Responsible Corporate Competitiveness

University of St.Gallen

Helvetic Management Consulting: Growth and Strategic Renewal

Part A: Growth and Need for Strategic Renewal
Part B: The Process of Strategic Renewal

TEACHING CASE

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PART A: GROWTH AND NEED FOR STRATEGIC RENEWAL

THE ERA OF THE FOUNDER

Helvetic Management Consulting was founded in 1977 by Wilfried Widmer as one of the pioneer general management consulting firms in Switzerland. As managing partner of the firm until 1996, Widmer successfully established market territory by offering a broad range of services to mainly local, domestic, mid- to large-sized Swiss clients (see fig. 1 in the Appendix). Clients typically included industrial and trading companies, service providers, and public administration. He was able to expand the firm to around 25 employees, with a partner-to-professional ratio of 1:2, mainly for two reasons. First, the industry setting in Helvetic's founding years after the oil crisis in 1973, as well as during the 1980s and 1990s, was mostly very favorable. Consulting industry growth rates were well above GDP, except during the recession of the early 1990s (see fig. 2 in the Appendix). Second, the relatively low familiarity of clients with management concepts eased client acquisition. Most top managers in client firms were engineers or firm-grown managers with limited management education and project management experience. As one senior partner recalls, *"They bought every concept consultants provided them, no matter how simple it was."*

All partners at Helvetic had a general management background; most specialized in one or two content fields. As no real culture of knowledge sharing existed in the firm, these competences and skills remained silos inhabited by the respective partners. Projects were selected mainly opportunistically, a fact that is confirmed by one partner: *"We take nearly all projects, as long as we have fun and the responsible partner can make enough money with it."* Because the firm simply waited until the phone rang (and it did), no formalized, concerted sales process was needed. As a result, a broad and diverse company service portfolio contained a client mix of around two-thirds old clients and one-third new clients; the latter often included established relationships with people in new positions at other firms.

Helvetic's culture was strongly influenced by its founder and his vision of developing an independent, innovative, client- and implementation-focused, first-class consulting firm. Operating based on the values of entrepreneurship and individualism, each partner was free to pursue his own goals and strategies, for which he also had to bear the economic consequences. The compensation system based on individual billable hours enforced this individualistic setting. In accordance with this "eat-what-you-kill" philosophy, the company attracted and developed individualists with a strong entrepreneurial spirit who primarily served their own interests and acted more as "lone warriors" than as team players.

An "up-or-starve" model was implicitly enacted. New consultants were not formally trained or developed, nor was there a development budget. Instead, consultants needed to convince one or more partners of their qualities to be staffed on client projects and benefit from the partner's experience. If they were unable to do so or if the partner fully utilized his own time without staffing his junior consultant, they were forced to work on internal projects with much less client interaction; thus, they faced gradual "starving" in the organization.

To secure the firm's long-term sustainability, Widmer - a lone warrior himself - always emphasized two values, which he considered the underlying elements of his firm: *service excellence* (striving for quality in terms of client orientation, effective methodology, customized solutions, and intellectual openness) and *responsibility in dealing with shared resources* (in terms of consultants and other support functions, image, brand, recognition, know-how, and infrastructure). The former was evident in the consistently high numbers of satisfied clients and in the high percentage of projects with current clients. The latter was evident in the simple firm infrastructure and office design (e.g., furniture from IKEA). Widmer's idea behind his unique overhead structure was that revenue is generated at the client side only. Thus, he saw no need for his employees to remain in the office any longer than necessary. Because he exemplified these codified values on a daily basis and was fully accepted as the leader and great patron of the firm, these values were consequently accepted and shared by the whole partner group. The statement that *"Wilfried constituted the embracing element in a culture of lone warriors"* best reflects his role in the firm.

AFTER THE RETIREMENT OF THE GREAT PATRON, THE OLD SYSTEM COMES UNDER PRESSURE

In 1996, Widmer (65 years old) retired and sold his firm for a large sum of money mostly to four senior partners, who acquired unequal stakes: Simon Keller (~40%), Stefan Hauser (~20%), Christian Speer (~15%), and Fredrik Obermann (~10%). Investing heavily in the firm, these partners built their strategy on the idea of selling their stake in the future. As the biggest shareholder, Keller quite naturally became the CEO.

An experienced partner with a double degree from the University of St. Gallen (HSG), Keller mediated between colleagues to solve problems and was well respected in the firm. However, despite his positive personality traits and long track record of previous consulting experience, he was not the same charismatic leader that Widmer had been. As the shared elements of the partner group were so strongly centered on and associated with the founder, they could no longer be enforced in the same way by his successor and increasingly broke apart under Keller's aegis as CEO. Thus, having lost their embracing element in the setting of lone warriors, the original values no longer added organizational value, only "partner value."

While there was no clear, explicit hierarchy after Widmer's era ended, one of the senior partners acknowledged Helvetic's situation: *"there are partners, partners, and partners."* Even if there were equal votes, the president of the board, together with the second major shareholder (Hauser) and the finance director (Obermann), had the final say. As they also held the majority of firm shares, they were considered as the *"triumvirate"* of the firm.

In this new shareholder setting, distribution of the yearly profit pool rose greatly in importance. Starting with the firm's yearly profits, the comparatively low fixed salaries of the partners were first distributed, per head, on an equal basis. In a second step, partners were compensated on an individual basis for their own services rendered to clients. Thus, *"The P&L does not contain the real cake. … Partners are eating the ingredients while cooking."* In good years, remaining profits were distributed to the shareholding partners according to their stake in the firm; for some, this meant an additional six-figure income. On average, only around 15% of partners were assigned to strategic projects per year. A bad year might mean that no profits were left at all to finance investment projects, resulting in the paradox that individual partners could be very successful while the firm was in a downturn.

At the end of 1997, a company-wide open space seminar was organized to listen to all concerns covering a wide range of topics. One of the general insights revealed that employees obviously were not convinced by the opportunistic, partner-centric model and questioned whether Helvetic had any strategy. To deal with this concern (although not shared by Keller and most of the other senior partners), Keller formed and led a five-member team to develop a formal strategy for Helvetic. This team consisted of younger professionals who had joined the firm in recent years, most with prior experience in larger consulting firms (e.g., McKinsey) based on extended internships or traineeships, something unprecedented at Helvetic. In addition to their high levels of energy, they also brought with them a basic understanding and personal opinion about the ideal functioning of a consulting firm.

The result of the strategy exercise was a list of six principles Helvetic should stand for: (1) understand your environment, (2) lay out your options, (3) define your strategy, (4) adjust your organization, (5) increase your performance, and (6) implement your strategy. However, it quickly became clear to all that these principles were merely a new framing of the existing all-encompassing general management approach. In two subsequent workshops and extended partner meetings in 1999, two external moderators and facilitators interpreted Helvetic's current positioning as a *"general merchandise store."* Although changes were encouraged, no clear actions were initiated by Keller or the partner board. Internally, however, a group of younger professionals, centered around Camillo Lopez and Urs Hammer, increasingly thought about potential negative long-term consequences of this strategy and started to vigorously explore potential alternatives.

After the "dot-com bubble" burst at the end of the 1990s, demand for start-up services collapsed. Beginning in 2000, a fierce downturn took place in the first years of the new millennium within the consulting industry. For the first time in more than 25 years, consulting revenues declined in 2002; Switzerland represented the tail-end of Europe, with a negative 17% in revenues and almost one third of margins disappearing (Source: HZ, No. 47, 19th Nov. 2003; Feaco, 2003; see also fig. 3 in the appendix). Client spending on consulting services in the Swiss market declined from 800m€ in 2001 to 670m in 2002. The industry became increasingly competitive, especially within the client segment that Helvetic served. The larger consulting firms hit by the crisis were forced to reduce staff and increasingly acquired smaller projects. Whereas previous projects represented about 500'000 to two million CHF, firms now reduced their rates and became profitable by working on projects between 100'000 and 300'000 CHF. Not only did they become direct competitors to Helvetic, they continued to establish key account management practices in the Swiss market and profited from their well-developed alumni network, positioning many of their former professionals in key management positions. At the same time, because of client internationalization, management consulting also became more internationalized, resulting in a stronger position for larger firms. Their stronger cross-border brand could not be offset by smaller consulting firms, which more often operated in multicultural networks. To be also able to serve clients across Swiss borders and to support mid-sized firms in their international strategies, Helvetic had joined the European Consulting Network (ECN) in 1997, a strategic partnership currently consisting of eleven mid-sized management consulting firms throughout Europe.

Clients increasingly required consultants to provide them with complete solutions, combining diverse services. Clients indicated a preference for "one-stop-shops," where the same consulting firm not only designs but also develops and implements all aspects of the strategy, including organization, process technology, and staffing issues (FEACO, 2000). Consequently, large global firms, those best equipped to fulfill that role, grew above average. In 1980, their part of the Swiss market was only 25%; at the end of 2007, it was 74% (see fig.

4 in the Appendix). Of the 20 largest consulting firms in Switzerland in 2007, 16 were global and 4 had Swiss origins. Two decades earlier, there was an inverse ratio: 5 global and 15 Swiss consulting firms.

In addition to the large global consulting firms, there were increasing numbers of sole proprietorships, either former consultants from large firms or former middle or top managers of industrial firms. Because these small firms also increased competition with regard to Helvetic from the bottom, the segment in which Helvetic was positioned continually shrank. Larger engineering firms, such as Swisscom, Sulzer, and ABB, began to hire either large consulting firms with international experience for their strategy projects or more focused, specialized smaller firms with specific industry know-how for smaller projects.

Last but not least, client professionalization hit Helvetic hard. Many clients, most often larger firms but also the traditional core clientele of Helvetic (Swiss SMEs), underwent a strong professionalization beginning in the 1990s, with two main consequences. First, the selection process became more and more objective. Often, in the form of a "beauty contest," five to six firms would pitch their services and only one was finally selected. Second, managers in key positions, constituting previous relationships which often dated back to personal ties to Widmer, retired and were replaced by managers who were well-educated (holding an MBA or management degree) or possessed experience obtained at other consulting firms. As a result, the need for consulting services dramatically changed. *"You could not tell them anything anymore. They were looking for consulting based on very specific problems."* As long as the industry experienced strong growth, as in the 1990s, Helvetic could still find enough clients to purchase general management consulting services, especially by building on its excellent reputation. In a 2000 study ranking Swiss consulting firms, Helvetic received top rankings in several dimensions including client orientation, trust, social competence, and price. By 2001, however, the crisis also reached Helvetic. The company experienced a sharp downturn in fiscal year 2001-2002 and, in the following years, could barely compete in this new business environment.

Still, most partners continued to earn substantial incomes. At the same time, however, partners had to leave the firm because they could not generate enough sales. One partner who had joined Helvetic from another company could not build on his existing network because he was bound by a non-compete clause. Instead of providing transitional access to an established client pool or assigning him to current projects, none of the partners offered help. Other professionals also had to leave the firm, which shrunk from its peak of 33 employees in 2000 to around 20 in the following years. Slowly, the weaknesses of Helvetic's positioning as a general management consulting firm and the individualistic approach became apparent.

At that time, two camps emerged, with one adhering to the old system. These partners wanted to exert more pressure on the other partners to enforce better performance and more client acquisition. They were looking for someone with more leadership qualities - a "dictator" in the positive tradition of the founder, Wilfried Widmer. The other camp saw the root of the problem in the existing management system and its consequent behavior. They not only recognized that the old strategic positioning would not work in the new business environment, they also were concerned about the old culture of lone warriors and the management system that supported this culture.

An inner circle formed around four main players: Urs Hammer, Francis Scherer, Christian Speer, and Camillo Lopez. They openly complained about the old partners considering the firm as theirs personally, while most of the value was generated by the younger, increasingly successful partners. This group found it especially hard to accept the cash-out of the majority shareholders, whom they felt did not necessarily need to successfully complete projects or carry the weight of the firm. For them, it wasn't an option to buy more shares than the minimum required to become a partner because, on the one hand, shares were overpriced and, on the other, there was no guarantee that they could exit later on. A heavy investment would have resulted in the perverse paradox that the more successful they were, the more money they had to invest to buy firm ownership shares, as share price was dependent on the prior year's profits. In 2003, Lopez, for example, refused to buy more than his obligatory amount, an investment of 300'000 CHF for 25 shares.

Independent of these inner political camps, several persons described intolerable situations in the firm. For example, Lopez, the recruiting director, had to renege on job promises and dissolve contracts with HSG students after they had been signed (generating negative reputation effects) because of the lack of projects and finances. Obermann, the finance director and one of the best "rainmakers" among the partners, referred frequently to the low average consultant utilization rate in the firm (50%), well below the target utilization rate of 75%.

Obermann still did not share the conviction of some younger partners that this sub-optimal utilization was a consequence of the partner incentive system based on personal billable hours and productivity, which naturally translated into behavior. Partners' primary goal was to ensure their own utilization rate first, staffing lower level consultants only when they were not able to complete projects on their own. However, when utilization decreased, these professionals were the first to be put back in the firm pool, resulting in a classic "pig-cycle"; that is, most partners only started acquiring new projects when they personally were no longer fully utilized. As a broader consequence, this dependence on key individuals resulted in the inability of Helvetic to participate proportionally in the market growth of previous years. *"Simon always compared our firm growth to a tango step sequence: We always make two steps forward and one backward. … In reality, however, I think it was probably two steps back." (Hans Albert)*

In 2004**,** Keller came under increasing pressure from all sides. The general perception had developed that his leadership style was not sufficient and forceful enough to implement the necessary changes in this time of crisis. At the same time, after nine years as managing partner, the last of which had been in the midst of the worst and most severe downturn in the firm's history, Keller tired of the job; lacked the inherent ability to discipline outperformers and to convince them to engage in internal firm-development projects. Of course, he also noticed decreasing support from the partner group.

In early 2004, Keller decided to resign as managing partner. Some partners, such as Lopez, favored an "external solution": an experienced ex-McKinsey partner, for example, who was willing to relocate to Switzerland, thus avoiding extensive travel. Keller, on the other hand, clearly favored an internal candidate, Hans Albert, a younger partner with an excellent track record in client work. However, others saw Albert as *"too soft"* for this job. Lopez, along with Hammer, someone who everyone thought as capable of leading the firm in this uncertain transformation process, did not believe it possible to significantly change the firm in the presence of the old *triumvirate of owners* (consisting of Keller, Hauser, and Obermann). As he did not believe in a successful transformation at this point in time, Lopez left Helvetic in the summer of 2004. Finally, Hammer, considered by some as the *"least common denominator,"* took over as managing partner. The partner group was convinced that Hammer's leadership qualities and his personal traits (described as "straightforward" and "rough") were the right qualities for this job. He belonged to the young, ambitious, and openly dissatisfied camp in the organization that opted for change. Still, at that time, the partners belonging to the more conservative camp did not consider him to be a threat. Keller remained as president of the board.

PART B: THE PROCESS OF STRATEGIC RENEWAL

STRATEGIC RENEWAL AND CHANGE AT HELVETIC

Initiative 1 - Strategy change: From a general to a more specific and sharper profile

Hammer immediately initiated a strategy discussion at the partner level. It quickly became clear to all that to survive in the new business environment and to answer the competitive pressure from both large and small players as well as from more demanding clients, Helvetic needed to sharpen its profile to be recognized as a specialist in the market. But since a company of fewer than twenty professionals at that time could not credibly position itself as a specialist in every area, it needed to focus on only a few services in which it held superior expertise. In these competence fields, the goal was to be known at the first and, especially, the second management levels in large organizations to differentiate itself from sole consulting proprietorships.

While there was general agreement that a focused strategy was necessary, the partners disagreed regarding specific focus areas. In the existing remuneration system, of course, everyone was initially reluctant to give up their own field of expertise, representing past investments, which would have negatively influenced their ability to realize future profits. By investing in a common area, no one could be sure of maintaining the same level of profits.

Hammer, supported by Albert and other younger partners, also constantly stressed the importance of this focused positioning. He attempted to convince his partners to abandon other focus areas by trying to stress the linkages between former competence fields and the newly defined areas. He established a project group of three to four partners that discussed potential focus options and their respective advantages and disadvantages extensively. Consultants at lower hierarchical levels were not involved in the decision process. The group's role was to prepare decision proposals, while all partners were asked to get involved in the process. Thus, the final solution (condensing the six fields into two focus areas) was a good middle-of-the-road consensus for most of them. At the end, all partners signed a Memorandum of Understanding.

The two focus areas where Helvetic saw the biggest potential to gain competitive advantage were (1) Market Reach and (2) Six Sigma. The option to specialize in specific industries was dropped due to the company's traditional domestic focus on the small Swiss market. As opposed to its international competitors, Helvetic could not extend its industry expertise in foreign markets.

Market Reach, which encompasses methodologies such as customer segmentation and marketing mix, was the first choice, as it built on strong existing capabilities in the firm and only had to be extended. It was a clear competence area of one of the partners (Albert), and Helvetic already had a good track record in the market.

In the second focus area, *Six Sigma*, however, Helvetic's reputation was not established. While the firm had some expertise in the broader operational excellence field, Six Sigma, although not a new concept, was more or less new to the firm. The desire was to get away from old-school re-engineering approaches and to obtain access to firms on a small scale. In the ECN network, the Finish partner firm, Sigment, was quite successful in that respect and their partners were renowned experts on that topic. Speer and Obermann, especially, promoted this focus at Helvetic. For example, Obermann personally paid for two Sigment consultants to train him and his team and to conduct joint projects. In addition, the Finish experts conducted company-wide training and workshops, complemented by external workshops. Initially, SixSigma was a hard sell. Projects were comparably small, with budgets around 25'000 to 50'000 CHF, indicating a more general problem at Helvetic. While in 1995 the average project volume was about 400'000-500'000 CHF, in 2005 it was well below 100'000 CHF, on average.

Hammer's credibility in the change process certainly benefited from the fact that he was particularly experienced in strategy and public management and had no direct link to the finally defined two focus areas. After the agreement, some partners tried to argue that *Market Reach* represented areas related to strategy and *Six Sigma* represented cost and quality projects. Because this interpretation would have led back to the former general management approach, the firm's new focus strategy had to be intensively implemented. Formal competence fields for the two areas were established and every partner was implicitly asked to join at least one of them. It was also agreed that projects sold in these two areas were more highly valued in the year-end partner evaluation process.

This strategy change, however, did not mean that projects were necessarily more leveraged in the future. Instead of the typical pyramid structure, the shape was that of a diamond (with numerous non-partner seniors). Negative by-products of the narrower focus were also apparent. Scherer, a corporate finance expert, determined early in the decision process that he could not position this topic on the agenda; he left Helvetic in early 2005 and joined the corporate finance department of a competitor. Christoph Berger, another corporate finance specialist, left the firm as well. Amore general feeling became apparent among the partners: *"Before it was more fun!"*

Initiative 2 - Alignment of the management system: From "eat-what-you-kill" toward"lock step"

While the need for clearer positioning was widely shared in the partner group, there was broad disagreement about the need to align the management system as well. Some of the major shareholders (Hauser, Obermann) who had enabled and promoted the new focus areas wanted to retain the old management setting. That is, partners act as profit centers, generating as much individual utilization and billable hours as possible to maximize firm profits and their own profit share. They still believed in this simple and long-standing effective system based on the original firm values. *"Why should we change the system? If everyone tries to get as much money out of the firm as possible and can appropriate this money, everyone is happy and the firm will automatically flourish again!"*

The other camp, centered around Hammer and Albert, was convinced that a *"collective of individual partners primarily serving their own interests by getting as much money out of the firm as possible"* could not effectively make the change in positioning. They were convinced that only by adopting a new management system could a cultural change be initiated that made the new focus strategy successful, believing in a *"one-firm"* mentality where *"the augmentation of the cake and not (only) of one's own slice of the cake"* was the ultimate goal. This group wanted to align company and individual goals so that firm investment resulted in firm profits. They made clear to the senior partners their opposition to executing the new strategy (Initiative 1) unless the management and remuneration systems changed fundamentally. It was implicit that without an adjusted strategy, younger partners saw no future prospects in the company; therefore, handover of ownership to the next generation was endangered. This dilemma brought and kept the seniors at the negotiation table during the months to come, even if they thought that the management system should not be changed.

While a decision about the adaptation of the management system had to be made collectively and democratically, it seemed to be impossible initially. It turned out to be a long, difficult road that required a full range of change tactics and strategies by Hammer.

Recalling the way it was possible to enable this cultural change process …, I would say it was probably only 20% of decision making in the board of partners and 80% bilateral or trilateral power play - also informally in the corridor, at the cafeteria, at the doorway, in the elevator, or in the car on the way to a client meeting. You had to play the full claviature of *change to make that happen. … You know, our culture is not executive …. There is always the option for co-determination …. You might say it is a "grass-roots democracy." It is a partnership. (Urs Hammer, 2007).*

To make the intended adjustments to the management system, Hammer early on developed a game plan: *"You need a pretty clear vision of what the final goal is. But you also need to be cautious in the sense not to change everything at once. Sometimes it is wiser to leave a certain discussion out because it would cause ill feeling."* One of the most important milestones was the Memorandum of Understanding, which was a compressed version of all content agreed on thus far and also contained the parameters of the model discussion. After the strategy discussion in the spring of 2005, each partner signed this document, thereby declaring that he accepted the changes thus far. As this was a legally binding document, Hammer avoided recurring discussions about agreed-on changes and freed resources to focus only on proposed changes. By now, all partners were well aware of Hammer's willingness to change the fundamentals of the firm and to forcefully implement agreements made. Not surprisingly, it became increasingly difficult for Hammer to maneuver inside the firm. Each agenda item proposed by him or one of his intimates was scrutinized by the other partners to see whether any hidden agenda or long-term plan was not at first apparent. Hammer prepared for the final partner meetings by talking privately to each partner, either convincing them of his preferred way forward or at least becoming aware of their contrary position: *"You need to know your partner colleagues and whether you have to push them or to pull them - that is also context-specific …. It is also extremely relevant to know with which arguments you might convince them."* He formed changing alliances and coalitions inside the firm to obtain as much support as possible.

Before every meeting, it is necessary that you have a clear game-plan. … Actually, I always knew what the meeting's result would be (with the exception of the liquidity topic) … so I was never surprised. A result was that my partner colleagues accused me of preparing things too well and of adopting manipulative streaks. Partly I played political games, but partly some complain I did politics in areas where I definitely did not. That's also interesting.

Another real danger was that discussing these issues naturally involved not only objective arguments with regard to content, but also contentious partner meetings, including personal attacks and personal discords. As one partner recalls: *"That was the commitment to be made. In case of an unsuccessful process outcome, the partners would have been at odds with each other - and then one probably had to dissolve the firm anyway."* At any point, therefore, it was important that the way back was still open despite the intensity of the discussions. It also required a certain personality trait: *"You probably need a certain level of frustration tolerance to cope with it."*

Out of this process a new profit distribution system emerged. While the basic logic of turnover minus costs minus current liabilities still applied, the central difference compared to the old system was that the cost block now contained only the fixed salaries of the partners, a relatively low figure of around 250'000 CHF. Thus, the variable salary is not taken out of the profit pool initially. Only if something remains do the partners receive a bonus (based on their individual points) on top of their base salary. Partner points are determined based on five dimensions: (1) billable hours (previously, the main and commensurately heavily weighted dimension; now capped at only one out of five), (2+3) sales and, respectively, project volume (counted twice), (4) internal jobs (capped), especially, to incentivize partners with management functions, and (5) a 360-degree evaluation (capped), in which all employees rate each partner along 16 dimensions. Thus, this lock-step system could mean that when the firm has a bad year, each partner has only his base salary.

A natural by-product of the new management system is clear-cut: it requires leadership, while the old profit center model did not. *"The reason is easy - now each partner that does not generate revenues dilutes the profit. Peer pressure results. For example, partners complained about the habits of some of their colleagues to go on holiday for four consecutive weeks in the busy season." (Senior partner, Helvetic, 2007).*

Again, this change initiative led to anticipated and favored consequences in the partner board. Those partners who did not support the new system had to leave the firm. Obermann, one of the top rainmakers and described as extremely money-driven, is a good example. As he could no longer fully apply his hunting capability to generate individual income because of the three other dimensions relevant to his final salary, he left the firm, of which he still owned around 10%. Berger, who was deselected by the partner group (a process for which a vote by partners is necessary, causing an awkward situation), also left Helvetic.

In line with the one-firm system development, a new firm-wide CRM system was introduced to track clients, maintain their data, and monitor selling opportunities, an activity previously conducted by each partner individually. This also prompted some partners to leave, as they were not willing to share their personal relationship data.

Initiative 3 - Stabilizing the partner group: equal ownership by partners

With the clear specialization strategy in place since 2004 and the new management system introduced in 2005, two important milestones were achieved. However, one central problem remained: the firm's ownership model. Hammer was well aware of its weaknesses, but had consciously postponed the topic until the management system was successfully adapted.

"For us as the younger partners, a discussion on the ownership model in parallel with the strategy and partner model discussion would have come too early, and would have compromised a consensus spanning the partner generations. It was decisive for us to (1) strategically position Helvetic for the future and (2) to make sure that the current and future top performers profit in a direct and significant way. We assumed our bargaining position could only improve over the years, given that we are more successful in the market and build on our well-grounded service offering. We also assumed that the partners with higher ownership stakes would naturally - just because of their life plan - want to talk first about a share deal … and when would it be a better time to talk over that topic as when Helvetic is prospering and generates huge profits? We could, wanted, and had to wait - the constellation was not ripe yet at that time!"

Hammer and the younger partners' goal was a partnership with equal ownership. History had suggested that a connection of ownership and decision making inhibited necessary adjustment processes by creating risks at two levels. Partners with large firm stakes always had two interests at the same time, while those without significant shares faced disincentives. *"We believe in the growth of our firm but we all have to profit the same!"* was a common opinion among this partner group. They were convinced that *"you shouldn't have to buy shares at prices determined by your own performance."*

With the company suffering from a severe sales downturn predominantly because of reduced service offerings, the need to start over almost from the beginning, and a liquidity crisis, in which cash reserves were down to three months only, a more urgent need to change became manifest in the first half of 2005-2006.

At this point, the ownership model was open to real discussion, with the majority of partners willing to make adjustments. In the autumn of 2006, Hauser, one of the other major shareholders (20%), left the firm. (Berger, who left in the spring of 2007, had only a minor ownership position.) Thus, Helvetic not only had to cope with the loss of three partners, but also faced a situation of external ownership (around 30%) and, thus, external control if it did not acquire these shares. The organizational bylaws allowed the firm a call option to buy the shares of external shareholders. Thus, if one partner left the firm, the firm or one of the internal shareholders could buy these shares according to a formula depending on the prior year's results. For the 30% external ownership at that time, this would have meant a lower million CHF sum.

While this partner turnover was a potential threat to the manageability of the firm, it also meant a real opportunity to solve the underlying ownership problem in the spring of 2007. Seventy percent of share votes were controlled internally. The internal partners realized they could make substantial changes if they could align all their interests. After a rigorous analysis of the situation, they decided not to negotiate and subsequently buy out the external shareholders, but rather concentrate on the future dynamics in the partner group. In a historic deal, they agreed on an internal share price - considered high but still reasonable enough to allow younger partners to buy in - and conducted an internal transfer of shares. .

Today, every partner has equal ownership in the firm, which has created a strong alignment of all interests of active partners. Because the active partners (and internal shareholders) could change the bylaws with their majority, the former triumvirate came to an end. The transfer of shares *"clarified definitely the positions and ambitions of the remaining partners."* One young partner, the CFO at that time, left Helvetic before the deal was finalized; a firm-grown engagement manager became a new partner and co-owner.

To manifest the new one-firm strategy and equality among partners, new values were adopted and codified: (1) client orientation: customized solutions, absent politics, to create added value for the client; (2) the use of well-established methods and a focus on implementation; and (3) more joint rather than individual activities, in an inspiring organizational climate, by personally responsible individuals who respect non-conforming perspectives and personalities. Of these, the third value especially reflects the major cultural shift in the organization toward a forward-looking, one-firm strategy.

While it was still too early for concluding assessments, Helvetic performed well in the market between 2004 and 2007, with the Market Reach strategy selling many projects and generating considerable turnover; however, this did not offset its losses incurred by abandoning other consulting areas. In 2006-2007, after initial difficulties, more Six Sigma projects were sold, a trend mainly favored by the market cycle. Overall, pursuing clients via the two focus areas was very promising, with partners making two to three company visits a week, on average. Hopes remained that by focusing on Market Reach and Six Sigma first, Helvetic could gain access to firms and subsequently "farm" these clients, and perhaps provide broader consulting services again in the future.

Other promising signs included partners rejoining the firm. One (rejoining in 2005) had been with Helvetic from 1993-1998, leaving as a result of his disappointment with the business strategy. He was first involved as an external in the change process, moderating some of the strategy workshops at Helvetic in 2004; his decision to return seems to be at least in part motivated by the company's change initiatives. With him, the Six Sigma method competence was further strengthened. Another partner (rejoining in 2006) had been with Helvetic from 1979-1983, leaving because of his disappointment with the partnership model at that time. His employment in the intervening years for private equity companies proved valuable in the ownership discussions of 2007.

At the end of 2007, Hammer reflected on the change process:

We are only at 80% of successful implementation today. ... In my opinion, Helvetic is still too "heavy", too highly valued. I'm convinced we are better off as a "light" firm. It would be ideal if partners had to buy into the firm, but at a realistic rate of around 100'000 to 200'000 CHF, that means with 10 partners with 1-2 Mio. CHF company value. That would allow us to buy the stakes of a partner leaving the firm again. At the moment we are well above this value …. I fear problems of partner exit, retirement provisions, and other questions around capital … and we still haven't solved the external ownership issue.

SETTING THE STAGE FOR FUTURE GROWTH

Initiative 4 - Closing the seniority gap: "onboarding" new seniors while minimizing cultural and financial risks

Flowing out of the discussion on capital structure and change, however, new challenges emerged. Successful partners Lopez, Scherer, Berger, Hauser, and Obermann, had left the firm, doubting the possibility to achieve change or unwilling to live with its consequences. The remaining partner group predominantly consisted of partners with in-depth experience in client work. Forthe company to develop positively, it became apparent that all partners had to concentrate on acquisition and account management, leaving little time for project work. This was problematic, however, because the project leader group was quasi non-existent, a natural result of the old partner model and its main focus on partner utilization and appropriation.

In addition, the firm still felt the negative revenue impact of the departure of its strong partners, and it became clear that Helvetic was still very dependent on single partners. That had to change, as *"Helvetic is stable only if each partner can be replaced without major problems."* Helvetic's goals were clear: to grow the firm in its current positioning and to increasingly benefit from cross-selling potential. This meant heavy investment in methods, know-how, and people. At the same time, the company had to stay manageable.

The partners wanted to expand senior capacity without expanding the partner circle. A decision was made to install an associate partner model obligatory for all future lateral hires, whereby 50% of their time was spent on project leadership and 50% on client acquisition. Only when they met clearly defined acquisition targets and passed through this market-based assessment were they accepted as partners and owners on an equal basis.

The resulting delicate situation could be addressed only with open communication. Senior consultants and project leaders had to be informed of the background and intention of the associate partner model. *"We did not like to risk that our promising professionals would get the idea that with the associate partners their own career perspectives would suffer. One way how we achieved this was by the fact that all APs were expected to be experts in one of our areas of expertise."*

Important questions remain, however. For example, what should be the optimal company size for the future? Helvetic's current size (around 30 employees, with 7 partners) is not seen by all as ideal to compete in the marketplace. A continuous challenge consists of establishing an ideal leverage structure and optimal utilization ratios, especially at the partner level, that allows enough time for client acquisition and client work. Improvements are also needed in key account management. How can Helvetic work better on projects with joint partner teams?

Initiative 5 - New focus and industry areas

By the summer of 2008, the partners were ready for new ventures. Fortunately, Helvetic was not hit severely by the downturn in consulting during the financial crisis, so the partners regained self-confidence and ambition. After one year of preparation and market testing, Helvetic launched a third focus area, Growth and Flexibility. In addition to the new focus area, the partners decided to target a selected set of industries, not to develop new methods, but to translate (or adapt) the existing value proposition of the focus areas into industry-specific language.

Our analysis in 2007 showed that our turnover in growing industry segments like pharma, financial services, healthcare, biotech, software, and medtech was insufficient. We could never manage to get more than a foot in the door. We were mainly successful for clients in classical stagnating industries and we could not translate our value proposition in these booming industries. We lacked language, terminology, experts, and professionals. Our market research showed existing pain; we had the painkillers but not the access!

Therefore, the partners decided to concentrate on the growing industries of healthcare and financial services. In 2007, two partner delegations negotiated with potential cooperation partners (individuals, teams, and companies) to develop different options for the two groups. Finally, they decided to focus on their own experience and to close existing gaps with highly motivated and experienced seniors who possessed both industry and focus expertise.

Hospitals and Institutions, an offspring of different Six Sigma projects, focuses on hospital management issues and challenges due to the introduction of Diagnosis Related Groups (DRG). Once again, Sigment, the Finish ECN partner, inspired the Six Sigma group to move into new accounts. Currently, partners are negotiating a strategic alliance with a European specialist in hospital management.

Pharma and Chemistry consolidates the year-long existing Helvetic competence in pharmaceuticals and fine chemicals. In addition, two out of three new associate partners have backgrounds in the pharmaceutical industry: one from Novartis (in Market Reach) and one from Clariant (in Six Sigma). Additional recruitments are planned in the two industry groups.

SITUATION TODAY AND NEW CHALLENGES AHEAD

Today, 55% of the teams' competences are in Six Sigma compared to 35% in Market Reach; the remaining 10% are in Growth and Flexibility. As for company tenure, 20% have been at the firm for more than 10 years, 20% between 5 and 10 years, and 60% for less than 5 years. While 80% have a general management background, 20% were educated as natural scientists.

The competitive landscape today is characterized by increasing competition in a market that is expected to grow slowly (see fig. 5 in the Appendix for expected market trends). Many client firms' consulting budgets are still frozen. Professionalization in dealing with consultants makes traditional client-hunting strategies, built on personal contacts, ineffective. Also, client needs are in a constant state of flux (see fig. 6 in the Appendix for assessment of their focus topics). To be considered for subsequent projects in client firms, project quality and reputation in the market is key. Helvetic's project quality maintains historically high levels. In recent years, Helvetic has won several awards for its consulting projects.

However, new questions arise with this extension of service lines and the onboarding of associate partners. Is there enough senior capacity to develop clients and accounts, to build up Flexibility and Growth, Hospitals and Institutions, and Pharma and Chemistry and to secure current expert positions in Market Reach and Six Sigma? Is a positioning in three focus areas, two industries, and one company (3-2-1) the right value proposition for clients and a competitive market? Will the associate partners develop enough traction in the market, realize their sales targets, and fit the company's management structure? Is Helvetic ready for new growth, not only on the market side but also in its own management, internal structure, and processes? How much administrative professionalism is necessary? Above all, is the partner group determined to work together to finance its growth strategy with operating cash-flows, sacrifice short-term returns, and create an interesting environment for ambitious and talented professionals?

In the summer of 2009, Hammer was quite optimistic:

It is now evident that our focus strategy was the right choice. Not least the focus strategy was the reason that we could even grow in the recent crisis. I don't want to imagine that we would have entered the market distortion in recent years with our old setup. Our shared ambition in the partner board is clear today: to be (become) the leading independent consulting firm in Switzerland that is owned by its partners, (2) to reach a size that enables our partners and shareholders to earn above-average incomes, and (3) to renew ourselves and our service offering continuously. I think we are on a good track in respect to all three goals. The partner group is largely responsible for pushing this ahead in the coming years because we need to follow a clear growth path without making too many compromises. In 2008, we leave a phase behind us that was characterized by intensive conflict and confrontation and that was highly inward oriented. We definitely have to change now to a cooperative model in the market. Whether I am the right managing partner for this new era has to be critically evaluated by my partner colleagues. And they do that. I actually hope that I can be replaced soon. I want to do more of what brought me into consulting and the reason why I haven't left: client work and client development."

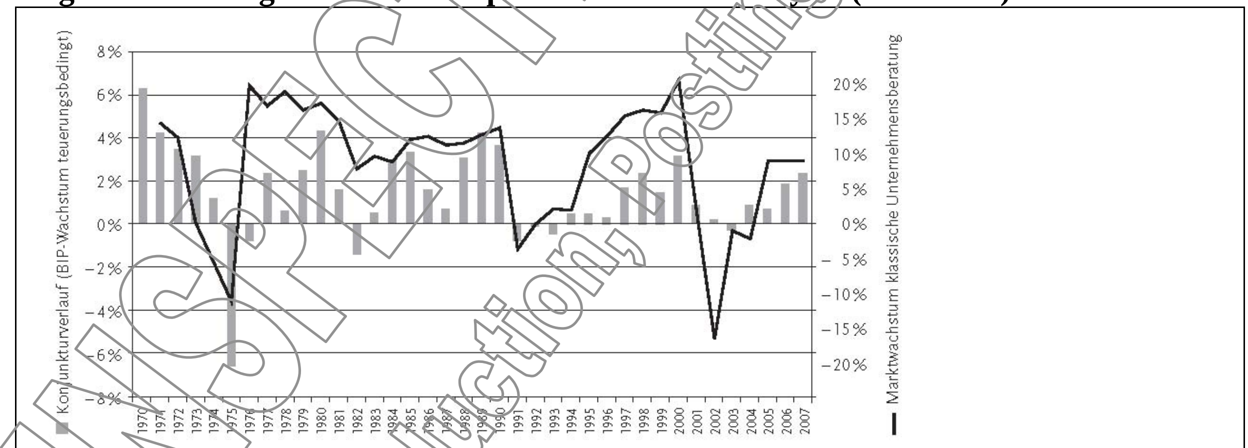
APPENDIX

Fig. 1: Helvetic - Targeted Client Segments (size and geographical focus)

Size of clients / Geographical focus of clients	Small	Medium	Large
International			
Transnational			
Domestic			

no target segment　　partly target segment　　main target segment

Fig. 2: Consulting Market Development and Business Cycle (1970-2007)



Source: Wohlgemuth, A.C. (2008): Konstanz und Wandel in der klassischen Unternehmensberatung. Entwicklungslinien des Management Consulting am Beispiel Schweiz, in: Wohlgemuth, A.C. & Gförer, R. (Eds.): Management Consulting: Perspektiven am Puls des Wandels. Zürich: Verlag Neue Zürcher Zeitung (NZZ Libro). 2008: 17-46.

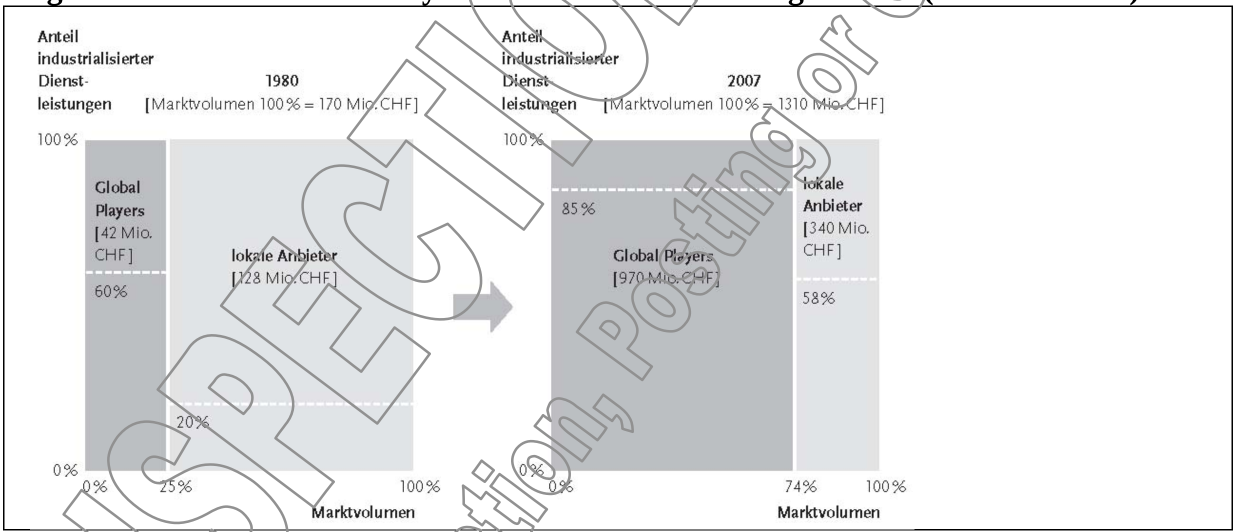
Fig. 3: Development of Swiss Consulting Market: Market Volume, Number of Consultants, and Number of Consulting Firms (1984-2009)

Year (31st of December)	1984	1994	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Market Volume (fee revenue in Mio. CHF)	250	500	826	899	1165	1200	1000	1870	1730	1100	1200	1310	1300	1250
Change compared to previous year	--	--	+15%	+9%	+30%	+3%	-17%	-9%	-2%	-36.4%	+9%	+9%	-0%	-4%
Number of Consultants	1'500	2'200	2'700	3'000	3'200	3'200	3'000	5'400	5'400	3'100	3'350	3'650	3'450	3'300
Change compared to previous year	--	+47%	+23%	+11%	+7%	0%	-6%	+80%	0%	-43%	+8%	+9%	-5%	-4%
Number of Consulting Firms	--	--	--	600	600	600	600	650	650	600	570	570	570	570
Change compared to previous year	--	--	--	--	0%	0%	0%	+8%	0%	-8%	-5%	0%	0%	0%

Source: ASCO and FEACO market studies (see www.asco.ch and www.feaco.org)

1999-2003: Turnover and especially consulting firms' margins shrank by one third (Source: Handelszeitung, No. 47, 19th November 2003)

Fig. 4: Presence of Global Players in the Swiss Consulting Market (1980 and 2007)



Source: Wohlgemuth, A.C. (2008): Konstanz und Wandel in der klassischen Unternehmensberatung. Entwicklungslinien des Management Consulting am Beispiel Schweiz, in: Wohlgemuth, A.C. & Gförer, R. (Eds.): Management Consulting: Perspektiven am Puls des Wandels. Zürich: Verlag Neue Zürcher Zeitung (NZZ Libro). 2008: 17-46.

Fig. 5: Expected Market Trends Consulting Industry (Source: Feaco (2010); ASCO (2010))**:**

- **2010:**
  - expected market growth by the 40 largest consulting firms: +4%
  - each consulting firm assesses its own firm growth expectations as +6%
  - that means each firm expects market share gains this year
- **2010-2014:**
  - expected demand in the Swiss market to stay relatively high; increasing continuously
  - on average, a recent ASCO trend analysis predicts, on average, 3-5% growth for the period 2010-2014

Fig. 6: Important Consulting Areas and their Development: Client and Consulting Perspective:

Consulting Focus	Area	Relevance from Consulting Perspective	Relevance from Client Perspective
Strategy	Corporate- & Business Strategy, business models	↑	↗
	IT and Online Strategy	→	↑
	Marketing and Sales Strategy	↗	↗
	Corporate Finance	↓	↘
	Mergers and Acquisition	↘	↘
Organization and Process	Finance and Controlling	→	↗
	Shared Services	↘	↘
	Supply Chain Management	→	→
	Direct and Indirect Procurement	↓	↓
	Lean Management	→	↘
	Cost Management	↘	↘
	Customer Relationship Management	→	→
	Risk Management (e.g., Basel II)	↓	↘
	Human Capital Management	→	→
	Business Processes Outsourcing	→	↘
Technology	System Integration	↘	↑
	Implementation ERP	→	↗
	Application Outsourcing	↗	→

↑ increasing; ↗ slightly increasing; → unchanged; ↘ slightly decreasing; ↓ decreasing

Source: ASCO (2010): Management Consulting. Fakten und Trends zum Management Consulting Schweiz (see: http://www.asco.ch/pdf/asco_marktstudie_2010_zusammenfassung.pdf)