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0521810396 - The World's Newest Profession: Management Consulting in the Twentieth Century

Christopher D. McKenna

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ADVANCE PRAISE FOR
THE WORLD'S NEWEST PROFESSION

"If you use consultants, or claim to be a consultant, you should read this book." – Charles Wilson, CEO, Booker Ltd.

"This book should be required reading for everyone who teaches at a business school, as well as for all MBA students. I recommend it to anyone interested in the upheavals around corporate governance and professional ethics that marked the turn of the 21st century." – JoAnne Yates, Sloan Distinguished Professor of Management, MIT Sloan School of Management

"McKenna has unearthed the distinctly American origins of modern consulting in the evolution of financial market regulation – surprisingly and convincingly." – John Clarkeson, Co-Chairman of the Board, The Boston Consulting Group

"Witch doctors or miracle workers? Whatever your view of management consultants, it pays to understand how the world's leading consulting firms have become so influential. McKenna's superb history reveals how one crucial piece of U.S. legislation – the 1933 Glass-Steagall Act – and one vibrant American city – Chicago – spawned an industry that has transformed the face of global business and national government in the 20th century." – Martin Giles, Managing Director, The Economist Group, North America

"Fascinating, frightening, and perfectly timed – McKenna's sweeping survey shines a brilliant light on a profession that has always preferred to keep outsiders in the dark." – Martin Kihn, author of *House of Lies: How Management Consultants Steal Your Watch and Then Tell You the Time*

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“McKenna opens the private world of management consulting to his keen analytical eye, providing a rich, absorbing accounting of the rise and expansion of this profession and a sharp critique of consulting’s role in shaping the strategies of the world’s largest corporations. This is a fascinating, revealing book about a profession that has received little serious, sustained scholarly attention.” – Walter W. Powell, Professor of Education & Sociology, Stanford University

“This history of management consulting analyzes an important stream of the history of modern business itself. Today’s managers can put its insights to practical use when engaging – or deciding not to engage – consultants.” – Tony Tyler, Chief Operating Officer, Cathay Pacific Airways

“McKenna’s book does a superb job of exploring the role that this industry played in transforming (not always for the better) a variety of different types of organizations – from businesses to religious and charitable associations to government agencies – and through them much of the fabric of modern life.” – Naomi Lamoreaux, Professor of Economics & History, University of California, Los Angeles

“History is not bunk. With Glass-Steagall repealed and the aftershocks of the Enron scandal by no means over, the timing of *The World’s Newest Profession* could hardly be more fortuitous. McKenna’s breadth of scholarship and clarity of argument will undoubtedly sit, like Banquo’s ghost, at the consulting banquet for years to come.” – Fiona Czerniawska, *Consulting to Management*

“McKenna offers a lively look at a profession that has often been shrouded in secrecy and shows how it has become enormously lucrative – although not always as a result of the quality of advice being doled out. Interesting and provocative, McKenna’s book offers a lens to understand the development of the modern corporation.” – Jon Housman, Managing Director, *The Wall Street Journal Europe*

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THE WORLD'S NEWEST PROFESSION

In *The World's Newest Profession*, Christopher McKenna offers a history of management consulting in the twentieth century. Although management consulting may not yet be a recognized profession, the leading consulting firms have been advising and reshaping the largest organizations in the world since the 1920s. This groundbreaking study details how the elite consulting firms, including McKinsey & Company and Booz Allen & Hamilton, expanded after U.S. regulatory changes during the 1930s; how they changed giant corporations, nonprofits, and the state during the 1950s; and why consultants became so influential in the global economy after 1960. As they grew in number, consultants would introduce organizations to “corporate culture” and “decentralization” but they faced vilification for their role in the Enron crisis and for legitimating corporate blunders. Through detailed case studies based on unprecedented access to internal files and personal interviews, *The World's Newest Profession* explores how management consultants came to be so influential within our culture and explains exactly what consultants really do in the global economy.

Christopher D. McKenna is University Lecturer in Strategy at the Saïd Business School, Fellow of Brasenose College, and a founding member of the Clifford Chance Centre for the Management of Professional Service Firms, all within the University of Oxford.

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The World's Newest Profession

MANAGEMENT CONSULTING IN THE
TWENTIETH CENTURY

Christopher D. McKenna

Saïd Business School and Brasenose College, University of Oxford



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CAMBRIDGE UNIVERSITY PRESS
 Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press
 40 West 20th Street, New York, NY 10011-4211, USA

www.cambridge.org
 Information on this title: www.cambridge.org/9780521810395

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First published 2006

Printed in the United States of America

A catalog record for this publication is available from the British Library.

Library of Congress Cataloging in Publication Data

McKenna, Christopher D.
 The world's newest profession : management consulting in the twentieth century /
 Christopher D. McKenna.

p. cm.

Includes bibliographical references and index.

ISBN 0-521-81039-6 (hardcover)

1. Business consultants – United States. 2. Consulting firms – United States. I. Title.

HD69.C6M395 2006

011 – dc22 2006002824

ISBN-13 978-0-521-81039-5 hardback

ISBN-10 0-521-81039-6 hardback

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*For Mara, who assures
me that money and power
are sexy.*

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Series Editors' Preface

In the past century, the United States has made many important contributions to the global economy – in technology, in business practices, and in organizational structures. Few of these innovations, we believe, have been more significant than the subject of Christopher McKenna's book on the rise of management consulting in the twentieth century. In an era of tumultuous organizational transformations, of giant cross-border mergers and acquisitions, and of decisive transitions in public and nonprofit organizations as well as corporations, management consultants have become ubiquitous agents of organizational change, deeply embedded in all of the developed economies.

McKenna digs into the history of the leading management consulting firms and provides his readers with the best available account of the business' origins and early years. Basing his study on internal documents, interviews, and government reports, he is able to chart the evolution of this new form of professional advice over a long century of decisive change in global capitalism. As he demonstrates, transitions in the governmental context as well as in the private and nonprofit sectors had dramatic impacts on the markets and performance of the management consultancies in America and abroad.

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This is a study that speaks to a variety of audiences: to all those who want to understand current problems in the corporate sector, including in particular the Enron scandal; to researchers interested in business strategy and corporate reorganization; to readers who want a better grasp of the history of modern business, of politics in the twentieth century, and of the sociology of organizations. It is, in that sense, an impressively multidisciplinary study. We are proud to include Christopher McKenna's *The World's Newest Profession: Management Consulting in the Twentieth Century* in our series, *Cambridge Studies in the Emergence of Global Enterprise*.

Geoffrey Jones

Harvard Business School

Louis Galambos

The Johns Hopkins University

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Acknowledgments

This book has been more than a decade in the making and during the intervening years I have incurred a great many debts to family, friends, institutions, and associations. I want to begin, however, by thanking a series of wonderful teachers who continue to inspire me in my own teaching at Oxford. At Amherst College, where I first encountered economic history, the late Hugh Aitken served as a model of how an eminent scholar and a charismatic teacher could also be a sympathetic advisor. I am sorry that I am not able to show Hugh this book, for I owe a great intellectual debt to both his early analysis of Taylorism and his later conception of “translators” in my own academic work. After I left Amherst, when I was despairing of Wall Street’s corporate culture, Hugh suggested that I study with another wonderful scholar, David Hounshell, then at the University of Delaware. In particular, David helped me to make the transition from thinking like an economist to writing like a historian. He was no less remarkable for helping me to jump, only shortly after I had first begun to study with him, to a Ph.D. program under the supervision of Louis Galambos in the history department of The Johns Hopkins University. At Hopkins, Lou was an ideal doctoral supervisor, always willing to support my decision to pursue

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interdisciplinary and comparative work even when I questioned my own eclecticism. Professors Ron Walters and Bill Leslie, both at Johns Hopkins, also generously supported me throughout my time in Baltimore and remain wonderful colleagues. At three different institutions, in three very different settings, I was blessed with the very best teachers that I could imagine.

Extensive financial support made my long tenure as a graduate student if not lucrative, at least not dispiriting. The history departments at the University of Delaware and The Johns Hopkins University provided me with graduate fellowships as well as travel and book allowances. When money for graduate education seemed to be drying up, generous dissertation fellowships from the John Rovensky Foundation at the University of Illinois, the Newcomen Society in Pennsylvania, the Memorial Fund at Amherst College, and from the Dean's Teaching Fellowship at Johns Hopkins provided invaluable assistance. During the final two years of my graduate study, Daniel Raff, a fellow business historian and strategist, kindly secured me a position as a lecturer in the Management Department of the Wharton School at the University of Pennsylvania and gave me the opportunity to discuss my work with scholars and students in strategy and organizational theory. I would also like to thank the following institutions for fellowships and travel grants toward my doctoral research: The Fulbright Commission of Rome; John D. Rockefeller 3rd Fellowships, Program on Non-Profit Organizations, Yale University; Andrew Mellon Research Fellowship, Virginia Historical Society; Herbert Hoover Presidential Library; Harry S. Truman Presidential Library; Alfred D. Chandler, Jr., Travel Fellowship Fund, Harvard Business School; and the Center for the History of Business, Technology, and Society, Hagley Museum and Library.

While in Oxford, I have had extensive support for my research from a variety of institutions. First and foremost, I would like to thank Professor Anthony Hopwood, the Dean of the Saïd Business School, for encouraging me to pursue the publication of this book and for

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supporting my continuing research in business history. Travel and research funds from both the Saïd Business School and Brasenose College provided crucial support and, most recently, I have received extensive support from the Clifford Chance Centre for the Management of Professional Service Firms based in the Saïd Business School. Tim Morris, the first Director of the Clifford Chance Centre and Laura Empson, the current Director, provided supplementary funding for research and editorial assistance to finish this book, but even more important, they provided crucial intellectual support for my academic research. For their unwavering support of the Centre, I would also like to thank Stuart Popham, the Managing Partner of Clifford Chance, and the many partners and staff at Clifford Chance, all of whom have been exceptionally generous patrons of academic scholarship on professional service firms.

Just as important as financial support were the thoughtful discussions I had about my work with other academics, with their home institutions, in many cases, covering my costs for travel and accommodation. These generous institutions include: the International Institute for the Sociology of Law, Onati, Spain; the Andrew Hook Centre for American Studies, University of Glasgow; University of Paris, Sorbonne; the University of Toulouse; the Society for Business History, Frankfurt; the Economic History Seminar, All Souls College, Oxford; the Business History Unit, London School of Economics; the Carlson School of Management, University of Minnesota; the Business School, Columbia University; the Sloan School of Management, MIT; the Rothman School of Business, University of Toronto; ESSEC School of Management, Paris; The Wharton School, University of Pennsylvania; London Business School, University of London; Kellogg School of Management, Northwestern University; the American Studies Workshop, The Pennsylvania State University; The Tuck School, Dartmouth College; the Stern School of Business, New York University; The Chemical Heritage Foundation, Philadelphia; the Centre for International

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Business History, University of Reading; University of Michigan Business School; Center for Interdisciplinary Studies (ZiF), University of Bielefeld; Center for the History of Business, Technology, and Society, Hagley Museum and Library, Wilmington; and the Centre de Sociologie, Ecole des Hautes Etudes en Sciences Sociales, Paris. In several other cases, organizers of academic conferences provided funds to cover my attendance, including the Business History Conference, the Academy of Management, the University of Bologna, the Management History Research Group, and the European Studies Association.

As the preceding acknowledgments suggest, I have received an extraordinary amount of assistance from academic institutions, but my debts to corporate, nonprofit, government, and professional institutions are just as numerous. Good institutional history requires the willingness of individuals and organizations to open themselves to outside scrutiny and I have been overwhelmed by the generosity of the many institutions from whom I sought assistance. Beyond the many university and academic archives I consulted in the course of my research, these institutions included: A. T. Kearney & Co.; American Cancer Society; Arthur Andersen & Co.; The Association of Management Consulting Firms (USA); the Bank of England, The Boston Consulting Group, Booz Allen & Hamilton; Consultants News; IBM; The Management Consultancies Association (UK); McKinsey & Company; Mount Sinai Hospital; NASA; The Navy Historical Center; The New York Philharmonic; The Philadelphia Museum of Art; The Presbyterian Church of the USA (Northern); RCA, Sears Roebuck & Co.; Stone and Webster, Inc.; Towers Perrin; The United Negro College Fund; and the World Bank. Although many people in these institutions supported me, I would particularly like to thank the late Marvin Bower of McKinsey & Company, Bill Price, also of McKinsey, and Ted Buswick of The Boston Consulting Group for their support of my scholarship by allowing me unfettered access to their archival collections.

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Just as remarkably, many old friends were willing to house and feed me when I was visiting archives and conferences, without getting much in return except personal relief that they were no longer peripatetic students themselves. So, let me take this opportunity to thank: Jamie and Nathalie Schofield, Russ Covey, Larry Platt and Ruth Diener, Paul Tarr and Alicia Brooks, Margie Rung, Christine Skwiot and Larry Gross, Jordy Kleiman, Jon Rottenberg and Laura Reilly, and Matthias Kipping, for their generosity during my national and international archival tours.

One of the great joys of being an academic is the network of colleagues who become friends as you pursue your scholarship. They remind you that the academic world remains a generous place. For their assistance, counsel, and support over the years, I want to thank Bruce Kogut, Chick Perrow, David Sicilia, Geoff Jones, Giuliana Gemelli, Dick Sylla, Eric Guthey, Ludovic Cailluet, David Kirsch, JoAnne Yates, Andy Hargadon, Steve Usselman, Lars Engwall, Les Hannah, Marina Moskowitz, Teresa da Silva Lopes, Lisa Berlinger, Matthias Kipping, Mauro Guillèn, Naomi Lamoreaux, Patrick Fridenson, Peter Hall, Phil Scranton, Sally Clarke, Roger Horowitz, Marie-Laure Djelic, Will Hausman, Jonathan Zeitlin, Antti Ainimo, Bernie Carlson, Charles Booth, Woody Powell, Royston Greenwood, Mike Lounsbury, John Wilson, Avner Offer, Glenn Porter, and Meg Graham.

Let me also thank my many friends in Oxford, both in Brasenose College where the Fellows have been particularly welcoming to their inaugural Fellow in “management” and also in the Saïd Business School where my colleagues are building a truly international and intellectual business school. In particular, let me thank Colin Mayer, Steve New, Owen Darbshire, Roy Westbrook, Robert Pitkethly, Mari Sako, Victor Seidel, Eric Thun, Marc Ventresca, Richard Whittington, Steve Woolgar, Tarun Ramadorai, Alan Morrison, Thomas Powell, Steve Rayner, Simon Evenett, and Maike Bohn. In Brasenose, I want to thank Vernon Bogdanor, Sos Eltis, Fergus Millar,

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Martin Ingram, Laura Herz, Richard Cooper, Stefan Vogenauer, Ed Bispham, Nick Barber, Bill Swadling, Harry Judge, Jonathan Jones, Robin Sharp, William James, George Bitsakakis, Abigail Green, Thomas Krebs, Roger Cashmore, Robert Gasser, and Tony Courakis. My students, both in Brasenose College and in the Saïd Business School, have made thoughtful suggestions on my research and for their help I want to express my continuing appreciation. Similarly, in the last stages of the project, Nick Brown provided invaluable assistance in guiding me through the intricacies of case law in Britain and America.

Camilla Stack, who serves as the Administrator of the Clifford Chance Centre, has read every sentence of this manuscript more times than either of us would care to admit. If any split infinitives remain, it is not due to Camilla but because I was too pigheaded to dutifully remove them from the final text. I should also acknowledge both the remarkable editorial advice from Lou Galambos and the thoughtful, if sometimes terse, advice from Frank Smith at Cambridge University Press. Both Frank and Lou have shown remarkable support and patience for this project. Ken Karpinski of Techbooks did a wonderful job reassuring a first-time author about the production process. Ruth Diener, who designed the book's cover, has been a good friend for many years and never fails to impress me with her sense of style.

In a more familial vein, I owe a deep gratitude to my parents, Elizabeth McKenna and the late John McKenna, talented academic historians, who always set events in historical context at home and encouraged a broad, eclectic perspective on the outside world. As a contemporary historian who was raised by medievalists, I learned from them that modern institutions must always be understood in a comparative fashion. Similarly, my brother, Ted McKenna, a journalist in Washington, D.C., has always provided thoughtful encouragement and interesting suggestions to broaden my perspective.

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My in-laws, Fred and Anita Keire, have been remarkably generous and welcoming; indeed without the extended use of their home in Connecticut for archival visits to New York, much of the research for this book would never have been possible. Their support for my academic career, despite my decision to spirit their only daughter away to Britain, has been a testament to their own rich intellectual lives.

Finally, I come to my greatest debt. Mara Keire, while working on her own (and much more fascinating) scholarship on the history of the world's oldest professional, has always encouraged me to find my own voice. Mara's intellectual rigor, her humor, and her continued support for this project were essential to its completion. This book is dedicated, with much love, to her.