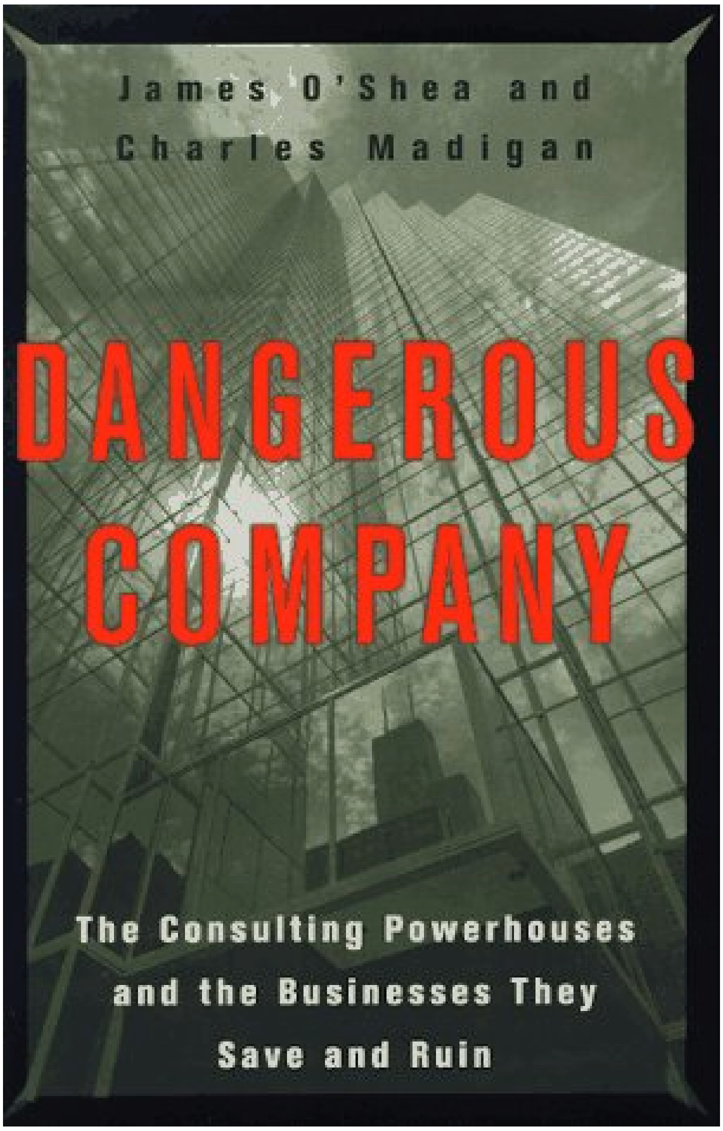
Critical Notes



MBA, HEC, UNIVERSITY OF LAUSANNE

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Preface

The book first caught my eye with its astonishing title "Dangerous Company". Opening the book, I found the content is even more interesting – Management Consultants and the business they save and ruin.

External consultants can be considered as external human resources for an enterprise and this source had become extremely powerful during the course of last several decades. The fact that this subject is not covered in the MBA course make it worthwhile for reading.

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Book content

Dangerous Company is the first detailed examination of the business of management consulting, the closest look to date at what goes right, what goes wrong, who gets the benefits, and who pays the price. It presents a set of object lessons for every one who will be the consultants, who is consultants and who will work with consultants. It is a book about wrongheaded conspiracies at the top, flubbed assumptions, brilliant performances and many varieties of what businessmen of another era would have called "just plain foolishness".
Why it is "dangerous company"? The decision to bring in management consultants is one that can place at stake the careers of the very people who hire them, the jobs of thousands of employees, millions upon millions of dollars invested by shareholders, and long-term relationships with customers. The most valuable asset a corporation can be put on the line. And all these risks are connected to the motivation of outsiders whose primary interest frequently might be in fattening the treasuries of their consulting partnerships.
Then what separates the consulting success from the consulting disaster?

The book guide us look into the highly confidential world of giant consulting firms like Andersen Consulting, Bain, Boston Consulting Group (BCG), and McKinsey & Co.
There is the story of Bain & Co. Inc.'s relationship with Dublin-based Guinness PLC, which eventually ended when the Bain consultants turned state's evidence against his former client, some of whose employees ended up in jail. Or the one about UOP Inc. of Des Plaines, Ill., the chemical engineering company that failed in its promise to deliver two major computer systems.
Nevertheless, the book reveals also the companies who used the consultants successfully, such as Harley-Davidson Inc., whose decade-long relationship with Andersen has helped the motorcycle maker in its much-vaunted turnaround. Sears, Roebuck and co., too, made limited use of consultants in its makeover in the early '90s.
Among all the stories, the tale of Cleveland-based Figgie is the most lurid example of consultants run amok in Dangerous Company.

Story of "Figgie International"

Figgie International was created by Harry Figgie, a former management consultant who specialized in profit improvement and cost reduction.
Starting in 1963, Figgie had acquired dozens of small companies and had merged them into Figgie International. By 1989, it included 36 divisions with dozens of unrelated products from sporting Goods, emergency oxygen masks to fire engines. Figgie International climbed to number 286 on the Fortune 500 in its heyday.
However the glow of the company's earnings and its lofty perch in the corporate hierarchy overshadowed some serious problems festering in the company's far-flung divisions.
Harry faced a dilemma: He knew he had to modernize his plants, but that required a huge investment. For a long time, Harry Figgie had talked about converting Figgie International into a "world-class" operation, a low-cost manufacturer that could capitalize on modern technology and equipment to slash its labor costs and compete on a global scale.
But he didn't know exactly how to go about such a costly conversion, particularly on the scale that would be required of Figgie International. So he called upon his old profession, management consults. Between 1989 and 1994, Figgie International would rack up more than $75 million in fees to some of America's most prestigious

management consulting firms. Figgie hired the best: Boston Consulting Group, Deloitte & Touche, Andersen Consulting, Price Water-house and a band of others. The consultants produced high-priced studies and impressive reports about "world-class manufacturing", one of those buzzwords that captured corporate imaginations. Instead of a world-class operation, though, Figgie would get a world-class mess.

A lifetime of hard work would unravel before his eyes. Eventually, Figgie International would flirt with bankruptcy, its workforce would plunge into chaos, and its balance sheet would drown in red ink. Thousands of employees would lose their jobs in a wrenching downsizing. And the consultants would cringe at charges of incompetence, faced the worst nightmare of all. Figgie filed suit against them, publicly airing charges of inept performance and poor advice. Figgie International's story would provide a rare glimpse into the inner workings of American consulting firms and become a case study of what happens when all of that high-priced advice just doesn't work.

The book presents the following facts which contribute to the downfall of Figgie kingdom.

- Consultants ran amok

The authors have imputed several errors to the consultants and the consulting firms.

<u>Qualification</u>

There was doubt on the qualification of the first consultant engaged for the Figgie transformation. This man is Thomas C. Lawson. He specialized exclusively in health care and got to know Harry III in one Orthopedic Association. However he had never worked in the manufacturing industry. As a consultant, he had completed only two manufacturing engagements in his career and he couldn't even remember the names of them. In spite of the fact that he lacked necessary knowledge in manufacture, he was nominated as the chief of Figgie Transformation project – Valdez. Clearly, Lawson clearly should never have been given such a large engagement.

<u>Too many consultants on the same playground</u>

There were six different consulting firms working on 10 different projects in one plant. Some worked on the plant consolidations. Some worked on just-in-time manufacturing. Lots others worked on other projects. One consultant's goal often clashed with another's. Devoting himself totally in the meeting with the consultants, the plant manager didn't even have time to work on his own.

- Leadership style:

As founder of Figgie international, Harry ruled over the company with an iron fist. He demanded a lot from his managers and tolerated few mistakes. Nobody in the company can challenge him.

Harry III, his son and successor of the conglomerates, was more of a visionary, blinded to practicality by illusions of grandeur. The Figgie executives disliked him and they had no respect for his skills.

The autocratic leadership partly leaded to resistance from division in the project.

- Enterprise strategy

The initial strategy of Figgie is to keep raising money for acquisitions and keep squeezing costs. It worked for short-term profits. But this strategy leaded to a far-flung conglomerate which made everything from baseballs to high speed labeling machines. Figgie had made a string of bad acquisitions particularly in the division that housed Figgie's insurance business. And chronic problems plagued the manufacturing divisions, the core of Figgie International. Harry Figgie excelled when he acquired a company and strengthened its bottom line by wringing excess costs from its operations. However the days when manufacturers could ignore deficient plants had passed. As the equipment aged, labor grew more expensive and the world became more competitive.

- Concept

When Lawson was asked to define a "World Class manufacturer" years later, he couldn't even say what the term actually meant. There wasn't really a precise definition or any way to tell if a company ever achieved world class.

There are many other events we can find in the story that pull down the Figgie International.

What we can learn from the book?

-working checklist

1. Why are you doing this? Before you sit down to talk to a consulting firm, it would help to have some idea of what it is you want to achieve. The more clearly the goal is defined, the greater the chance of reaching it. If you don't know what you want to do, don't make the call.

2. That being achieved, ask your self "Do I need outsiders to help reach this goal?" That depends on the goal. Don't forget to assess the brilliance within your own company before you go trying to buy some from outside. Maybe you don't need an army of consultants. Maybe you just need your very own MBA, whom you can easily steal from a consulting company.
3. If I hire a consulting company, which characters will they send? BE ruthless in this part of process. If you know the reputations of the partners, or if they display a special, tested expertise, demand that they pay good and frequent attention to your needs. Make it a part of the contract. If they are promising the best, make certain that is what shows up. Do not be meek about sending away people who make you uncomfortable.
4. What will it cost? (And how long will it take?) Avoid open-ended arrangements and vague promises. Demand specificity in contracts, including the dark parts about what happens if the consulting engagement doesn't work. Be tight with your money. Base payments on performance and on your satisfaction. If the task involves high risk, make certain the consulting company is sharing in the risk, not just in the rewards, of the relationship.
5. Never give up control. The best consulting engagements do not take over operation. They complement them. Make certain your own managers retain control over everything, share in decision making, and understand that for the duration of the contract, they are responsible and in charge.
6. Don't be unhappy for even a day. Ignored consultants can shower down all kinds of havoc on a company. If you sense something is going wrong, confront it immediately and demand repairs. Consultants do not answer to boards of directors, but you do. At these prices, happiness should be assumed
7. Beware of glib talkers with books. The fact that someone can stack up case after case in which a practice seemed to work is no guarantee it will work for you. Insist on tailor-made consulting engagements that recognize the unique nature of your business. If you are buying into the book pitch, ask how much time the actual author will be on site working through his philosophies, then listen closely to the response. Don't be afraid to trim elegant proposals right down to their essence.

8. Value your employees. One of the most common complaints about consultants is that they talk down to the locals or ignore their ideas. Long after the consultants leave, your staff will be on board. How they feel about the outsiders has a lot to do with whether the engagement will work. The best consulting companies know this and will go to great lengths to avoid morale problems. You are buying intelligence, not arrogance.
9. Measure the process. Make certain you have your own internal measure of how a procedure is progressing. Consulting companies do, and they generally try to make this a part of the process. But there is a big conflict of interest in this area and their inclination is to make you happy and stay fully engaged. Find someone you trust who know what a devil's advocate is and let him or her monitor the consulting process. Listen frequently to the advocate's report.
10. If it's not broke, don't try to fix it. This is a great cliché, but more than an afterthought. It is in the consulting company's interest to find trouble where you see calm waters. The consultant's goal will be to sell much broader involvement than you might want or need. They can't help it. It is part of their nature. But it doesn't have to be part of yours.

The best advice is the oldest – "a prince who is not himself wise cannot be wisely advised…. Good advice depends on the shrewdness of the prince who seeks it, and not the shrewdness of the prince on good advice"

My comments on the book

Personally, I consider "Dangerous Company" an excellent book to read – entertaining, instructive and eye opening. This book is unique in its realistic and objective treatment and is good for business readings.

Nevertheless, I think that the book can be more helpful if it could also consider the following points:

1 The author does not disclose statistically what the failure-success rate in the management consulting projects. The readers should also be aware that a single and specific case would not be representative for the whole management consulting industry. Some claims should be accepted with caution. No one can deny that besides those failures, the consultants bring sophisticated know-how and specialized expertise to clients who lack that

knowledge in-house. They provide fresh outside perspective to many companies hampered by insular management.

2 Who is responsible for the failure of those companies? Clearly, the consultants are not the only party to be blamed for as we can see from the Figgie case and the author admitted that. Nevertheless, he put his emphasis on the consulting side; it can be misleading for some readers.

3. The consultants described in the book are largely faceless, one-dimensional people. The authors fail to explain why companies willingly pay $50 billion a year to advice-givers.

4. The authors convoked a lot of interesting questions such as " How many competing companies can one consultancy serve without conflict of interest?", "How successfully do consultants follow through on their promises?", "How fair is it to populate a project with cheap but inexperienced workers, while the client company may have signed on to the project thinking they'd get the expertise of a veteran partner?" However, there is only a few pages are devoted to answer these questions.

5. There is no complete analysis on the key success factors for consulting projects. Partly we can approach the analysis by the following key players involved in the projects.

- Enterprise

Enterprise is the center of the project. An old saying goes as " a prince who is not himself wise cannot be wisely advised". The enterprise should not only know what he wants but also motivate its employees to support such projects. The employees are the key persons to provide detailed information on operation.

- Consultants

The qualification and experience of consultants is also important.

- Enterprise and consultants

And the relation between enterprise and consultants should also be stressed. How they work together. It happens sometimes that the real purpose to buy the service from consultants is not their advices, but a tool for manipulate internal conflicts, such as to replace one internal employee for his jobs. Or use the idea of consultants to support his own and against that of someone else.

- External factors

Some external forces are not negligible for the success of consulting. For example, timing is also important. There will be few chances for success if we ask for the first aid service during the last minute.

Recommendation – combined reading

All the chapters in the book can be read as a stand-alone case-analysis of strategic confusion. Due to insufficient theorical analysis, it is highly recommended to read it with some other works in the domain of managing consulting and project management. :

Books on management consulting

le conseil	-Ed L'orga
le métier du consultant	-Ed Organisation, Patrice Stern 1998
Book on project management	-name not specified