
Internal Consulting Units: A Flexible Friend?

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Introduction

Market disruption and associated client anxiety have become the norm. Digital transformation drives new business models, globalisation amplifies the impact of often controversial economic and policy developments, and available young talent has become scarce. Meanwhile, in the background, the world is facing an environmental catastrophe like never before. Under normal circumstances, senior leaders of organisations would turn to external consultancies in search of answers to such challenges. Reliance on the incumbent strategy behemoths like McKinsey & Company, the Boston Consulting Group, and Bain & Company is, however, no longer a given. Management consultancy firms themselves have also been disrupted (Williams, 2019).

And there is also one more trend that has only received limited scholarly attention (Grima and Treppe, 2011; Sturdy and Wright, 2011; Wright, 2008; Wright et al., 2012) – the rise of internal departments tasked with consulting projects embedded within large established enterprises and public sector organisations. Internal consulting units (ICUs) are not a recent trend. However, they are yet to achieve the global scale and diversify themselves en masse beyond their ‘captive’ clients and into the wider consultancy marketplace. Nevertheless, an expansion of the model is not only plausible, but inevitable due to the complex nature of market disruption. Are we to see a wave of new ICUs soon? What are the key factors organisations should consider when evaluating strategy for - and managing their own - ICUs?

ICU Origins

ICUs originally developed from within HR and IT functions, these departments hiring an increasing number of specialised management consultants (Chen, Tran and Williams, 2018). Mandate to develop ICUs soon went beyond realisation of complex internal transformation processes and extended to talent pool development and training of future managers for the parent company. A driving factor behind the rise of ICUs was their focus on operations consulting, compared to a strategy focus presented by incumbent strategy-oriented management consultancies. This coincided with a shift in client expectation towards more measurable indicators for the success of strategy

implementation. The inherent closeness of ICU leadership to management in the captive client, as well as involvement in implementation made ICUs highly suited to fulfil the need for operational consulting and continuous supervision of implementation at reasonable cost.

What ICUs and external consultants both have in common is the task of solving challenges that their client organisation faces. Shifting paradigms in the consulting industry – noted by Sturdy (2011) as a blurring of boundaries – do not affect clients' fundamental need for an objective perspective, quickly scalable support, and efficient project execution. ICUs just happen to employ consultants that bring in an “insider-outsider” perspective and are often seen as colleagues within the organisation they advise. They tend to have greater initial levels of social capital with employees in the client organisation by virtue of their historical linkages. Wright (2008), for instance, notes how the role of traditional HR managers has become one of internal consultancy; advising on people management. They also may possess greater levels of relevant human capital too, being highly experienced in the inner workings of the captive client for many years.

The Case of Germany

While the phenomenon of ICUs is found in many markets (examples can be found in American Express and Google), the case of Germany is particularly interesting. ICUs in large corporations are very common in the German market; over two-thirds of DAX 30 companies operated an ICU in 2015. With varying mandates, these business units solve a wide range of challenging problems. The German in-house consultancies are active in implementing solutions, something that external strategy advisories are not always keen to be involved in (Haselreiter et al., 2015).

In 2007, the German government removed a strict firewall mandating operational separation between consulting and audit work. As a consequence, top auditing companies decided to acquire a number of advisory boutiques to build up their management consulting units, diversifying their core professional service offering. This disruption of traditional strategy houses also paved the way for ICU growth.

Since 2010, ICUs became a recognised fourth pillar of consulting in Germany. The country's advisory industry was officially viewed as comprised of traditional management consultancies, which were often subsidiaries of overseas firms (e.g., McKinsey & Company, Boston Consulting Group, Bain & Company, A.T. Kearney), the Big 4 auditing companies (PwC, KPMG, Deloitte, EY), smaller boutique consulting firms, and the ICUs. According to a study by German magazine “WirtschaftsWoche”, an impressive 43% of consulting mandates from DAX 30 companies were given to their own internal consultants by 2014, signaling a shift in the internal-external project balance.

The Multiple Roles of ICUs: Competitors, Collaborators, Innovators, Internationalisers

As competitors to external firms, ICUs generally acquire projects in three different ways: direct allocation of assignments from the management; competitive project tendering involving other consultancies; and proactive identification of current topics in regular dialogue with corporate stakeholders. Unlike project managers and other central service groups, ICUs are rarely in the position of allocating parent company resources to their own engagement. As a result, most ICUs have to compete with external consultancies both on a competency and price-point basis. One traditional explanation for this competition is that of 'economies of knowledge' (McKenna, 2006). This states that any external contracting costs of seeking, using, and monitoring external consultants is less than the value of the knowledge they bring to the client. In the case of the ICU, these external contracting costs are considerably lower. Nevertheless, in acquiring projects, ICUs still have to demonstrate value in terms of the knowledge, skills, and insights they can offer compared to external competition.

As collaborators with external firms, it is also not uncommon for ICUs to work alongside external consultancies. Their deep client social capital and organisational knowledge complement novel outside insights from external consultants. Sturdy and Wright (2011) show the key role of internal consultants as part of an 'active client', not only managing which external consultants get a chance to pitch for work, but also then adopting gatekeeping, brokering, and partnering roles during projects. In the language of social capital theory, this brings together the benefits of both strong and weak ties (Burt, 2000).

As innovators and internationalisers, ICUs have also seized the opportunity to expand their offering as well as their geographic footprint. They now offer strategy development, end-to-end process improvement, customer journey analysis, and change management. Wright et al (2012) identified how internal consultants have an important role in different forms of standardization in their organizations, including the regulation of a standardizing agenda for innovation. Many examples of internationalised ICUs exist too. Siemens Management Consulting, for instance, now operates regional offices in Beijing and Mumbai alongside its Munich headquarters.

We present three contrasting examples below to explore the diversity of ICU roles. These comprise a good range spanning varying *modus operandi*, corporate roles, geographies, and industries. Each one represents a distinct source of advantage for their parent company. Innogy Consulting (Chen, Tran and Williams, 2018) serves as a classic example of a DAX 30 ICU with its key competencies in sustainable corporate transformation. Porsche Consulting on the other hand represents a mature ICU that managed to outgrow its client parent company client base and expanded globally to serve clients even beyond the automotive sector. Samsung Global Strategy Group is an example of an ICU concept applied in the context of a multi-industry behemoth that needed support with internationalisation of its business practices.

Case #1: innogy Consulting (iCon)

Parent company and ICU foundation: Innogy SE, 1981

HQ and key geographies: based out of Essen in Germany; further offices in Berlin, Frankfurt, Munich, Duesseldorf, London, Den Bosch, Prague, Dubai, and Boston

Industries served: predominantly energy industry

Key clients: variety of business units within innogy SE and RWE AG

The roots of innogy Consulting (iCon) can be traced back to early 1980s when RWE bundled its internal shared services such as accounting, IT, and process support into a subsidiary called RWE Systems Consulting.

Small teams within the consulting arm were tasked with ad-hoc projects akin to “body leasing”. The move to traditional management consulting occurred in 2008, when Dr. Klaus Grellmann took the helm of the business unit with the ambition to compete for strategic projects within the group, usually reserved for the likes of McKinsey and the Boston Consulting Group.

Managing the mismatch between the vision, structure, and actual capabilities, iCon set off by modelling its performance and hiring strategy on external consultancies. With experienced partners with management consulting backgrounds, iCon found its way into RWE and innogy, eventually leading projects for C-level executives. iCon’s show of intent was best demonstrated during the spin-off of innogy, a sustainable utility created by carving out RWE’s retail, grid, and green generation business. Successfully delivering the largest German IPO of this millennium (raising 4.6bn EUR) not only gave iCon its current name, but also the licence to operate more widely and expand internationally. The number of consulting staff reached 200 by 2018 and saw the opening of new practices specialising in topics such as Digital and Change. In 2018, iCon was the top-ranked ICU in Germany by the career website squeaker.net. Additionally, Germany’s leading role in the green energy transition (Energiewende) presented iCon with new opportunities to expand its business externally through cutting-edge expertise in energy topics. This unique strength led iCon to open its Dubai and Boston offices focused on acquiring clients beyond the innogy and RWE groups.

Source: Chen, Tran and Williams (2018)

Case #2: Porsche Consulting

Parent company and ICU foundation: Porsche AG, 1994

HQ and key geographies: based out of Bietigheim- Bissingen near Stuttgart in Germany; further offices in Munich, Hamburg, Berlin, Milan, Sao Paulo, Atlanta, Belmont, and Shanghai

Industries served: predominantly automotive industry but also aviation and aerospace, industrial goods, construction, retail, and services

Key clients: Porsche AG and the Volkswagen Group in general, Airbus, Embraer, SAP, airlines such as British Airways

The history of Porsche Consulting started with an engagement in 1993 involving Porsche’s new CEO Wendelin Wiedeking. Porsche, just like the rest of the automotive industry, was struggling with inefficient structure and wastage that resulted in overruns and cost pressure. Starting by looking at rearranging shelves with 911 supplies to avoid

workers climbing on them, Porsche's internal team successfully delivered an organisational transformation making it a lean operations leader in automotive.

As a result of the expertise gathered during the turnaround, a separate ICU was launched a year later – Porsche Consulting. Emphasizing result delivery with actual operational improvements, Porsche Consulting's approach to operational excellence and production transformation soon proved popular with firms within Volkswagen's supply chain. Over time the consultancy managed to grow even beyond the automotive industry with the likes of Airbus and SAP amongst its clients. Now having grown close to 600 employees across the world, 70% of the clients Porsche Consulting serves are external. Revenues grew to an impressive 173 million EUR in 2018, providing a sizeable additional revenue stream to Porsche's core automotive business. The Consultancy.uk website has even ranked Porsche Consulting amongst its Top 25 most prestigious consultancies in Europe, signifying its universal reach and recognition.

Sources: consultancy.uk, Porsche Consulting

Case #3: Samsung Global Strategy Group

Parent company and ICU foundation: Samsung

HQ and key geographies: based out of Seoul; operating globally

Industries served: Electronics, manufacturing, corporate functions, and strategy

Key clients: Samsung Electronics

Samsung started facing growth challenges as it internationalised with decisions needed to be made outside of its HQs in Seoul and Suwon. Samsung Global Strategy Group (GSG) was conceived as an answer to these challenges – by part playing the role of an international strategy team, part acting as an internal consultancy. With career progression modelled on top external consultancies, GSG hired exclusively from the world's top MBA programmes such as Harvard Business School and INSEAD aiming for a diverse cohort that would eventually become Samsung's global management pool with a deep understanding of the conglomerate's home culture and many intricacies and specificities of chaebol.

With close to 50 global strategists at any given time hailing from 30 different countries, GSG teams engage in high importance strategy projects alongside staff from Samsung's other business units. Based out of Seoul's Gangnam district, GSG serves internal clients as far as Brazil or the US. As Samsung's diverse business interests such as construction and insurance are mostly limited to the Korean market, over three quarters of GSG's projects serve the global Electronics division. Consequentially, a vast majority of projects relate to product strategy and corporate development, underlying GSG's crucial role in globalising Samsung's corporate practices.

Sources: hbs.edu, Samsung Global Strategy Group

ICUS: A Management Problem

These cases show the variety of roles ICUs can develop and adopt. ICUs compete with external consultants, they collaborate with external and internal stakeholders as part of an 'active client' role, they innovate, and they internationalise. However, given their size one might question how well ICUs can perform all of these roles simultaneously whilst maintaining client satisfaction. They may reach a threshold point past which they cannot continually shift mode without confusing their existing or prospective clients. Also, they might not be the right answer to every client anxiety. Arguably, because of their operational focus, ICUs can be seen as a part of an answer to the "resilience question", helping the client cope with disruptions and shocks (Williams and You, 2018). And they can be standardisers and innovators too (Wright et al., 2012). At the same time, it is undeniable that many clients might see ICUs as management stooges with an inherent conflict of interest. The issue of how to develop ICUs strategically essentially boils down to a management problem, and one that requires leaders of ICUs to continually assess the opportunities to create value alongside the challenges that can destroy value.

Opportunities

Creating value through trust and protecting knowledge assets

ICUs can hold a high level of trust within their parent organisations given historical linkages and a track record of delivering high-sensitivity projects. iCon's example of leading its parent company's IPO and subsequent corporate transformation point to an extremely high level of faith in its capabilities both by the top-management and within the business. In terms of Maister's Trust Equation, credibility and client intimacy is high (Maister, Green and Galford, 2000). Reliability of service, predicated on pre-existing and accumulated human capital should also be high. Knowledge is retained in-house and there is little risk of sharing the company's best practices and insights with competitors. Internal consultants also tend to have a better understanding of the core business model and ramp-up projects quickly thanks to their familiarity with the business and stakeholders (Grima and Trepo, 2011). ICU teams, due to their intimacy with the client, are also ideally suited to advise on softer aspects of change, such as company culture and internal dynamics; they are seen as colleagues within the business.

ICUs also prioritise the long-term interest of the parent organisation over shorter-sighted engagements that might result in immediate results but result in unmitigated challenges thereafter. Internal consultants are inherently tied to the ascents and falls of their parent organisations, being heavily invested in the outcomes of each and every project. As prolonged relationships with the client really matter, ICUs often stay on in an implementation capacity and enable line employees through coaching. iCon has for instance been supporting RWE and innogy throughout the volatility of Energiewende, making management structures less hierarchical and enabling managers in understanding the shifting nature of the industry.

Return on Consulting

Most ICUs are organised as profit centres, therefore competing directly with external consultancies on price. ICUs usually charge less than externals for comparable quality of output, with profits passed on to the parent organisation through transfer pricing.

According to consultancy.uk, ICUs charge 4 to 6 times lower fees than the likes of McKinsey, BCG, and Bain. Besides the cost aspect, ICUs can also start generating additional revenue for the group. Porsche Consulting is a perfect example of such side benefit. This also has a non-financial impact as Porsche gets to record non-confidential best practices not only within the automotive sector, but also in adjacent industries.

Talent Pipeline

Large conglomerates and industrial behemoths are no longer seen as employers of choice – professional services and innovative tech companies are. ICUs create an attractive alternative for talented graduates and experienced professionals. The likes of Samsung GSG hire consultants that tend to be part of the academic elite coming from top MBA programmes. ICUs consistently show higher employer rankings than their parent companies with a highly attractive career growth path, granting access to the kind of talent that other business units and subsidiaries would have difficulty to attract.

Samsung GSG is not the only ICU founded on the premise of transitioning its alumni to influential positions inside its parent group. In fact, most ICUs are aware of the mission to foster talent pools for their parent companies, with many internal consultants transferring into management positions after a couple of years within the ICU. GSG provides a 360 degrees view of the business through various project engagements and a network that is unrivalled by other employees in line positions. As such, internal consultants are valued by the parent company and get to assume influential positions.

Challenges

Time Compression

It is almost inevitable for expectations of ICUs to deliver services at least on par with externals. Achieving such expertise and skillset within a newly founded internal advisory might however sound much easier than it actually is. Difficulties spring up as early as during the inception of the consultancy itself, particularly if there is a lack of clarity regarding its priorities. Scope of activities, typical project set-up, and desired areas of expertise ought to be defined and clearly communicated both to the top-management and business units within the parent organisation. For instance, it needs to be evident from the outset whether the ICU focuses on process improvement, acts as an industry expert, or merely acts as a stopgap solution through body leasing.

Even with clear purpose, quickly gaining client acceptance remains difficult; external firms typically display broader exposure through their long-standing reputations and

track records. Externals usually possess more resources – including vast offshore capabilities in IT and digital transformation in some cases such as Accenture – to develop industry benchmarks, lists of best practices. These capabilities have been built up over time. A new ICU typically employs a relatively small staff base compared to externals with up to hundreds of thousands of employees.

Over-Intimacy

Despite ICUs being perceived as trustworthy internal partners by the parent organisation, this proximity can be a double-edged sword. While governance structures might vary for ICUs, it is often the case that the head of an internal consultancy reports to a C-level executive within the parent organisation. Such association might suggest internal consultancies serve at the pleasure of the top-management, effectively acting as their mouthpiece, which can be further aggravated should the consultancy in question manage key top-down transformation projects. Such negative connotations might become a serious obstacle.

There is a need to navigate politics within the parent organisation with extreme care. External consultancies have the comfort of gaining their revenue through a wide client base, while ICUs cannot afford to alienate key stakeholders within the parent organisation. As such, upsetting neither the top-management nor business unit managers is a must. Moreover, the perception of working for the same organisation and interaction on a colleague-level might result in greater resistance towards the project approach and recommendations if they are seen as biased or politically-driven.

Brain-Drain

While ICUs can be seen as a tool to attract top-tier talent into large corporations, their personnel is highly sought after both within and outside of the parent organisation. With a relentless war for talent across the industry, ICUs often see a minor exodus every year when talented consultants move over to the parent organisation's business. High-profile projects equip ICU teams with deep knowledge of the business, close relationship with key stakeholders, and abilities to succeed in managerial positions. As such, in-house consultants are prime candidates to fill these vacancies. On the other hand, consultants often push for such moves thanks to a promise of better work-life balance, greater remuneration, and more content-oriented work. Professionals may also gain experience and key skills in ICUs on graduation from MBA programs, but then decided to move on into other larger and more globalised external consultancy firms. This staff turnover is therefore a Catch 22 for many ICU leaders. While HR strategy in ICUs fosters a strong alumni network, it makes it more challenging for the consultancies to achieve a critical size to compete with externals more effectively and even expand beyond parent organisation.

Conclusion

At the current pace, it would not be unimaginable for ICUs to become a common feature across more of the world's leading large organisations, emulating the German experience. In fact, it is quite likely internal consultancies will consolidate their roles as competitors, collaborators, innovators and internationalisers. Just like Porsche Consulting built its reputation beyond the automotive industry, the likes of DHL Consulting and Philips Innovation Services advise clients in supply chain and R&D respectively. The quality and unique capabilities of Philips Innovation Services underpin the kind of trust consultancies linked to strong industry players can gain given their work for its parent organisation's competitors such as Zeiss and GSK. As such, ICUs can easily outgrow the organizational and industry limitations of their initial setup. ICUs are undoubtedly a major disruptive force for the management consulting industry.

Nevertheless, external consultancies are not going to go away. The consulting trends will likely mimic the legal industry where law firms co-exist with omnipresent general counsels working from within. External consultancies will therefore remain alongside in-house consultancies in the future, sometimes competing, sometimes collaborating. They will share the advisory business market with each other, and assuming management can deal appropriately with the opportunities and challenges they bring, they will continue to benefit clients on a global basis for many years to come.

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