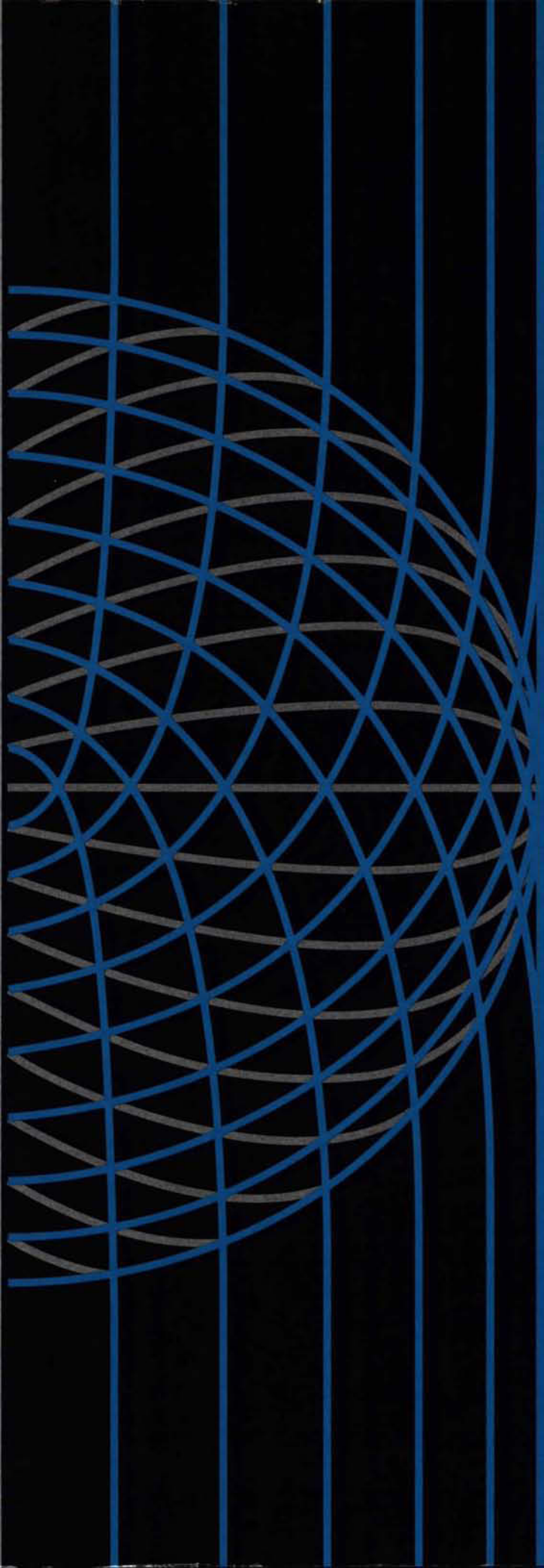


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Management Consultants

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 Industry, Science and Technology Canada Industrie, Sciences et Technologie Canada

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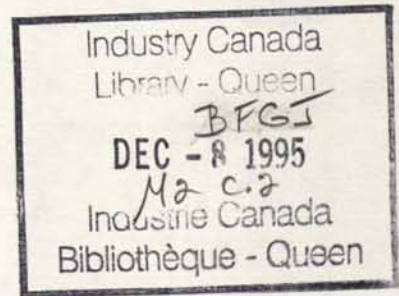
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Canada



1990-1991

MANAGEMENT CONSULTANTS**FOREWORD**

In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to growth and prosperity. Promoting improved performance by Canadian firms in the global marketplace is a central element of the mandates of Industry, Science and Technology Canada and International Trade Canada. This Industry Profile is one of a series of papers in which Industry, Science and Technology Canada assesses, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological, human resource and other critical factors. Industry, Science and Technology Canada and International Trade Canada assess the most recent changes in access to markets, including the implications of the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the profiles.

Ensuring that Canada remains prosperous over the next decade and into the next century is a challenge that affects us all. These profiles are intended to be informative and to serve as a basis for discussion of industrial prospects, strategic directions and the need for new approaches. This 1990-1991 series represents an updating and revision of the series published in 1988-1989. The Government will continue to update the series on a regular basis.

Michael H. Wilson
Minister of Industry, Science and Technology
and Minister for International Trade

Structure and Performance**Structure**

In today's rapidly changing global economy, managers are continually challenged by their environment. Information technology, business rationalization, the dismantling of trade barriers and the emergence of regional trading blocks are only a few of the forces shaping their milieu. To address these challenges and to obtain advice concerning mainstream management problems, many managers are turning to outside consultants for guidance. Management consultants can offer new directions and strategies to help managers cope with the ever-changing corporate landscape. Other consulting activities are described in related industry profiles on

- *Computer Services and Software*
- *Consulting Engineering*
- *Public Accounting*

Because of the wide range of services provided, the diverse corporate nature and orientation of the service providers, and the span of the public and private sector clientele served, it is difficult to formulate an all-encompassing definition of management consulting. In general terms, management consulting is an information and advisory service provided by specially trained and experienced people on a fee-for-service basis. These consultants are valued for their independence, objectivity, experience, analytical skills and knowledge. They work closely with clients to help identify and analyze problems facing management and to recommend



solutions to these problems. They may also assist in implementing recommendations and evaluating the results. There are three principal types of management consulting firms: the management consulting practices of accounting firms, other general management consulting firms and specialized firms with particular functional or industry expertise.

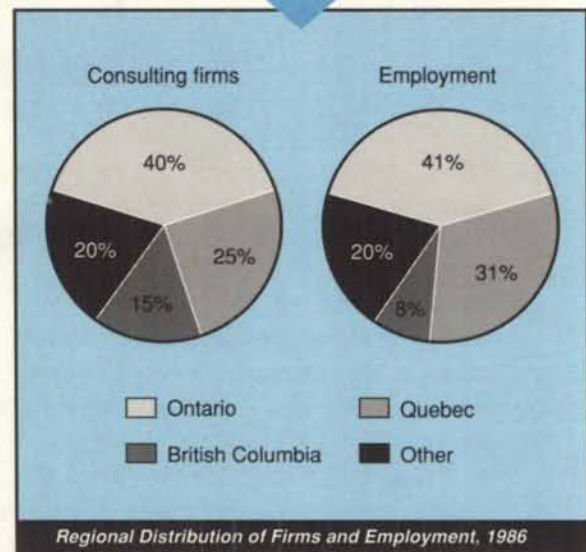
The movement toward professional accreditation is emerging as an important element of the industry's structure. Provincial legislation exists to enable provincial institutes of certified management consultants to confer the Certified Management Consultant (CMC) designation. While this designation is not a prerequisite to practise in Canada, approximately 2 500 consultants have earned this title. The institutes, currently established in six provinces with one additional organization overseeing Atlantic Canada, focus on professional development and offer certification to individual members who have successfully completed the practical experience and examination requirements. The provincial institutes are represented nationally by the Institute of Certified Management Consultants of Canada (ICMCC). In November 1990, the Canadian Association of Management Consultants (CAMC) merged with ICMCC. The new organization, retaining the Institute of Certified Management Consultants of Canada name, represents both the corporate and professional memberships of the previous organizations and engages in professional development, advocacy and business development activities.

The professional movement in Canada is highly regarded internationally for its leadership role in seeking legislation and setting standards. Ontario was the first jurisdiction in the world to grant legal protection to the CMC title and designation.

Management consulting is human-resource-oriented and the quality of its output is dependent upon the skill and expertise of its practitioners. It also draws on the general and specialized business knowledge and technical expertise of a wide range of individuals, including engineers, economists and accountants. Many consultants have extensive business experience prior to becoming management consultants, and more than 75 percent of CMCs have more than one university degree. Unlike their U.S. counterparts, Canadian firms do not hire large numbers of students directly from universities because experience is given equal or greater importance than academic training.

The extensive and dynamic range of management consulting services includes the following broad categories:

- organizational management and review
- human resources management and planning
- operations management
- production management
- financial management and planning



- information management
- research and strategic planning
- marketing management and planning
- economic and social impact analysis
- public sector issues

These categories are not exhaustive, and each one comprises subsets of services. For example, human resources management and planning includes executive search and development of compensation plans as well as human resources and industrial relations planning.

In addition to the services commonly associated with management consulting, some of the larger firms are moving into areas traditionally served by other groups. For instance, a number of firms associated with accounting practices offer tax consulting and financial planning for executives as well as services dealing with litigation support and corporate finance (mergers and acquisitions). The latter two transaction-oriented services are a fast-growing and profitable segment of activity. At the same time, non-traditional consulting service providers, such as legal firms and computer equipment suppliers, are beginning to offer consulting services to their clients in addition to or in support of their principal areas of expertise.

Although many of the large international management consulting firms are U.S.-based and, although several U.S. firms are established in Canada, operations in the Canadian industry are predominantly domestically owned. Structurally, the industry has become increasingly bimodal, characterized by a few very large firms and a large number of small firms.



Large management consulting firms are valued for their ability to assemble multidisciplinary teams tailored to specific assignments. These firms are often affiliated or associated with firms in other countries. They are organized hierarchically: at the top is the partner or practice leader, followed by the principal, manager, senior consultant and consultant. Partners assume overall responsibility for a project and the project team. Project teams, drawing on selected skills within a practice, are brought together and dissolved as needed.

Statistics Canada data on payroll and employment of Canadian businesses by industry and business size provide some limited insights into the industry's size and performance. In 1986, Statistics Canada reported 12 955 management and business consulting establishments, with total employment of 57 077.¹ Ontario, Quebec and British Columbia were, and continue to be, the key locations for management and business consulting firms because of their importance as centres of economic activity and their large resident base of potential clients (see figure). Mineral and forest resource processing consulting firms are numerous on the West Coast, while there is a higher concentration of financial management, manufacturing and transportation expertise in Central Canada.

Establishments with fewer than five employees constituted the greatest number of consulting businesses, accounting for 84 percent of establishments in 1986 but only 24 percent of industry employment. Management and business consulting offices with fewer than 20 employees accounted for 97 percent of the establishments that year, but only 49 percent of the employment. Establishments with 100 or more employees in 1986 represented less than 1 percent of businesses but accounted for 27 percent of employment.

While the insights provided by these sources on the distribution of management consultants by region and firm size are quite valuable, available Statistics Canada data may overstate the management consulting universe because they include businesses whose principal activity is not management consulting as defined in this paper and as viewed by practitioners. Based on consultations with key industry representatives, Industry, Science and Technology Canada estimates that there were about 25 000 management consulting practitioners in 1988 and that revenues approached \$1.5 billion. Annual surveys of management consulting and the accounting profession recently initiated by Statistics Canada, if continued, would help to present a more precise portrait of management consulting in the future.

Performance

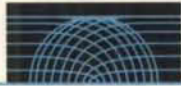
Modern management consulting traces its origins to early industrial engineering in the United States. In the late 1880s, objective and independent studies of "work" were conducted to improve manufacturing productivity. In Canada, this industrial engineering concept was first introduced in the textiles industry during the 1920s. Since then, management consulting has evolved significantly; today, it addresses the full range of issues facing management in virtually all sectors of the economy.

Industry associations were formed as early as 1929 in the United States and 1956 in the United Kingdom. In 1963, domestic consulting firms formed the CAMC as their trade association. Although CAMC did not have a mandate to regulate the practice, it remained interested in professional concerns and in the formation of an organization to which individuals, as opposed to firms, could belong. With CAMC's support, provincial institutes of certified management consultants were created, offering individual membership and addressing the issues of professional development, certification and regulation.

Although there were independent consulting firms in the early days of the profession in Canada, the major companies had ties to audit firms. (This was not the situation in the United States and United Kingdom, where industrial engineering firms dominated the practice of consulting.) Now, accounting firms have become major players in management consulting both domestically and internationally. They have fast-growing consulting practices and are estimated to undertake up to one-third of all consulting engagements. In 1984, five of the ten largest general management consulting firms in Canada were associated with accounting firms and, in 1986, five of the ten largest international management consultancies had similar relationships. Large consulting firms that are not associated with audit practices are often best known for their expertise in technical areas rather than in the field of general consulting.

To a significant degree, employment and revenue in the management consulting industry are sensitive to overall economic movements and tend to parallel economic activity. During periods of downward pressure on corporate profits, cost-cutting measures may preclude expenditures for outside consultants, although this is not always the case. For example, firms that specialize in productivity improvement or corporate reorganization and restructuring tend not to be affected to the same degree as firms involved in general economic studies or strategic planning.

¹Source: Special tabulation for ISTC by Statistics Canada. These data are the most recent available. They are an approximation only and do not necessarily reflect the management consulting universe as viewed by the industry. To overcome the limitations of existing data, Statistics Canada has commenced the development of a survey of management consultants.



While data on industry revenues are generally not available, some information on the performance of selected larger firms can provide insights into industry performance. From 1963 to 1984, the consulting revenue of CAMC firms grew by 18.5 percent per year on average and, from 1978 to 1984, it increased by 21 percent annually to reach \$198 million in 1984. The full-time consulting staff of CAMC firms increased by 120 percent between 1978 and 1984. Although CAMC represented only a relatively small number of firms, the members' revenue growth is thought to be representative of the industry as a whole.

Some insights into the industry's billing mix and its broad service categories are also available. In response to a 1984 survey, CAMC firms reported that almost 50 percent of revenue was from services provided in the information management and electronic data processing (EDP) category. General management, organization and planning services represented 16 percent of revenue. By 1988, the revenue of CAMC member firms had approached \$290 million. Information management and systems consulting maintained its 50 percent share of members' revenue, while revenue from general management consulting services increased to 28 percent. Ontario and Quebec remained the largest markets, accounting for 75 percent of members' revenue.

In addition to impressive market growth, many firms expanded on the domestic front through a round of mergers between 1975 and 1985. This activity arose from the interest of major firms in providing more services to their clients and allocating increasing overhead costs for research and training across a larger revenue base. General practice firms acquired firms in information technology and other specialized fields. In addition, firms in manufacturing and other service industries engaged in or acquired firms in management consulting so as to better serve their clients.

Internationally, the management consulting industry has expanded the same way as the accounting profession — by following their clients abroad. Trade in management consulting services is generally accomplished by the cross-border movement of personnel or by establishing a local office. Business publications estimated the 1986 global management consulting market to be in excess of \$10 billion, with up to 50 percent of the revenue attributed to the 20 largest international management consulting firms. Many of these firms are U.S.-owned, and several domestic consultancies are affiliated with firms in this international circle. *Consultants News*, a U.S. trade publication, estimates the 1990 global revenues of management consultants at \$23 billion, with the U.S. market accounting for \$13 billion of that figure, European Community (EC) countries for \$6 billion and Japan for some \$2 billion. This publication also predicts that the

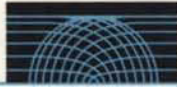
majority of the world market for management consulting services will be outside the United States by 1992.

As with other dimensions of this industry, trade figures are scarce. The table on the facing page presents information on trade in the broad business services category. From 1985 to 1988, Canadian billings in foreign countries for consulting (in this context, principally consulting engineering) and other professional services declined by more than 21 percent while foreign billings in Canada more than doubled. Although Canada continued to enjoy a trade surplus in these services, the 1988 level was less than one-third of the 1984 and 1985 levels. In 1989, foreign billings in Canada dropped 16 percent below 1988 levels, while Canadian billings abroad increased by almost 7 percent, and the trade surplus increased to \$361 million, a level somewhat more than half of the performance of 1984 and 1985. Most of Canada's trade in consulting and other professional services was oriented primarily toward the Third World, whose countries do not have the expertise found in developed-country markets. Approximately 80 percent of the trade surplus in these fields arose from trade with markets other than the EC and the United States.

International trade data separating the management consulting component from consulting and other professional services are not yet available. Most of the trade surplus is accounted for by consulting engineering services. Canadian billings in foreign countries for management consulting services are not thought to be substantial and are most likely less than foreign billings in Canada for these services. A 1984 CAMC survey of its membership revealed that 40 major U.S. consulting firms performed services in Canada valued at \$30 million. The CAMC members' total exports were valued at \$7 million that year, of which \$3 million represented business in the United States. This trade imbalance with the United States was attributed to that country's more rigorous restrictions on the ability of foreign service providers to obtain temporary access to the United States to deliver their services.

Canadian billings for management consulting services to all other countries have been estimated at \$39 million in 1984. This rather low value in part reflects the difficulty of accurately measuring trade flows in this and other service areas. In internationally affiliated firms, for example, Canadian billings abroad can easily lose their identity when the affiliate in the host country bills the client for the services of specialists brought in from Canada. As well, services bundled with goods can also contribute to this loss of identity. Nonetheless, direct Canadian billings abroad are not thought to be large.

Growing specialization within larger firms has given rise to increasingly frequent situations where teams from one national office conduct assignments, together with local personnel, in the territory of affiliates. These activities may not



Trade in Business Services (\$ millions)

	1984	1985	1986	1987	1988	1989
Foreign billings in Canada						
Consulting and other professional services	219	271	330	520	545	456
Other business services	6 588	7 409	9 154	9 434	9 907	10 542
Total	6 807	7 680	9 484	9 954	10 452	10 998
Canadian billings abroad						
Consulting and other professional services	905	973	802	807	766	817
Other business services	3 661	4 268	5 080	5 778	6 412	6 724
Total	4 566	5 241	5 882	6 585	7 178	7 541
Net trade						
Consulting and other professional services	686	702	472	287	221	361
Other business services	-2 927	-3 141	-4 074	-3 656	-3 495	-3 818
Balance of trade	-2 241	-2 439	-3 602	-3 369	-3 274	-3 457

Source: *Canada's International Transactions in Services*, Statistics Canada Catalogue No. 67-203, annual.

be fully reflected in official trade statistics. Interfirm strategic alliances are also giving rise to greater trade in management consulting services.

It should be noted, however, that a consulting firm does not have to be large in order to win contracts for its services in other countries. Smaller consulting enterprises providing unique or specialized services, as well as teams within the larger firms offering such services, also benefit from such opportunities because their skills are in short supply worldwide and their services are less price-sensitive. It is likely that trade in these areas has increased substantially in recent years, although this has not necessarily been captured in trade statistics.

While opportunities for projects in other countries have increased over the years, so too has competition. Over the past decade, competitors to the North American and European consulting firms have emerged on the international scene. In particular, management consulting firms from India and Pakistan are active internationally and are making inroads into Middle Eastern and Asian countries. Having gained

international recognition and acceptance, they are expected to expand their activities into other areas with billing rates that European and North American firms find difficult to match.

Strengths and Weaknesses

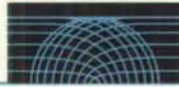
Structural Factors

Management consultants are usually agents of diffusion for management practices and related technological innovations. While clients may not always need the newest technologies, consultants are expected to be familiar with the complete spectrum in order to identify the one best suited to the client's needs. The ability to recognize and understand clients' problems and to recommend appropriate solutions, including technologies, are the principal skills required for success in both the domestic and international markets. The Canadian management consulting industry's ability to remain aware of new managerial concepts and technologies is its principal strength.

Important factors contributing to the industry's ability to compete include its well-educated and experienced consultants, established international affiliations and strategic alliances. However, the industry is also fragmented, as shown by the very large number of small consultancies.

Many small management consulting firms are very competitive, benefiting from both flexibility and low overhead costs. Included in this group are sole practitioners and smaller general management consulting practices that provide a wide range of services to clients, as well as specialized and boutique consultants providing unique services to niche markets. The proliferation of these firms can be attributed in part to the absence of entry barriers and the non-capital-intensive nature of the profession. Many of the consultants in this category were formerly associated with government or larger consulting practices.

The training and work experience of Canadian management consultants have assisted them in gaining recognition from international clients for their expertise in general management functions, resource harvesting and processing, communications and service areas such as government, education and health care. The strength of Canadian practitioners in the latter two fields, for example, is directly attributable to their close association with Canada's highly regarded education and health care systems. They are also well regarded domestically and internationally in selected management functions for large-scale projects in the hydro-electric and construction sectors, where their services are bundled with those of the consulting engineering community. One large domestic consulting firm occupies a unique market niche as a result of its expertise in all aspects of lottery organization.



A positive public image helps attract potential clients to a consulting firm. Canadian firms have not generally been as aggressive in marketing their services or enhancing their image in export markets as have some of their foreign competitors. Some of the large firms have argued that the potential benefits to be derived from foreign business do not justify the significant monetary and human resource investment required to cultivate it.

Large management consulting firms maintain international affiliations, through which they can establish common services such as training and research, and generally refrain from direct competition with affiliates. These affiliations enable consulting firms to reinforce their expertise by drawing on a diverse range of talents and specializations to meet client needs. The management consulting arms of the international accounting firms are leading examples of this practice.

A number of general factors limit the overall potential for Canadian billings abroad. Management consultancy necessarily requires trust and good will between client and consultant; distance and infrequent contact are not conducive to these conditions. In addition to these drawbacks, cultural differences, immigration matters, the difficulties inherent with staffing large projects, and the high costs of international marketing and serving foreign clients tend to discourage many management consultants from pursuing market opportunities abroad.

Established international competition is another factor. Opportunities for Canadian firms to win routine consulting contracts in developed countries are generally limited because these nations have their own established domestic consulting practices. To better serve foreign clients and exploit identified opportunities, several Canadian consulting companies have established offices in Europe and on other continents. This is a common strategy in penetrating developed-country markets.

Broader opportunities for general and specialized consultants exist in developing countries in the fields of manufacturing and resource processing, health care, education and other social services development and government organization. Access to these markets is generally gained through projects funded by international and regional development banks such as the World Bank and the Asian Development Bank. These aid agencies encourage technology transfer principally through joint business ventures and affiliations with consulting firms in the beneficiary country. Since larger development projects are increasingly subdivided into a number of smaller contract awards of lower value, it is possible for smaller firms to compete, although development projects are often characterized by slow payment schedules, an expensive bidding process, foreign government-supported competitors and projects geared to consulting engineering firms. Management consulting firms, however, have had some success in this market.

In Canada, consulting firms often look to the Canadian International Development Agency (CIDA) to facilitate their introduction to these developing country markets. While larger Canadian firms often pursue these aid-related projects, many small consultancies are active abroad under CIDA's Industrial Co-operation Program. Canadian management consulting firms are active in the markets of Africa, Southeast Asia and Latin America.

Indeed, the existence of international consulting opportunities has contributed to increased specialization within firms and strategic alliances among firms. Industry alliances are a response to the fact that large consulting projects require a number of particular consulting specialties, and this expertise is often as diverse as the projects themselves. Because the infrequency of successful similar contract awards discourages retention of in-house expertise, some management consulting firms have formed linkages with consulting engineering firms; a number of Canadian management consulting firms with French-language capability have fostered alliances with U.S. firms for projects in the Francophone countries of Africa; and the growth of information technology is fostering alliances between consulting firms and computer services firms.

The largest management consulting firms maintain continual relationships with their client firms and subsidiaries around the world, since clients expect the same level of service at home and abroad. American and British management consulting firms have developed their international networks on this basis. In Japan, consulting firms are considering joint business ventures with offshore firms to gain additional experience in the consulting field. Japan's international position will be strengthened from the experience its management consultants gain in Japanese-funded development work in the Pacific Rim.

In some countries, business relationships exist between the consulting community and segments of the manufacturing sector. In comparison with its foreign competitors, the Canadian management consulting industry is still in the early stages of fostering alliances with goods-producing sectors; as a result, its participation in this area internationally is likely to be limited, at least in the short-term. Canadian management consulting firms are more advanced in developing alliances with other sectors of the service economy, most notably the consulting engineering community.

Within the Canadian industry, the large number of small firms can offer advantages such as speed of response to client requests, but their size can impose limitations; training and research costs can be expensive for the sole practitioner or small firm that has a smaller volume of business to support such overhead.



Since management consulting is people-oriented, it is necessary to maintain contact with clients in order to ascertain their needs. Although travel is often required, firms that are able to serve their clients from local offices or physical proximity to the client can realize certain cost savings. This gives them an advantage over distant domestic and foreign competitors.

Trade-Related Factors

There are no customs tariffs on the provision of management consulting services to Canada or abroad, nor are there significant customs tariffs on the goods and technology associated with their delivery. Because management consultants are not licensed, there are no government licensing regulations. There are, however, industry concerns, including the need for regulatory transparency, national treatment, right of establishment and labour mobility. The Canada-U.S. Free Trade Agreement (FTA), which came into force on 1 January 1989, has provided scope for increased trade in management consulting services with the United States. Because this industry is predicated on high-quality service and close contact with clients, the temporary-entry provision of the FTA is highly important, since it facilitates the transborder movement of management consultants. It has also lessened the domestic industry's concern regarding the less stringent application by Canada of regulations governing the crossing of the border. Under the FTA, nationals of both countries receive equal treatment at border crossings.

Technological Factors

Within their own practices, information and communication technology is of great importance to management consulting firms. Large U.S. consulting firms pioneered the introduction and acceptance of the computer as a management tool; now most firms in the industry strive to be at the forefront of new developments in office technology.

In a changing environment, the development or adoption of leading-edge technologies and new information management or analytical techniques and packages is critical. These skills and tools can provide a consulting firm with the opportunity to establish or maintain an edge over its competitors by developing new services and enhancing existing ones while making consulting staff more productive. However, not all consulting firms have the resources to underwrite the costs of an increasing investment in the research and development (R&D) of new or improved techniques.

Other Factors

Consultants are usually selected by clients on the basis of their reputations and their sectoral or functional expertise, particularly in niche markets or speciality services.

Cost is not the sole consideration and may not be a key factor in success in offshore markets.

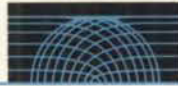
Successful consulting assignments often depend heavily on the physical presence of consultants to carry out many aspects of a project. Immigration and visa restrictions on short-term business travel, and government procurement practices restricting consulting contracts to their nationals, are very serious impediments to trade with developed countries. Controls on the right to establish or the methods of operation in a country, on the purchase and sale of local currencies by individuals or on the repatriation of profits are impediments to trade in management consulting services with developing countries. In general, irritants are encountered more often on private sector engagements than on contracts funded by governments and the development agencies.

The impact of irritants is difficult to quantify. Irritants are virtually non-existent in the provision of sophisticated and high-technology services where scientific consultation is paramount. However, cultural and language differences such as those found in Pacific Rim countries can effectively block access to foreign markets for many small and medium-sized firms without the alliances or resources to engage personnel with foreign-language capability. In developing countries, the financial involvement of Canadian and international development agencies tends to minimize impediments for successful consultants.

Evolving Environment

The distinctions between traditional areas of practice are likely to continue to blur as management consulting firms increase their presence in the financial, legal and technological fields, which until recently were held almost exclusively by others. For instance, specialized teams formed within larger multidisciplinary firms now compete with investment houses on the smaller end of the mergers and acquisitions field. These teams, along with some insurance companies, are also active in personal financial planning for executives. This area was formerly the domain of independent financial planners and is now viewed as both a profitable activity on its own and as an entry point from which they can offer other services to the executives' firms. Of course, other groups such as lawyers and those associated with the manufacturing and service sectors are actively entering the consulting field in response to opportunities arising from their principal lines of work. In the future, large international multidisciplinary firms of service providers will likely emerge.

Management consulting will continue to grow, although not necessarily at the same fast pace demonstrated in the



first half of the 1980s. Opportunities will continue to emerge, particularly with the internationalization of business and the emergence of a North American marketplace as a result of the FTA and the proposed North American free trade agreement involving Canada, the United States and Mexico.

However, the globalization and streamlining of business is contributing to a shift in the decision-making process in some client firms. Some large consulting firms are being required to put forward proposals for, and to negotiate, domestic consulting contracts with foreign offices of multinational corporations.

Consultants will develop and modify service packages in response to changing client requirements brought about by a range of forces. These include rapid developments in science and technology, shortened product life cycles, heightened competition both at home and abroad, evolving preferences and changing lifestyles. Strategic and organizational planning, marketing and management development will remain important areas of practice, embodying specialized and up-to-date knowledge and, increasingly, unique skills to provide innovative solutions to management issues. Demand will remain strong for consultants offering information technology and software development services. It is anticipated that there will be new entrants to the industry to meet this growing demand.

Global competition, accelerated technological change and innovation — in particular, industrial restructuring across the economy and the changing socio-economic environment — will give rise to major challenges for this industry as the demand for more sophisticated services increases. Technology, general management practices and the emerging areas of management of technology and appropriate information bases are critical determinants of client competitiveness. As management consulting firms are the providers of advice on these subjects and since clients are seeking originality and new and unique products, increased efforts will be necessary to keep personnel up-to-date through training, information collection and dissemination and, in some cases, through R&D conducive to new consulting processes and service packages. Competitive rivalries will increase as firms compete through product differentiation, corporate positioning and reputation to serve an increasingly sophisticated client base demanding measurable results.

Industry observers anticipate that large firms will become larger, mainly through mergers and the absorption of medium-sized firms. This trend may eventually lead to what some observers believe will be one-stop shopping for consulting services. To some extent, this already exists in the industry. Clients of accounting firms are able to obtain their audit and audit-related services from one arm of the firm, while seeking general or specialized management or sectoral advice from the firm's management consulting practice. Currently, such

consultancies may derive up to 25 percent of their business activity through such spinoffs from the accounting parent. The close association between the accounting and consulting function has not gone unnoticed. The EC, for example, has commissioned a study to examine the competitive environment for accounting and related services such as management consultancy. The study, prompted by concerns over the mergers of major accounting firms, will assess the degree and effect of concentration in the accounting profession.

Mergers have been occurring at the international level and will continue because they assist organizations to become stronger and more competitive, to keep pace with technological change and to expand or deepen service offerings in more profitable, specialized areas.

In mid-1989, mergers involving several international accounting firms resulted in the creation of larger management consulting practices. For example, Ernst & Whinney merged with Arthur Young & Co. to create Ernst & Young. In Canada, this merger impacted on Clarkson Gordon and Thorne, Ernst & Whinney, Clarkson Gordon and its management consulting practice, Woods Gordon (the Canadian members of Arthur Young International), changed their names to Ernst & Young. As well, Thorne, Ernst & Whinney joined with the Peat Marwick organization to create Peat Marwick Thorne on the accounting side and Peat Marwick Stevenson & Kellogg on the consulting side. The merger involving the accounting and consulting practices of Deloitte, Haskins & Sells and Touche Ross & Co. resulted in the formation of Deloitte & Touche in Canada.

While these large mergers made headlines, numerous others have taken place and continue to occur as management consulting moves forward into the 1990s. Mergers of large firms reinforce their market positions and their ability to provide functional and sectoral expertise on a global basis in an industry where it has been estimated that up to 75 percent of global consulting revenues are earned by the top 50 consulting firms.

The number of small firms is also expected to grow in response to a proliferation of niches not occupied by larger companies. The medium-sized firms will not disappear as long as there are small, aggressive consulting firms that grow in response to opportunities but resist integration into large practices. Consulting firms with export-oriented clients will have to consider establishing foreign offices or alliances with foreign firms if they are to retain these accounts.

The Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) is a factor in the industry's environment, as it has produced the first meaningful multilateral talks on more liberalized trade in services. Negotiators are attempting to find ways to apply GATT-type rules to trade in services in order to enhance market access through a process of progressive liberalization.



Should an agreement be reached, the resulting environment would likely promote trade in services, including management consulting, by easing restrictions on the mobility of skilled personnel and possibly by initiating a process whereby the management consultants of signatory nations work toward mutual recognition and/or harmonization of qualifications. The process currently under way in Europe to integrate the economies of EC members after 1992 may provide a model for movement on this front. In a unified EC, there will be mutual recognition of the qualifications of practitioners from member nations, thus enabling mobility for service providers.

From the perspective of trade opportunities, large domestic entities with international connections and those firms with established offices in the EC will be able to provide domestic clients with consulting advice on the trade opportunities in the EC market. For most domestic practitioners, however, language barriers coupled with competition from both multinationals and established firms within the EC will prevent them from significantly developing this market. Similarly, to capitalize on the opportunities for strategy development and market analysis emerging in the growth markets in the Pacific Rim and in the movement to market economies in Eastern Europe, many practitioners without the human and financial resources to adequately service their clients' needs in these areas will be forced to consider joint ventures or similar arrangements or to abandon market expansion plans. The industry is being forced to think internationally in order to compete and expand.

The goods and services tax (GST), introduced on 1 January 1991, requires the management consulting industry to levy tax for the first time on services rendered to clients. The industry faces reporting and collection costs associated with the GST. Those entities affiliated with accounting firms are in a position to benefit by continuing to offer advice to clients on the implications of the tax in tandem with the accounting arms that are designing accounting systems for these clients.

Public sector consulting work is becoming increasingly important for a number of firms. In Canada, it has been estimated that government contract work accounted for 40 percent of consulting revenues in 1988. In the United Kingdom, for example, work gained through tendering on public service projects is growing faster than private sector billings, which are more often sole-sourced. Following this public sector-based practice, some industry clients are beginning to request that consultants submit competitive bids for their business. This practice is likely to gain momentum. Globally, tendering accounts for perhaps 10 to 15 percent of consulting revenues and will continue to grow.

At the time of writing, the Canadian and U.S. economies were showing signs of recovering from a recessionary period. During the recession, companies in the industry generally

experienced reduced demand for their outputs, in addition to longer-term underlying pressures to adjust. In some cases, the cyclical pressures may have accelerated adjustments and restructuring. With the signs of recovery, though still uneven, the medium-term outlook will correspondingly improve. The overall impact on the industry will depend on the pace of the recovery.

The industry supports efforts to liberalize trade and is optimistic about the opportunities in the U.S. market. The FTA permits Canadian management consultants temporary entry into the United States to engage in business activities at a professional level. It has generated opportunities for Canadian management consultants in terms of advising domestic clients on FTA opportunities, and it has enhanced access to the U.S. market for their own pursuit of project opportunities.

The perceived opportunities resulting from the FTA and the integration of the EC economies into a single market after 1992 are factors that led the ICMCC and its counterparts in the United States and the United Kingdom to conclude a reciprocity agreement for their members. Under the agreement, signed in May 1990, each institute recognizes the CMC designation granted by the other two signatories. Similar agreements with other countries are possible in the future.

Competitiveness Assessment

Canadians are well regarded in the management consulting field for their skills and innovative approaches to issues. Their national accomplishments in resource processing, communications, education, health care and government services are recognized at home and abroad.

The management consulting industry has demonstrated substantial revenue and employment growth over the past decade and it will continue to be an expanding industry with increasing opportunities. Domestic service providers have competed effectively both at home and abroad with their U.S. and other foreign counterparts and will continue to do so. The industry has successfully adapted to the changing needs of clients and has stayed on the leading edge, with service packages designed to help clients be more competitive and profitable. However, with the increasing globalization of markets, it will face increasing pressure from other categories of service providers.

On the international scene, Canadian service providers target development projects in many parts of the world. To enhance their position on multilaterally funded projects, alliances are formed with local market consultants for submission of bids. Canadian firms have joined with U.S. consultants who have been awarded contracts in selected regions,

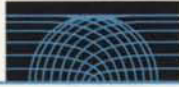


especially the Francophone countries of Africa. While this work offers opportunities, it is not yet a large source of industry revenue. This situation is not expected to change significantly in the next several years.

In terms of developed-country markets, niches exist, although competition is keen. Canadians are not alone in seeking opportunities, and face competition from established multinationals and the domestic consulting practices of these countries. A physical investment or an affiliation with a local firm is generally a prerequisite to establishing a presence in a market. However, some Canadian firms with lower fee structures and specialized practices are competitive in these markets, even without a physical presence.

For further information concerning the subject matter contained in this profile, contact

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SELECTED CONSULTING FIRMS

Name	Location of principal office ^a
Andersen Consulting	Toronto, Ontario
ARA Consulting Group Inc.	Toronto, Ontario
BDO Dunwoody Ward Mallette Management Consulting Inc.	Ottawa, Ontario
Deloitte & Touche Management Consultants	Toronto, Ontario
Ernst & Young	Toronto, Ontario
Frandsen Van Beek	Toronto, Ontario
Groupe DMR Inc.	Montreal, Quebec
Le Groupe Mallette Major Martin	Montreal, Quebec
William M. Mercer Limited	Toronto, Ontario
Peat Marwick Stevenson & Kellogg	Toronto, Ontario
Price Waterhouse	Toronto, Ontario
Raymond, Chabot, Martin, Paré	Montreal, Quebec
Richter and Associates	Toronto, Ontario
Temple, Barker & Sloane Strategic Planning Associates	Toronto, Ontario
The Coopers & Lybrand Consulting Group	Toronto, Ontario
Western Management Consultants	Vancouver, British Columbia

^aFirms may have offices in other cities as well.

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