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Discussion Paper # 1

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Management Consultancies as Institutional Agents: Strategies for Creating and Sustaining Institutional Capital

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Abstract

We classify the strategies by which management consultancies can create and sustain the institutional capital that makes it possible for them to extract competitive resources from their institutional context. Using examples from the German consulting industry, we show how localized competitive actions can enhance both individual firms' positions, and also strengthen the collective institutional capital of the consulting industry thus legitimizing consulting services in broader sectors of society and facilitating access to requisite resources. Our findings counter the image of institutional entrepreneurship as individualistic, "heroic" action. We demonstrate how distributed, embedded actors can collectively shape the institutional context from within to enhance their institutional capital.

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Keywords: consulting industry, neoinstitutionalism, institutional capital, embedded agency, institutional strategy

Introduction

In our increasingly knowledge-intensive and dynamic economies management consultancies have gained strong economic and social influence as the new "market protagonists" (1986; 2002b)). The largest consultancies rival multinational corporations in turnover and employment (Empson, 2007b; Greenwood, Suddaby, & McDougald, 2006) and serve clients in business, politics, and nonprofit sectors (Niejahr & Bittner, 2004). As exemplars of knowledge-intensive firms (e.g., Armbrüster, 2006; Empson, 2001; Morris, 2001) consultancies provide external expert knowledge to clients who may be, at least temporarily, struggling to keep up with current trends and achieve business success (McKenna, 2006). The constant stream of innovations that management consultancies produce serves their clients, but also positions the consultancies as *thought leaders,* thus creating continued demand for their advice (Ernst & Kieser, 2002b, c; Fincham & Clark, 2002).

Studies of *management fashions* (Abrahamson, 1996; Benders & van Veen, 2001; Kieser, 1997; Suddaby & Greenwood, 2001) suggest that management consultancies strategically criticize concepts to reshape the market for management knowledge and establish their own innovations as sources of commercial success. This self-marketing seeks to orient management discourse in a direction that legitimizes specific products and processes as rational and effective (Berglund & Werr, 2000). In this view, the rise of management consulting is not merely a product of economic needs. It results at least in part from the consultancy firms' rhetorical strategies to shape management discourse, develop a reputation as thought leaders, and establish their concepts as appropriate remedies for a range of management problems.

The centrality of market discourse, reputation, and perceived legitimacy in the marketing of consulting services suggests that their competitive success largely feeds on the *institutional capital* (Oliver, 1997) held individually by different consultancies as well as collectively by the industry as a whole. Oliver (1997, 709) defines institutional capital "as the firm's capability to support value-enhancing assets and competencies" through the "effective management of the firm's resource decision context". In this sense, an organization's institutional capital increases in proportion to its embeddedness in, and active management of, its institutional context facilitating the acquisition, creation, and improvement of superior resources. Such institutionally contingent resources may include legitimacy, reputation, or the client relationships that, in turn, underpin the competitive advantage of consultancies. Hence, the strategies for managing the institutional context so as to create or sustain institutional capital are vital to consultancy firms' success.

Since the 1990s, institutional theorists have developed some understanding of how organizations can act strategically within their institutional environments (Oliver, 1991b) or transform them altogether (DiMaggio, 1988b; Lawrence, 1999; Maguire, Hardy, & Lawrence, 2004). Studies on “institutional entrepreneurship” (DiMaggio, 1988b; Greenwood & Suddaby, 2006) have begun to uncover how actors become both motivated and enabled to manipulate the very institutional structures that they inhabit.[1]

The innovative activity of management consultancies has recently been identified as a form of institutional entrepreneurship (Walgenbach, 2002). Some studies focus on the role of management consultancies as fashion setters who actively create isomorphic pressures in their client industries (Kieser, 1997; Suddaby & Greenwood, 2001). Others investigate the use of rationality myths in the service delivery processes (Armbrüster, 2004; Bäcklund & Werr, 2001; Berglund & Werr, 2000) or analyze different sociocultural and historical influences on the emergence of the consultancy industry (Faust, 2002b; Kipping, 2002; Kipping & Armbrüster, 2002). Nonetheless, there are very few explicit analyses of the strategies by which consultancy firms may manipulate the institutional ramifications of their own existence and operation.

To address this shortcoming, we examine and classify the strategies by which management consultancies can create or sustain their institutional capital. Drawing on strategic approaches to institutions (Bresser & Millonig, 2003; Lawrence, 1999; Oliver, 1991b), and illustrative evidence from the German consulting market, we identify a set of five interrelated strategies by which consultancies can manipulate their external environment and enhance their competitiveness on the level of the industry, the strategic group, and the individual firm.

Based on recent discussions by institutionalists addressing embedded (Greenwood & Suddaby, 2006) and widely distributed (Quack, 2007) agency, we specify the enabling conditions and specific nature of these strategies. Hence, we enable a better understanding of the strategic repertoire of management consultancies. We also advance institutional theory by demonstrating how institutional change is the collective and emergent product of distributed actors’ localized efforts to enhance their individual competitive position.

The remainder of the paper is organized in three parts: In Section 2 we introduce the theoretical orientation of the paper. We outline the foundations and recent debates in institutional theory and present a repertoire of generic strategies for manipulating institutional envi-

[1] For a review of a see Garud et al. (2007) and Hardy et al. (2008).

ronments. In Section 3 we describe the institutional properties of the management consultancy field and, using illustrative evidence from the German consulting market, explore how consultancies can create and sustain their individual and collective institutional capital. In Section 4 we develop a classification of consulting-specific institutional strategies, and discuss their emergent and distributed nature and the implications for future research.

Theoretical Orientation

Foundations of institutional theory

In the broadest sense, institutions represent a collective consensus that characterizes a social situation. Institutions define the categories and relationships of actors who are usually expected to be involved and specify the types of ideas and behaviours that are considered acceptable in that situation (DiMaggio & Powell, 1983a; Meyer & Rowan, 1977; Meyer & Scott, 1983; Powell & DiMaggio, 1991). For business organizations, the institutionalist argument means that they compete for "social as well as economic fitness" (DiMaggio & Powell, 1983a, 150), because their survival and success depend not only on the technical efficiency, but also the perceived social appropriateness, of their ideas, products, structures, and practices. Legitimacy becomes a critical resource that organizations must extract from their institutional environment.

Studies such as those by DiMaggio and Powell (DiMaggio & Powell, 1983a), Scott ((Scott, 1991), and Scott and Meyer (Scott & Meyer, 1983) conceptualize the relevant institutional environment in which legitimacy is conferred as an *organizational field* that represents a midlevel social sphere. In this sphere, those stakeholders that "in the aggregate, constitute a recognized area of institutional life" (DiMaggio & Powell, 1983, 149) evaluate the legitimacy of one anothers' actions and connect concrete organizational action with broader normative and social structures. Fields progress from an "emerging" to a "mature" state as their constituents interact more frequently and develop shared meaning systems. *Emerging fields* are still relatively underorganized domains. They revolve around a central "issue" such as recycling (Hoffman, 1999), HIV/AIDS treatment (Maguire et al., 2004), or new technologies (Garud, Jain, & Kumaraswamy, 2002), but their members only interact sporadically and unsystematically. Members may recognize some degree of mutual interest, but they lack institutional roles with widely shared, clear-cut norms against which to evaluate their actions. In contrast, *mature fields,* such as healthcare (e.g., Brock, Powell, & Hinings, 1999; Scott, Ruef, Mendel, & Caronna, 2000), law (e.g. Empson, 2007a; Hoffman, 1999) or accounting (e.g. Greenwood, Hinings, & Suddaby, 2002; Greenwood & Suddaby, 2006) are characterized by an established regulatory framework and common meaning system. In these fields, constituents are aware of their common enterprise and stratified into clear structures of interorganizational coalition and domination (DiMaggio & Powell, 1983a). In mature fields, organizations are exposed to strong *isomorphic pressures* that force legitimacy-seeking organizations to comply with the shared rules and norms of the field (DiMaggio & Powell, 1983a; Meyer & Rowan, 1977)

Isomorphism is the dominant concept of early institutionalism, which leads critics to remark that it fosters an overly deterministic image of institutions as reified structures to which organizations passively adapt(DiMaggio, 1988a; Hirsch & Lounsbury, 1997; Oliver, 1991a, 1992). These critiques lead institutionalists to shift their research interest from examining processes of isomorphic *convergence* to exploring the conditions and mechanisms producing *divergence* in organizational forms and behaviours.

Institutional Strategy and Entrepreneurship

DiMaggio's (1988b) foundational argument that "new institutions arise when organized actors with sufficient resources see in them an opportunity to realize interests that they value highly" (p. 14) reoriented institutionalists' research towards participants' efforts to actively shape the sociopolitical context of their operations to their advantage. Under the label of *institutional entrepreneurship* (DiMaggio, 1988b; Greenwood & Suddaby, 2006; Leca, Battilana, & Boxenbaum, 2006; Leca & Naccache, 2006; Maguire et al., 2004), institutionalists investigate strategies by which self-interested actors try to establish "a strategically favorable set of conditions" for their organization (Lawrence, 1999, 167).

Oliver (1991b) provides a repertoire of strategic *responses* to existing institutional pressures, but Suchman (1995) and Lawrence (1999) suggest more proactive strategies for managing organizational legitimacy and shaping the institutional context against which organizational actions are evaluated. From this previous research, Bresser and Millonig (2003) specify five generic manipulation strategies (see table 1), which institutional entrepreneurs might use to shape the rules and norms of their institutional environment according to their own interest.

Table 1: Effects of generic manipulation strategies

Strategy	*Effect*
Co-optation	Neutralizing institutional constraints
Lobbyism	Dismantling/creating of institutional constraints
Membership	Creating institutional constraints
Standardization	Creating institutional constraints
Influence	Influencing societal value systems

Source: based on Bresser; Millonig (2003: 235), Oliver (1991b: 152), Lawrence (1999: 168) .

Co-optation denotes a strategy of winning over powerful institutional constituents by incorporating them into the organization. For example, politicians, trade union representatives, or investors may be assigned seats on supervisory or directors' boards to bring them closer to the organization and its interests. This puts co-optation at the manipulative end of Oliver's (1991b) strategy continuum. It aims to neutralize or actively reduce external institutional constraints and establish the organization and its actions as legitimate. For example, co-opting politicians can create institutional capital insofar as the politicians can signal legitimacy, lobby legislative bodies, and facilitate access to lucrative government contracts.

Lobbyism is a close relative of co-optation. It describes organizations' attempts to mobilize external institutional actors as advocates of their own interests. However, while co-optation primarily seeks to reduce institutional pressures on a specific organization, lobbyism is a dual-focus strategy: it can be used to reduce constraints on the lobbying organization or to increase institutional pressure on its competitors (Oliver, 1991b; Pfeffer & Salancik, 1978).

Membership strategies, as originally described by Lawrence (1999), specify which organizations can legitimately exercise particular functions in a social domain. Organizations that set membership rules actively manipulate the system of social positions in their field by determining the relative ease with which their competitors can enter and access critical resources. These rules can be explicit or implicit as, for example, in the professions (Freidson, 2001) or keiretsu networks (Lincoln, Gerlach, & Takahashi, 1992). However, regardless of their nature, membership rules exert normative pressures that organizations must observe if they are to become or remain legitimate members of an organizational field.

Standardization strategies (Lawrence, 1999) aim at establishing specific organizational practices, structures, processes, products, or services as legitimate and "normal" within an organizational field. Organizations try to portray their own organizational characteristics as appropriate for all members of the organizational field (Greenwood et al., 2002) by invoking technical, legal, regulatory, or more informal norms and standards. Establishing its own way of operating as a field-wide standard favours the standard-setting organization and enhances its institutional capital.

Influence in Suchman's (1995) sense is the furthest-reaching strategy that can be used to manipulate institutional environments. Influence extends beyond the context of the organizational field to influence norm systems at the societal level. Organizations that pursue this strategy aim to build normative and cognitive legitimacy for particular ideas and actions. They reframe an existing social reality within which those ideas and actions that suit their organizational interests appear acceptable, even taken for granted.

However, these strategies, which are directed towards manipulating institutional arrangements at the level of the field or society, raise two important questions. First, how do organizations become motivated and enabled to act as "institutional entrepreneurs" (DiMaggio, 1988b) and challenge those institutional rules and norms that supposedly define their interests and scope for strategic action? Second, how do organizational actors succeed in manipulating institutional arrangements that are supported by broad social consensus? These questions represent the basic puzzles of institutional theory and have attracted growing academic attention under the labels of embedded and, more recently, distributed agency.

Embedded and Distributed Agency

With growing interest in institutional change during the 1990s, the "paradox of embedded agency" (Holm, 1995, 398; Seo & Creed, 2002: 225), the question of how institutional agents bring about change from within their field now constitutes a fundamental puzzle for institutional theorists.

The institutional entrepreneurship literature focuses primarily on dissatisfied, and therefore weakly embedded, actors as potential change agents (Garud et al., 2002; Greenwood & Hinings, 1996; Greenwood & Suddaby, 2006; Lawrence, Hardy, & Phillips, 2002; Leblebici, Salancik, Copay, & King, 1991; Maguire et al., 2004). Only recently have institutionalists started to investigate how privileged, firmly embedded actors can challenge the very norms from which they benefit and supposedly take for granted (Greenwood et al., 2002; Sherer & Lee, 2002). In their study of the Big Five accounting firms, Greenwood and Suddaby (2006) show how elite actors can occupy socioeconomic positions that make them aware of favourable alternative institutional arrangements, are motivated to further enhance their competitive position by pursuing these alternatives, and are largely immune to institutional pressures as exerted by, for example, their professional regulators. These insights constitute an important step towards disentangling the "paradox of embedded agency", because they show how the perceived underperformance and awareness of preferable arrangements motivate, and perceived immunity from institutional sanctions enable, organizations to challenge supposedly taken-for-granted institutions.

At the same time, this stream of work begins to show that institutional change may be more collective than the imagery of institutional entrepreneurship may previously have suggested. Greenwood and Suddaby (2006) focus on the interplay of an elite group of firms and their regulator, but Lounsbury and Crumley (2007) highlight the relevance of an even wider array of actors in field-wide practice innovation. These authors argue that institutional change may emerge from multiple, distributed actors engaging in parallel, but uncoordinated activities that may result in profound field-level change. This perspective might more realistically describe how institutional strategies play out, and how organizations can enhance or maintain their institutional capital.

The Organizational Field of Management Consultancy

Management knowledge is the central "issue" around which the consulting field revolves (Engwall & Kipping, 2002; Faust, 2002a; Suddaby & Greenwood, 2001). The creation, dissemination, and application of new management concepts connects its members into a collective endeavor that makes them "interact more frequently and fatefully" (Scott, 1994, 208) with each other than with actors outside their "knowledge arena" (Engwall & Kipping, 2002; Suddaby & Greenwood, 2001). Actors who have a stake in the management consultancy field include consultancies, their current and potential employees, clients in various for-profit and not-for-profit sectors, academic institutions, professional associations, and the media. Consultants, "management gurus", and mass media are recognized as a "fashion-setting community" that coalesces around the "dramatization of newness" (Faust, 2002a, 146) and forms the core of a "recognized area of institutional life" in the sense of DiMaggio and Powell's (1983, 148) field concept.

Authors describe the management consultancy field in terms that emphasize both the *emerging* and the *mature* properties. Kipping and Armbrüster (1999) highlight that the relatively imprecise nature of the consultancy concept, the multitude of specializations, and the frequent change of products and producers complicate the definition of field boundaries. Unlike other professional business services such as law or accounting, management consulting is not a protected occupation that requires professional certification and accreditation (Armbrüster, 2006; Groß & Kieser, 2006; Kipping & Armbrüster, 1999). Industry associations do exist, but they play a largely supporting and representative role, contrasting greatly with the formally approved professional associations that regulate the practice of lawyers, accountants, and physicians. Industry associations provide opportunities for training and exchange, and they help small management consultancies to build credibility and reputation (Clark, 1995; Groß & Kieser, 2006). Hence, the isomorphic pressures commonly exerted by professional associations or the state are weak in the consultancy field (Armbrüster, 2006; Groß & Kieser, 2006). In this sense, the management consulting field is still emerging, still providing space for residual institutional ambiguity and allowing competing ideas of appropriate consulting practice to coexist.

However, the perceived status of consultancy services and the way in which field constituents interact with and perceive each other show signs of increasing *field maturity*. Although management consulting is still a relatively young industry, it has positioned itself as "the world's newest profession" (McKenna, 2006), attaining quasi-professional status based on the knowledge intensity of its services (Brint, 1993; Groß & Kieser, 2006; Maister, 1993). This perceived professionalization of consultancy services, together with the close correlation of professionalization and institutionalization (DiMaggio & Powell, 1983a), suggests that the field has progressed towards fuller institutionalization. Its large growth rates during the 1990s "were being added to a mature frame, not an adolescent skeleton" (McKenna, 2006, 251).

Another indicator of field maturity is the stratification of elites and non-elites, also known as *central* and *peripheral* field participants, which differ in both scale and reputation (Greenwood and Suddaby, 2006). Similar to the more traditional law (Empson, 2007a) and accounting professions (Greenwood & Suddaby, 2006), the consulting field is clearly stratified along these dimensions, distinguishing a small group of elite organizations from their peripheral competitors in both the global and German contexts.

In 2006, the top ten consultancies in Germany (out of approximately 14,250 incumbents) controlled a market share of 18%.[2] With the exception of Roland Berger Strategy Consultants, a leading national player, the German consulting market is dominated by the global elite of American consulting firms such as McKinsey & Company, Booz Allen Hamilton, and The Boston Consulting Group. Most of those firms entered the European market in the con-

[2] Calculations based on (BDU, 2007) and (Lünendonk, 2008)

sulting boom of the "golden sixties" (Kipping, 1999, 209) and established the significant presence they still enjoy today.

Hence, while the boundaries of the management consultancy field are relatively fuzzy, its center is very clear. The stratification of elite and non-elite organizations, combined with the fluidity of field participation, the absence of strong isomorphic pressures, and the resultant institutional ambiguity suggest that management consulting is best described as a *maturing* field. Management consultancy is caught in limbo between early emergence and full structuration. This trait suggests that the processes of institutionalization are ongoing, but that there is still considerable scope for entrepreneurs to shape maturing arrangements in ways that enhance their institutional capital.

Even more than in an emerging field, in a maturing field organizations may find particularly motivating and enabling conditions for strategic action. The lack of institutions of professionalism (Armbrüster, 2006; Groß & Kieser, 2006) creates institutional ambiguity, and therefore weaker institutional constraints. Additionally, local or global elites can use their reputations and resourcefulness to shape maturing institutional structures to their advantage. The elites' exposure to top clients and multiple industries also helps them influence institutional arrangements (Greenwood & Suddaby, 2006) and give direction to their institutional strategies. These institutional and organizational conditions act as an enabler of strategic action, while the prospect of increased competitive advantage and economic reward acts as a motivator. Given that institutional arrangements privilege the interests of their promoters, individual consultancies are motivated to promote rules and structures that enhance their institutional capital and competitive advantage. These specific institutional conditions suggest that the management consultancy field is a particularly rich setting in which to explore strategies for creating and sustaining institutional capital.

Creating and sustaining institutional capital in the management consulting field

Drawing on generic strategies (see table 1) by which self-interested actors may impose institutional constraints on other field participants (Lawrence, 1999) or relax their own (Oliver, 1991b), we analyze how consulting firms in Germany manipulate their institutional context to enhance their institutional capital.

Co-optation and Lobbyism

The customization of consultancy services (Fosstenløkken, Løwendahl, & Revang, 2003) and the role of networked reputation in acquiring client projects (Glückler &

Armbrüster, 2003) mean that personal relationships play a strong role in selling consultancy services. Marketing measures are often personalized and aimed at forming networks with decision-makers in client organizations (Armbrüster & Barchewitz, 2004). Thus, the consultancy field is highly susceptible to personalized institutional strategies such as co-optation and lobbyism (see Oliver, 1991b). In this specific case, co-optation may take one of two forms, depending on whether a stakeholder is imported into the consultancy or exported to co-opt an external stakeholder “from within”.

Because of the relationship-driven nature of their service, management consultancies focus on incorporating employees with existing personal networks into their own business. This incorporation is exercised through *lateral hires*, the hiring of experienced professionals from competitors (Kaiser, 2004; Ringlstetter & Bürger, 2004). Especially when firms move into new areas of practice, experienced professionals that bring their personal networks of colleagues and clients may provide a crucial boost for business development (Malos & Campion, 1995).

A derivative of co-option that is specific to consultancies and other professional service firms is known as *outplacement* (Maister, 1993), which does not rely on integrating important institutional decision-makers into the organization, but on placing loyal employees in client organizations or regulatory agencies. For many consulting firms with an “up-or-out” tournament promotion system (Galanter & Palay, 1991; Gilson & Mnookin, 1989) outplacement has become an institutionalized solution to infusing the organization with new ideas, but it has “also created a network of former employees who served as ambassadors … within other organizations that might otherwise have been wary of employing consultants” (McKenna, 2006, 208). The prevalence of the outplacement strategy as an instrument for reinforcing consultant-client ties is illustrated by a survey of the professional backgrounds of the DAX-30 board members (see table 2)[3].

[3] The DAX-30 lists the 30 largest German companies, publicly listed at Frankfurt stock exchange. It is the equivalent to the FTSE100 in London or the Dow Jones Index in New York. Information on consulting backgrounds was gathered from publicly available executive biographies.

Table 2: Percentage of board members with consulting background of the DAX-30 corporations in Germany in 2007

Firms	*% of board members with consulting background*	*Consulting firms*
Adidas	50%	Ernst & Young, GfK
Deutsche Post	50%	McKinsey
Deutsche Postbank	44%	McKinsey
Deutsche Börse	33%	BCG, Bain, Roland Berger*, Anderson Consulting
Deutsche Lufthansa	33%	BDO
SAP	33%	ABP Partners, PwC
Commerzbank	25%	BCG, McKinsey
Deutsche Bank	25%	KPMG
Münchener Rückversicherung	25%	Roland Berger, firm unstated
Deutsche Telekom	20%	Mummert + Partner
DaimlerChrysler	17%	KPMG
E.ON	16%	McKinsey
Fresenius	16%	McKinsey
Henkel	16%	KPMG
Continental	14%	Arthur D. Little
Allianz	13%	McKinsey
ThyssenKrupp	13%	PWC
Siemens	9%	Kienbaum
BASF	--	--
Bayer	--	--
BMW	--	--
Hypo Real Estate Holding	--	--
Infineon	--	--
Linde	--	--
MAN	--	--
Merck	--	--
Metro	--	--
RWE	--	--
TUI	--	--
Volkswagen	--	--

Source: based on Datamonitor and publicly available CV information
* board member with former positions at multiple consulting firms.

On average, 16% of all DAX-30 board members have a background in management consulting. The results ranged from zero to 50%; figures close to 50% suggest close relationships between the corporation and the consulting field and in some cases with a specific consulting firm. Notably, in the chemical or automotive industry, where a strong life science or engineering background is desirable even among top executives, only one out of 36 board members has a consulting background. Conversely, DAX-30 banks recruited one third of their board members from among former management consultants.

Given our indicator, by far the most successful firm in outplacing former employees into client organizations — is McKinsey & Company[4], the industry leader in the German consulting market. Of all former consultants on DAX-30 executive boards, 43% are former members of McKinsey. More importantly, in exceptional cases such as the Deutsche Post and the Deutsche Postbank, former employees of McKinsey occupy 50% and 44%, respectively, of the top-management positions. At the same time, McKinsey has attained an informal status as "consultancy of choice" for both companies, reducing the volume of new business that competitors have been able to acquire. In 2006, McKinsey generated an annual fee income of an estimated €80m, accounting for approximately 13% of total fee income, from this relationship (Lixenfeld, 2008; Student, 2008). Although the survey of DAX-30 companies is indicative, the alumni networks of large consultancies reach much further. McKinsey's German alumni network comprises approximately 1,800 managers (Reischauer, 2005, 86) compared to about 1,000 former BCG consultants (Student, 2006, 32).

The prospect of *outplacement* to prestigious client firms increases the attractiveness on the graduate labor market (Reischauer, 2005; Student, 2006). It creates institutional capital in that it helps attract new talent from leading business schools and fuels the constant stream of new entrants that is needed to sustain the up-or-out promotion system. Additionally, consultants that have successfully been outplaced with clients can help their former employer secure a steady stream of new projects, based on good personal relationships and information advantages (Bresser & Millonig, 2003; McKenna, 2006, 203-210). However, the benefit of these client-consultant ties is mutual as clients can also benefit from employing former consultants. Their inside knowledge of their former firm makes it possible for them to manage service delivery more effectively and to raise performance expectations (see Van den Bosch, Baaij, & Volberda, 2005). For instance, former consultants in client organizations may have maintained good personal relationships with partners in the consultancy through whom they can sanction low-performing consulting work.

[4] In the following we refer only to McKinsey.

Within *New Public Management* initiatives, management consultancies are increasingly seconding members to government and policy-making committees (Bill & Falk, 2006; Faust, 1998). A prominent example in Germany is the so-called “Hartz Committee” on labor market reform, to which McKinsey and Roland Berger Strategy Consultants seconded senior members. Work on policy-making committees builds reputation, but more importantly, it constitutes a deliberate attempt to demonstrate the value of consulting services for society. Similar to client outplacements, these temporary secondments represent a form of co-optation that enhances consultants’ institutional capital, creating public awareness and legitimacy for consulting work in this sector. Such a “committee first, then consulting”-strategy (manager-magazin, 2004) opens up the public sector as a new and lucrative market for consulting services. In 2004, public organizations spent about €1 billon on consulting fees, accounting for approximately 8% of the total German consulting market (Falk, Rehfeld, Römmele, & Thunert, 2006, 292).

However, these efforts to build institutional capital also had unintended consequences that reduced it. As new stakeholders surfaced, government watchdogs began to scrutinize the government use of management consultancies; journalists and academics publicly questioned its legitimacy. The increasing influence of management consultants on political decision-making is now met with great skepticism as critics observe the emergence of a “republic of consultants” (Leif, 2006; Niejahr & Bittner, 2004) in which political decision-makers depend increasingly on external consulting expertise. Following a resolution of the Budget Committee of the German Bundestag, the *Federal Audit Office* (Bundesrechnungshof) developed guidelines for government relations with, and the use of, management consultants (Bundesrechnungshof, 2006). Hence, when some elements of the institutional environment, but not others, are co-opted to align with organizational interests, unintended consequences for firms’ institutional capital can occur.

This means that the deliberate competitive or institutional strategies of individual firms may entail both positive and negative unintended consequences that drive the developing process of institutional change. Deliberate and emergent, and competitive and institutional components of strategy influence each other through feedback loops. For instance, the deliberate outplacement of qualified consultants in client organizations solves the incentive problems of an up-or-out career system, but also creates an emerging pattern of organizational actions that may institutionalize the use of consultancies by clients. Similarly, consultants’ work on policy committees generates fee income and, at the same time, creates the incidental by-product that political consulting becomes increasingly indispensable and eventually taken for granted in the public sphere.

Membership

Membership strategies specify which organizations can legitimately exercise particular functions and thus derive benefits resulting from their activity. Nevertheless, in addition to Lawrence's (1999) original conceptualization of membership strategies, we also find distinct non-membership strategies among German management consultancies.

Small and medium-sized consultancies pursue a membership strategy in Lawrence's (1999) sense, in that they organize themselves in industry associations such as the *Bundesverband Deutscher Unternehmensberater* (*BDU)* or the *RKW Beratungsnetzwerk.* These associations, which serve as substitutes for established professional associations with regulatory functions, signal a minimum of consultancy competence and quality to potential clients (Groß & Kieser, 2006).

By contrast, for leading international consultancies such membership strategies are counterproductive. In the absence of a protected occupational title and formal professional accreditation, reputation serves as a proxy for quality. Hence, elite firms can use their reputation as a "membership criterion" and form a strategic group (McGee & Thomas, 1986) of management consultancies defined by elite status (Ferguson, Deephouse, & Ferguson, 2000). Their rigorous, strict demands serve to maintain the exclusivity of their circle and to establish a company-specific "micro-profession", which is reinforced by in-house monitoring of quasi-professional principles (McKenna, 2006)[5]. This legitimation-qua-reputation gives elite consultancies access to knowledge and policy-making arenas in which best practices are created, validated, or diffused (Suddaby & Greenwood, 2001).

By steering clear of more inclusive industry associations, elite firms avoid reputational contamination and external institutional influence. In this sense, they pursue a *non-membership*, or exclusivity, strategy to enhance their individual institutional capital and weaken that of their smaller competitors.

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[5] For instance, McKinsey & Co's firm-specific network alone, composed of 14,500 active consultants and 18.000 alumni (McKinsey, 2008a), comprises more members than the BDU representing 530 firms covering 13,000 individual consultants (BDU, 2009). This network makes it possible for McKinsey to act as a one-firm micro-profession.

Standardization

Standardization strategies define what is to be seen as normal, for example, for a particular service. In this respect, membership and standardization strategies are interdependent, since both promote and eventually institutionalize consistent standards of professional practice and service quality. Those consultancies that promote a standard – and which most likely already comply with it – automatically gain legitimacy advantages and enhance their institutional capital.

For instance, in an attempt to strengthen the collective reputation and legitimacy of the consulting profession, the *BDU* filed a request to the Ministry of Economics to protect the title *Unternehmensberater* (management consultant) under occupational law. According to the proposal, the title *Unternehmensberater* should have been awarded conditional upon specific credentials, such as academic training or practical experience. But in December 1997, the proposal was rejected by the ministry (Glückler & Armbrüster, 2003, 272; Groß & Kieser, 2006; Handelsblatt, 1997).

In accord with their non-membership strategy, elite consultancy firms with a strong position in their particular fields can use more subtle standardization strategies to enhance their individual, rather than the collective, institutional capital. These consultancies can raise to the status of an institution those practices, procedures, and products in which they have competitive advantages. In this context, the creation of *management fashions* constitutes a standardization strategy. It at least temporarily institutionalizes concepts or practices by ascribing to them a value over and above their technical merit (Lawrence, 1999). Although fashions are transitory rationality myths and only weakly institutionalized, nevertheless, while they last they are regarded as standards in their respective areas for the duration of their life-cycle. Their technical merit is not evaluated strictly by goal attainment, because their application confers benefits of perceived conformity with super-ordinate norms of rationality and progress (Benders & van Veen, 2001; Kieser, 1997; Suddaby & Greenwood, 2001).

Consultancies as “expert theorizers” (Strang & Meyer, 1993, 498) occupy privileged positions in “reality-defining arenas” (Seo & Creed, 2002, 242) where the legitimacy of competing management innovations is constructed and contested. Within these arenas, their status enhances the impact and “positive normative emulation” of their ideas (Suchman, 1995, 579). Thus, management fashions become important standardization devices of socially constructed business solutions. A consultancy that successfully establishes its own concepts or procedures as temporary standards enhances its own institutional capital, because it develops market preferences that constrain its competitors, which are forced to adapt and subscribe to concepts or procedures in which they are at a technical disadvantage. Further, as the use of specific consulting services becomes a more standardized response to certain management problems, the standardization efforts of individual firms can build collective institutional capital for the entire industry.

Influence

Generally, the successful marketing of consultancy services depends on a positive perception of the engagement of consultants in the target industry. The strategic influence on such a fundamental attitude can endow consultancy services with normative, and eventually cognitive, legitimacy (Suchman ((1995);(Røvik, 2002).

There is clear evidence that in the past consultancy firms have successfully influenced the value systems not only of their clients, but also of society at large, so that the support services they provide to management teams and policy makers have become taken for granted (Falk et al., 2006; Faust, 1998; McKenna, 2006; Wimmer, 1992). These observations resonate strongly with Meyer and Rowan’s (1977) argument that the modernization of society makes more areas of society accessible to the rules of rationality. Management consultancies have been able to use and propel this trend by reaching out to new groups of potential clients and applying their expertise to new types of problems which traditionally had not been open to their services (Ernst & Kieser, 2002c; Rudolph, 2004).

Influencing strategies may involve other strategies of institutional manipulation. such as outplacement and secondment strategies. However, these strategies may be more wide-ranging, especially in areas where firms try to influence societal value systems more generally and open up new markets.

In the business sector, consulting firms can rely on their “systems of persuasion” (Alvesson, 1993, 1011) to create institutionalized myths that buffer their existence and operation from questioning. Based on a study of self-presentations by various global management consultancies on the Internet, Bäcklund and Werr (2001) conclude that management consultancies use prevalent social myths of rationality, globalization, and universality to institutionalize their services as necessary components of successful management.

To influence value systems outside their traditional „management“ domain, consultancies can employ secondment strategies to demonstrate their value for political decision-making. Active engagement in social and environmental issues has also become an important mission for a large number of businesses that put corporate social responsibility and corporate *citizenship* high on their agenda. Management consultancies can work "pro bono" to display their social responsibility, i.e., deliver services for projects of social relevance free of charge (e.g., BCG, 2008; McKinsey, 2008b; Roland-Berger, 2008a). However, these initiatives also provide a strong platform for more wide-ranging societal strategies.

From the institutionalist perspective, pro bono work not only builds reputation as a socially responsible organization, more importantly, it also creates impressions of ubiquity that may be perceived as an indicator of acceptance and legitimacy. Pro bono work gives consultancy firms a legitimate presence in social domains that were previously not accessible to them due to incompatible value systems. Especially the large, elite consultancies have developed their status as the new “reflective elite“ (Deutschmann, 1993; Faust, 2002a) or the “supra-experts” (Ernst & Kieser, 2002a) by applying their expertise pro bono to societal problems as diverse as climate protection (McKinsey, 2007), restructuring the church (see Hardt, 2004; Neidhart, 1997), national innovation systems (BCG, 2006), and city attractiveness (Roland-Berger, 2008b). These initiatives counter negative public perceptions of consultants as hyper-rational cost-cutters. They build a legitimate basis of activity for consultancies in a wide range of societal sectors and thereby develop the consultancies' individual and collective institutional capital. Consultancies’ individual efforts to manage their reputation collectively drive the institutionalization of management consultancy throughout society.

However, we note that the influencing strategy should not be considered in isolation from other, super-ordinate institutional arrangements. For instance, from a historical perspective, it is clear that the influence of management consultancies in societies with traditional values of status, prestige, and authority is lower than in meritocratic societies, which stress functional values of effectiveness and efficiency (Faust, 2002b). Therefore, an important question is to what extent changes in social values can be influenced by individual institutional entrepreneurs.

Discussion and Conclusion

Unlike the “classic” professions such as accountancy or law, management consultancy is distinguished by institutional ambiguity and weakly entrenched, relatively localized “proto-institutions” (Lawrence et al., 2002). Thus, consultancies have an advantageous position in that restrictive institutional pressures are relatively weak, while the relative maturity and stratification of the field has produced a central elite, which enjoys an entrepreneurial freedom to influence emerging institutions by virtue of their size and reputation. Drawing on discussions of institutional capital (Oliver, 1997) and its strategic manipulation (Bresser and Millonig, 2003; Lawrence, 1999; Oliver, 1991) we have established and examined five strategies by which management consultancies can manipulate their institutional environment in ways that help them extract competitive resources. Table 3 summarizes these strategies, the practices through which they are implemented in the consultancy field, and the institutional effects they seek to generate.

Table 3: Strategies of consulting firms for creating and sustaining institutional capital

Mutual effects	**Strategy**	**Practices of consulting firms**	**Explanation from an institutionalist point of view**
	Co-option/ Lobbyism	▪ Networking ▪ outplacement ▪ work on commissions	institutionalization of firm's own consultancy service
	Membership	▪ professional associations, professional principles ▪ networks in knowledge arenas ▪ exclusive group of major management consultancy firms	▪ creating institutional constraints for non-members ▪ institutionalization of concepts ▪ circumvention of institutional constraints
	Standardization	▪ standardizing business problems and solutions ▪ influencing the knowledge and fashion discourses	(temporary) institutionalization of company's own concepts
	Influence	▪ influencing the value systems of target industries ▪ use of trends ▪ use of multiplier effects	establishment of a value system for one's own services

Co-optation/lobbyism represents the most effective strategy for management consultancies. This strategy can be used either in isolation or in pursuit of a broader influence strategy, and plays a major part in the institutionalization of consultancy services. By comparison, the membership and standardization strategies are relatively weak instruments, because membership in industry associations is voluntary and standards may confer only temporary advantages before new concepts or practices become fashionable..

Changes in the institutional capital of individual consultancies and the consultancy sector as a whole are influenced by a complex interplay of widely dispersed actors, existing systems of norms and values, and super-ordinate trends, such as the modernization of society. Hence, it is impossible to reduce changes in the societal value system, because they are, for example, necessary to open up non-profit sectors such as politics or environmentalism for consulting services, to initiatives of single organizations. As entrepreneurs challenge "widely accepted rules of the game" (DiMaggio & Powell, 1991, 30) sustained by broad social consensus rather than coercive authorities, they must gradually mobilize broader sets of actors. Management consultancies can pursue this strategy by initially focusing on relevant target industries that they can later use as their advocates when trying to manipulate broader societal value systems. A target industry of this kind, such as public administration, can be addressed at first by measures focused on one client, in anticipation of far-reaching multiplier effects that can eventually lead to a sector- or society-wide shift in values.

For the development of institutional theory, our argument has several interrelated implications: First, our discussion of institutional strategies in the German management consultancy field finds that instititutional entrepreneurs take less a voluntaristic role than previous accounts have suggested. The combined presence of multiple actors, such as consulting firms, the media, clients, business schools, and industry associations, with different levels of involvement implies that agency is distributed across actors. There is typically no centralized control in the consulting field, since there is no single agency with a monopoly power position that can dictate the behaviour of other agents. Hence, collective behaviour has to be understood as the result of self-organized actors interacting with their local environment, but creating global patterns of action as a by-product. For example, the creation of management fashions cannot be understood as an individual endeavor, but as the collective achievement of non-orchestrated, widely distributed agents that resemble a social movement. This understanding of institutional change initiatives as distributed agency (Garud & Karnøe, 2003; Quack, 2007) rather than individualistic entrepreneurship sheds new light on institutional strategy formation.

Second, with multiple localized actors contributing to an institutional change, the formation of institutional strategies may be better understood as an interplay of emergent and deliberate actions. As Mintzberg (1987a, b) suggests, strategies need not be deliberate; they can also emerge from incremental and wide-spread patterns of actions. Although these approaches have generally been viewed as mutually exclusive opposites, Quack (2007) finds that institution building involves both practitioners' practical problem-solving and firms' deliberate political interventions. It appears that in our accounts, institutional strategies are the result of a complex interplay between deliberate sets of actions that *individual* consulting firms use to enhance their competitive positions, and emerging patterns of *collective* actions that produce institutional change through complex feedback loops with other players in the field. For instance, by deliberately outplacing loyal consultants in client organizations, close business relations may evolve into unquestioned institutionalized work practices between the two organizations. Furthermore, a consulting firm's participation in political committees is usually a deliberate attempt to enhance revenues, but can also build firm-specific institutional capital by enhancing reputation. Beyond that, industry-specific institutional capital emerges as political consulting becomes legitimized as a new field of activity.

There is a great potential for future research along these lines in the continued development of an institutionalist theory of management consultancy. Our own contribution should be understood as a first theoretical step in this direction. Further empirical research should be pursued to analyze different strategies for building up institutional capital, to uncover differences between different strategic groups of management consultancy firms, and to identify the constituent forms of institutional work (Lawrence & Suddaby, 2006) that are used in specific institutional contexts.

Insights from such an empirical study would also inform institutionalist theory on maturing fields. Such a study is intrinsically interesting, because it would allow institutionalists to understand the gradual structuration of fields through a "cumulative history of action and interaction" (Barley & Tolbert, 1997, 98). Evidently, the consultancy field provides an instrumental, abundant setting for exploring the motivations, abilities, and activities of institutional agents creating and modifying institutional arrangements. Hence, a better understanding of their strategies and the institutional conditions under which they are to be employed will help produce a better institutional theory of consultancy firms and their institutional capital, and also offer practical advice about strategies to strategically enhance and maintain it.

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