
Outsourcing and Management Consulting: When do Firms do What?

By [Henrich Greve](#)

I just did a search on keyword “consulting” and found that two of the top articles that appeared were on the problems that the large Indian outsourcing firms were having in getting enough visas for their employees to work in the US, and McKinsey’s attempts to get female workers who left the company to return.

It is a nice feature of searches that the results sometimes juxtapose items that I would not normally think about at the same time. McKinsey’s business is management consulting, and especially strategic management consulting, which is essentially outsourcing of the task of making strategy and organizational designs and objectives. It is a way to let others rework the brains of the corporation. The information technology outsourcing that the Indian firms are famous for (they also do management consulting) consists of making large systems for corporations, often mission-critical systems such as those that process transactions and maintain databases for your bank and insurance company. It is a way to let others rework the guts of the corporation.

It seems scary that the modern corporation would rely on others for these tasks. It might also sound a bit like cheating, because one might argue that a CEO is rewarded richly and given the freedom to create a management team in order to be able to make strategies inside the corporation. The case for consulting and outsourcing is that it leaves the tasks to firms that are specialists, and very good at what they do. A management consultant and a manager have similar education, but a junior management consultant working on strategy will gain experience faster and have a greater selection of experienced senior colleagues for support than the counterpart working in a firm. The same thing goes for the IT outsourcing specialist, who is dedicated to making new systems (often similar ones) rather than

maintaining them, and quickly builds expertise.

Much research has been done on how corporations choose which activities to do internally or externally. There is a lot of repetition of simple cost/benefit arguments that are hard to measure. What is the long-term cost of letting the management consultant learn from making a strategy, for example, as opposed to letting the corporation's own managers learn from making a strategy? Hard to tell.

A recent [article by Robert David, Wesley Sine, and Heather Haveman](#) in *Organization Science* offers a new and refreshing perspective on the question. They took a broader view and asked how management consulting became established and took the form that it currently has. They were able to trace it back to the origins of three individuals starting the now-famous consulting firms McKinsey, Booze, and Arthur D. Little. These three founders acted as entrepreneurs on two dimensions, forming their businesses and shaping the business environment. Some of the things they did to shape the environment are well known: they built status from elite connections, and they built acceptance from academic connections. But the most striking part of their actions was the apparent altruism: they claimed more concern for the societal benefits of their work than their own business (a claim they made credible by not being particularly profitable, unlike modern consulting firms!). That is a very nice observation, because shaping the environment around a new form of business is much easier if you can convince potential clients that they, not the new business, take first priority. The combination of status, science, and zeal made management consulting an accepted activity.

Management consulting has come a long way from these entrepreneurs working before WWII to its current position as an accepted and even essential part of management. The outsourcing business is still under debate, but it is already home to some very large corporations and an increasingly accepted part of management. But if history is any guide, the debate will end. After all, management consulting and outsourcing have in common the movement of activities from the inside of the firm to the outside, with a rationale based on expertise and cost.

Reference

[David, R. J., Sine, W. D., & Haveman, H. A. \(2013\). Seizing Opportunity in Emerging Fields: How Institutional Entrepreneurs Legitimated the Professional Form of Management Consulting.](#)

Find article at

<https://knowledge.insead.edu/entrepreneurship/outsourcing-and-management-consulting-when-do-firms-do-what>

About the author(s)

Henrich Greve is a Professor of Entrepreneurship at INSEAD and the Rudolf and Valeria Maag Chaired Professor in Entrepreneurship. He is also a co-author of **Network Advantage: How to Unlock Value from Your Alliances and Partnerships**. You can read his **blog** here.