assumed control of the business, they emphasized the decentralization of responsibility for administration and results. Departments were to be viewed as autonomous businesses and be evaluated by the financial results they obtained compared to other investment opportunities. In this sense, they used the “agency” of the business, seeking to minimize possible detours of interests originating at various levels of management. As a result, there was the search for the “Core Business” of the company where the return on stockholders’ investments had the greatest chance of being maximized. In many cases, there was also a reduction in the large contingents of employees, which was viewed as a way of reducing costs and consequently increase the return on investments in a given company or unit. As discussed by Useem, firings were more related to an attempt by managers to show that they were generating the expected profits, than to a direct imposition by investors.

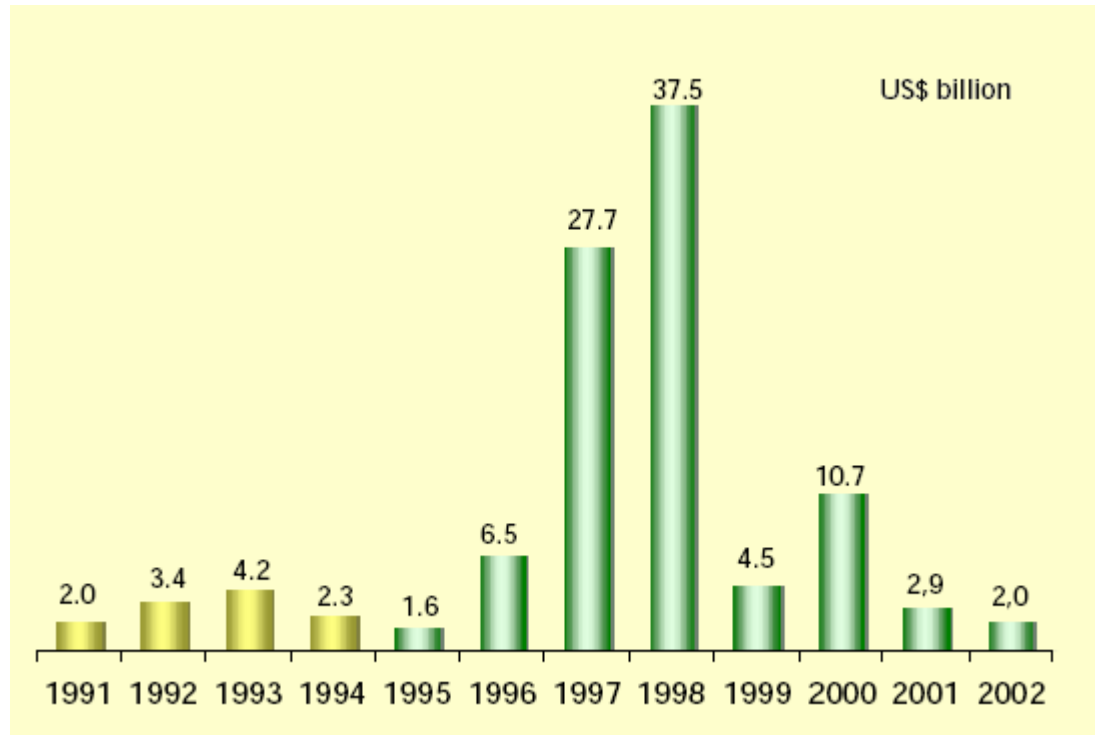
The processes of mergers and incorporations in the American companies intensified during the 1990s, rising from 2,793 operations in 1993 to 3,478 in 1995. Financial volume increased from 277 billion in 1993 to 660 billion in 1996. Among transactions during the decade it is possible to point to some that are among the largest mergers and acquisitions in the world - for example, between Exxon and Mobil of US\$ 86.3 billions in 1998; the Travelers Group and Citibank (US\$ 72 billion) and between AT&T and TeleCom (US\$ 70 billion)

The Brazilian’s privatization process

To understand Brazilian organizational dynamics in recent decades, it is necessary to refer to the privatization processes, especially the events of the 1990s. The transfer of large state companies to the private sector was an important factor for change in the organizational arrangements of the period, as much due to the process of mergers and incorporations related to privatization, as to the rise and strengthening of agents such as pension funds and banks, as well as the growing presence of institutional investors. .

In the 1990s, privatizations generated approximately US\$ 85 billion in income and the transfer of US\$ 18 billion of public debt to the private sector. These amounts make Brazilian privatization one of the largest in the world. For example, up to 1997, the total income from privatizations in all the countries in the Organization for Economic Cooperation and Development (OECD) had totalled US\$ 153.5 billion, thus the Brazilian portion represents 45.8% of the world total. Up to 1986, the public service sectors in Brazil had been managed almost entirely by the State. At the end of the 1990s, private investors controlled the telecommunications and railroad sectors, one of the largest ports in the country, some of its major highways, two-third of electric energy distribution and a large part of electricity generation.

INCOMES PRIVATIZATION PROCESS



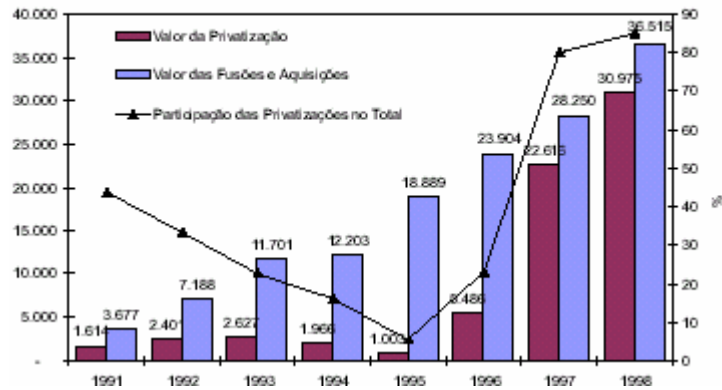
fonte. BNDS

Privatizations also decisively influenced the move toward mergers and incorporations that Brazilian companies underwent in the 1990s. This took place, first, through the transfer of the steel and petrochemical industries to the private sector at the beginning of the decade. Later, with the privatization of public services, the move to mergers and incorporations took on a new dynamic in the number of transactions as well as in the stock compositions of the companies, with the growing entry of foreign investors.

The privatization process also brought new elements for understanding the forms of stock control of Brazilian companies by means of the growing presence of pension funds, banks, which included the financial institutions, investment funds and investment banks and the holding of stock by company employees. For example in the petrochemical sector, where pension funds represented 11.2% banks 24.2% and employees 7.4%; in the steel sector 30.3% banks, 24.9% pension funds and 13.2% employees. Siffert Fiho & Souza e Silva state, based on the above information, that the Brazilian case “among the most striking characteristics of the change process in businesses in the 1990s, two aspects can be stressed: the expansion of the societary control standard as a basis for sharing control among national and foreign partners, and the formation of strategic alliances among national and international groups”.

THE PARTICIPATION OF THE PRIVATIZATION IN THE MERGERS AND ACQUISITIONS PROCESS

Participação das Privatizações nas Fusões e Aquisições (US\$ Milhões)



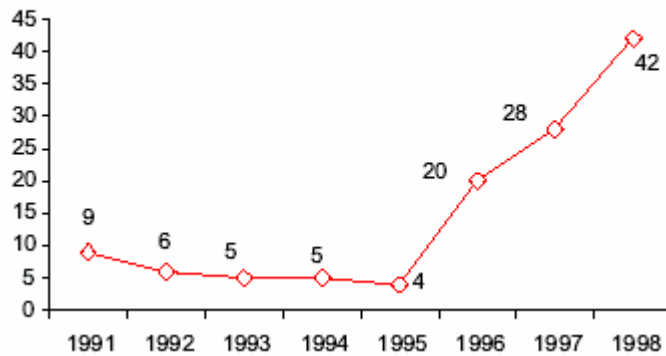
Red- Incomes privatization

Blue - Incomes mergers and acquisitions

-->-- The participation of the privatization in the total

PARTICIPATION FOREIGN INVESTORS IN THE TOTAL PRIVATIZATION.

Participação Estrangeira no Total das Privatizações – Valores Acumulados (%)

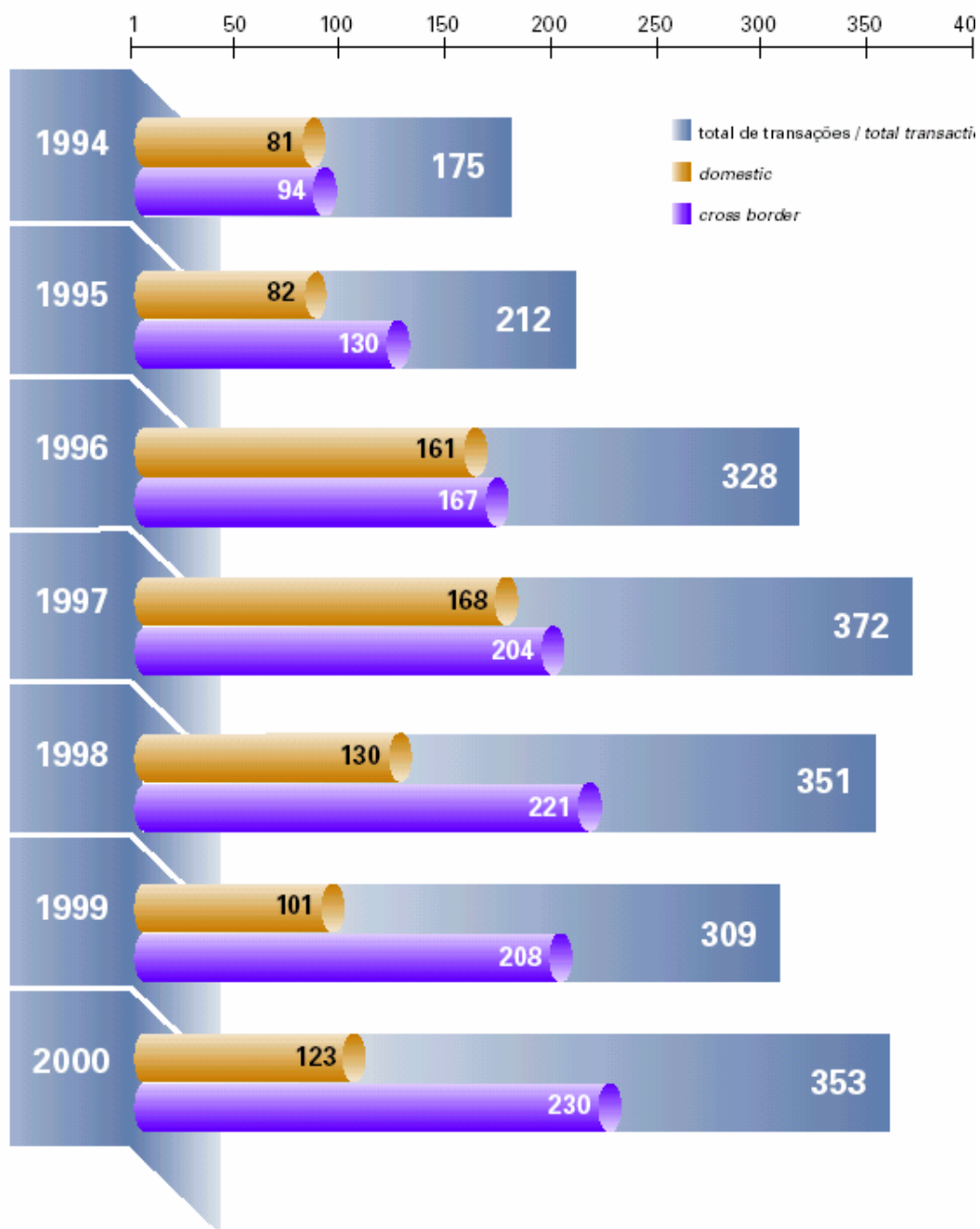


During the period there was an expansion of shared control of the large Brazilian corporations, growing from five to 23 companies among the 100 largest companies in the 1990s. Under this form of control, no partner in isolation is a majority partner and company management necessarily depends on nag agreement among the controlling partners.

For Siffert Filho & Souza e Silva the privatized companies in the large majority came under shared control with the presence of pension funds, national companies and foreign investors. Participation in this type of control among the 100 largest companies reached 18 % in 1998. This stock control arrangement represented a new form of associative control for the group of the largest Brazilian companies and occurred as a result of privatization. According to their formulations, "There is above all a profound reconfiguration of the main actors and ways of acting. The exit of the State from important sectors of the productive apparatus, as exemplified in the steel, petrochemical, railroad, energy, etc. sectors resulted in a redesign of the classic tripod that had sustained national development until the 1980s, i.e., national private capital, foreign capital and state capital. By retiring this, the first two rearticulated. In this sense, the privatization process was the starting point for moves to restructure societal and productive restructuring in various sectors".

Mello seems to provides us with important clues to understanding these changes in forms of stock control with the privatizations in pointing out that Brazilian legislation permits a division of one-third/two-thirds among shares with and without the right to vote. However, not to stimulate the presence of small shareholders, but to assure that control be guaranteed with the ownership of just one-sixth of the capital. Nevertheless, this characteristic of control with limited stock participation stimulated the creation of joint ventures, mergers and acquisitions facilitates the creation of the large holding companies and strengthens the position of institutional investors in privatizations. This seems evident when observing that 50% of the companies with shared control have foreign shareholders with significant participation. It is also worth stressing that the growth of the participation of foreign groups among the largest companies took place most often through mergers and acquisitions and by their presence in various consortia, whether in the areas of energy or telecommunications.

GROWTH MERGERS AND ACQUISITIONS IN THE 90S



Fonte : KPMG

New ways of thinking about business, the managers' role and the activity of consulting firms.

In analyzing the organizational dynamic of the period, at first glance it is possible to establish connections that make it possible to understand the growth of the consulting sector. The process of reorganization associated with the new configurations of company control and emblematically represented by mergers and acquisitions and privatization process, opened up lots of room for consulting firm activity. I have interpretations from the first mapping of the Brazilian consulting space developed in my doctoral work to support the discussion on the dynamics of the consulting space as well as to analyze the clashes between managers and consultants

To aid in understanding how the relationship between consulting firms and businesses takes place it is necessary to focus on the consultants' functions. As a starting point, I refer to Coget's (1999) theoretical formulations, according to which consulting firms' activities are concentrated in three areas. The first is linked to the use of consultants in arbitrating internal and external company disputes to provide legitimacy for company actions. The second function is related to the capacity to produce and disseminate concepts about the business world. As a last characteristic, consultants are used in the implementation of organizational changes.

With regard to external arbitration, clashes among the new company "owners" provide a broad field for the use of consulting firms as a legitimate means to analyze the financial performance of companies. As an example there is the way the sale of state enterprises is structured. Consultants evaluate the companies, point out their problems and suggest buyers. In internal disputes it has become common to use consulting firms as weapons in the dispute to validate the performance of a certain unit or department in the face of other sectors of the company, principally with the growing focus on the "core processes" and the consequent sale or deactivation of unprofitable areas.

The issue of using the ideas coming from consulting firms, as well as consultants themselves in implementing organizational changes is at the heart of the restructurings. Managers seek to improve the performance of their units in an attempt to achieve the expected economic performance. In this way, they seek solutions that can help them with this objective. It is worth underlining that the search to legitimize actions and the implementation of organizational changes are intimately related, since the justification for the choices in many cases lends support to their implementation.

Chart 2. The forms of consultant activity in the process of organizational change

External Arbitration	<ul style="list-style-type: none"> * Evaluate companies, point out their problems and suggest buyers in merger and privatization processes * Validate the performance of a given unit or department
Disseminate/generate managerial concepts	<ul style="list-style-type: none"> * Growing literature/gurus on company management * Managers search for legitimacy and references when faced with changes in the companies-state
Activities in the companies - State	<ul style="list-style-type: none"> * Organizational redesign based on “Core Business”: Reengineering and Downsizing

The transformations that are underway in the organizations have subtle foundations that go beyond the explanations provided about change processes most commonly disseminated in organizational analysis. Thus, I refer to two theoretical formulations in an attempt to deepen the analysis of the growth of space for consulting activities.

First, I refer to Orlean’s concept about how the power of financial logic works. His formulations emphasize that the central point of financial logic, investment liquidity, is based on a system of opinions supported by a rational mechanism, i.e. the expectations of profit on given investment depends on a number of evaluations that are self referenced and that make sense only based on that point of view.

This theoretical construction contributes importantly to this work. First due to issues related to the need for transparency in the codification of economic information as essential instruments of power and the influence of financial logic in the companies, i.e. the ability to evaluate company performance and arbitrate among them. In this sense, it is worth recalling that the formation and development of the consulting sector was largely founded in reports on the financial health of businesses, such as the emblematic Survey’s Bank. The issue also refers us to the theoretical contents formulated by Fligstein (1990) about the process of constructing financial logic, i.e. the companies had recourse to financial analysis as a way of accompanying and evaluating the performance of acquisitions in sectors with which they had little familiarity. This characteristic is also present and intrinsic to the institutional investors.

As another support for the analysis developed here I refer to Douglas’ work, especially his formulations about the systems of cultural classification by means of which agents give meaning and format to their actions.

As discussed by Useen (1993), with the growing influence of institutional investors the content of work attributed to managers at the different levels of the company changed. The managerial format that had based its activities in rigorously fulfilling tasks and viewed a career as a series of positions to be occupied at different levels of the hierarchy came into question. The forms of power resulting from the bureaucratic hierarchalization began to suffer serious damage. With the firing of a considerable part of the management ranks, the need to think about the company in short term financial terms began to undermine the scheme of distribution of power over the course of the recent decades of the managerial revolution.

Many works which called attention to the process of managers losing power and having their relationship to the company transformed into solely financial bases appeared in the

management literature of the period. For example: *A corrosão do caráter: consequências pessoais do trabalho no novo capitalismo*; *Le manager jetable*; and *L'entreprise barbare*. In analyzing the contents of managerial work disseminated by the magazine *Exame* during the decade, there are examples such as: *O executivo é o próprio negócio* (*The Executive is the business*); *Seja seu próprio Head Hunter* (*Be Your Own Head Hunter*); **and** *Negociar em causa própria não é feio* (*Negotiating on your behalf is not Wrong*); and with regard to organizational structures: *Não se fazem mais pirâmides como antes* (*They Don't Make Pyramids Like They Used To*); *A Hierarquia treme* (*The Hierarchy Trembles*) and *Somem cadeiras no Olimpo* (*Shortage of Space on Mt. Olympus*); and summarizing both themes: *Prepare-se. Vem aí o executivo ocasional* (*Get Ready, Here Comes the Occasional Executive*).

From the point of view of Douglas' (1996) formulations, it is possible to weave some considerations that help us to understand the changes. It seems to be possible to visualize a process of cultural war where the financial vision of the company is located in the Active Individualism quadrant, where its representatives seek to maximize their investments in the short term and to design organizational control by this means. At the other pole are found the managers whose expectations are developed according to the rational scheme formed in the bureaucracy, i.e. in a strong hierarchy.

The confrontation format takes on importance to explain this work since in interviewing consultants, a common point in their understanding was their distinction from the managerial world, almost always represented as bureaucrats or "those who grew fat in the company". It is worth stressing that the process of hierarchalization and classification proper to the structuring of the field takes place not just in combative discourse, but was also internalized within the organization. The matrix format for the work of the large consultancies is representative, as are the "projects" of academic consultants, in the face of the always mentioned organizational pyramid of the companies.

Another issue to highlight in understanding the conflict is the career ladder of the consultant in the large consulting firms. The ideas associated with Up or Out is central, that is, a combination of a strong funneling of promotion opportunities, allied to the practice of firing or near voluntary retirement of those who overstay a determined time period in the companies, usually from three to five years. Such a mechanism and the forms of socialization associated with it produce a repertory of understandings about the possible organizational arrangements mesh with the forms of promotion and career at industrial companies, normally structured based on the different management levels giving origin to the forms of power distribution through strong hierarchy. What is interesting is that the polarization takes place, with different outlines and degrees of sophistication of argument even among the individual consultants, as for example in statements of the type: "now I don't depend on anyone to advance" and "the company should give people work, not jobs".

One aspect merit is related to the format of conflict between consultants and managers, which was directed to positioning in their respective fields, i.e. there is a mitigation of the differentiation between consultants and managers in homologous positions. the relationship between the formulations of the consulting firms of McKinsey and its clients, in large number current or former directors of large companies is emblematic. The second has to do with the process of symbolic violence as discussed by Bourdieu (2000), in which conflicts are almost no longer mentioned and there is a naturalization of the dominant position, exemplified by the fact that managers see in consultants' activities a model for conduct to be followed in the face of a world "that prioritizes the short term and the ability to sell oneself every day".

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