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The Double Challenge of AFF

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Introduction:

This paper explores the present status and future options of a Norwegian management consultancy company, AFF, with respect to becoming the first choice supplier of leadership development services to Norwegian multinational enterprises (MNEs). While the primary focus of the paper is on AFF's particular challenges in relation to the internationalization of its clients, the case of AFF is also employed to illustrate challenges and options facing similar consultancy firms. Since 1953 AFF has been situated within the management consultancy field as a small to medium sized consultancy company specializing in leadership development. By 2007 AFF had 53 employees, a revenue of 80 million NOK and offices in three major Norwegian cities. AFF has the bulk of its activities within the Norwegian domestic market. The paper explores AFF's extant services, core competencies and dynamic capabilities in relation to the emerging needs of its Norwegian MNE clients for management consultancy services.

Since 2007 AFF has participated in an extensive research programme called Global Organization and Leadership Development (GOLD). GOLD has as its primary aim the understanding of the mechanisms and processes that promote knowledge development and sharing across knowledge-intensive MNEs. The need for such an understanding has grown as knowledge has become more important for firms as a source of competitive advantage. The primary potential benefit for AFF from its involvement in the GOLD project involves the identification and development of those consultancy competencies and services – “tools and techniques” - that will enable AFF to assist its MNE clients in their efforts to create “social capital” as a means to enhancing the sharing and creation of knowledge across their

operations; thus potentially enhancing their competitive advantage. AFF's options for achieving this aim are explored as well as AFF's capability for developing its services. Research activities which may aid AFF in these respects are listed in an appendix.

The double challenge of management consultancies

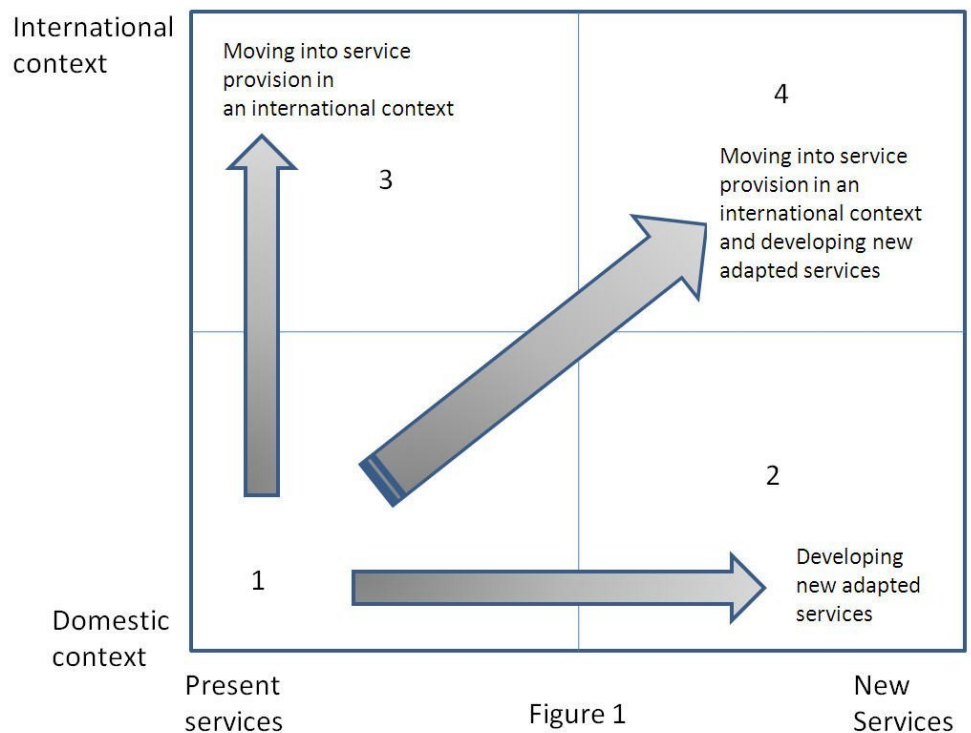
During the last three decades the field of management consultancy has evolved into an industry that has exhibited explosive growth (Fincham and Clark, 2002; Engwall and Kipping, 2002). However, the reasons for the growth remain unclear and even defining management consultancy has been described as a contentious task (Fincham and Clark, 2002). Roos (2005) has identified three common threads in a variety of definitions of management consultancy: 1). Management consultants are employed in the solving of managerial or organizational problems, 2). Management consultants are most often hired externals and 3). Management consultants may to varying degrees be involved in the implementation of solutions to managerial tasks or problems.

In terms of identifying the reasons why managers and organizations employ management consultants two approaches can be identified in the literature, the functional approach and the critical approach. The functional approach emphasized the functionality of managements consultants' knowledge and expertise whereas the critical approach questions the functionality of this alleged expertise and contends that the main function of management consultants is to alleviate managerial anxieties and worries when confronted with increasing uncertainty, ambiguity and instability (Fincham and Clark, 2002). In any case, management consultancy firms will have to address problems and issues perceived by their managerial

clients and provide services which are relevant and effective in resolving these. For our purposes we will define management consultancy as: *External assistance in defining and resolving the managerial and organizational issues and problems of organizations.*

The priority MNEs give to services tailored to the international context has grown rapidly during the last decade (Mendenhall, 2008). Thus in the case of AFF the challenge is to provide leadership development services which are perceived as relevant and effective by MNEs. Lane et. al (2004) have argued that “global” managers of MNEs face challenges of globalization to do with perceived increases in complexity. Following this argument we argue that domestic

management consultancies aiming to serve contemporary MNEs are confronted by two main challenges. The first is to respond to the evolution of its clients into MNEs that are dependent on effective knowledge sharing across their international operations.



The second challenge is that contemporary organizations as they become increasingly knowledge intensive are evolving in a manner that requires management consultancies to develop and provide qualitatively new types of services (Kipping, 2002), which will be described in detail at a later stage in this paper. While we recognize that these two challenges are interrelated, and not independent of each other, we will nevertheless use the framework, depicted in figure 1, to explore how AFF's present situation and aims relate to this double challenge. The vertical axis illustrates the volume of services being provided within domestic contra international contexts. The horizontal axis illustrates the degree of demand for qualitatively "new services"; development of new services.

For purely domestic consultancies - quadrant 1 in the figure - one possible available choice is to remain within the domestic context and to continue to provide existing services. Another choice - quadrant 3 - is to aim for some degree of adaptation of extant services to the international context, and yet another choice - quadrant 2 - is to remain within a domestic context with a new set of services. Quadrant 4 reflects the option of moving into an international context and adapting and transforming services to meet changing client needs.

Our case, AFF, has the bulk of its activities within the Norwegian domestic context, i.e. quadrant 1. Since 1999, however, AFF has been explicit in its attempts to pursue the quadrant 3 option, i.e. to assist its domestic client organizations in their internationalization process by providing leadership development services in an international context (source: AFF's yearly reports 1999 to 2007). We label AFF's strategy quadrant 4 rather than quadrant 3 because these

same documents indicate only limited explicit intentions to adapt and transform AFF's services to the new, international, contexts. We will argue, however, that AFF should focus on meeting the dual challenge we have outlined and commit to the quadrant 4 developmental option. This means that AFF should not only increase the volume of its leadership development services for Norwegian MNE clients, but that it should also adapt and transform these services to meet the evolving needs of these clients. We will further argue that AFF's success in moving into quadrant 4 will depend not only on deploying its resources, including its financial resources, its Norwegian corporate networks and its core capabilities, effectively, but also on developing appropriate dynamic capabilities.

The structure of the paper

The paper is divided into five parts. Part I provides a brief outline of the developments constituting the double challenge facing the management consultancy industry, both in terms of internationalization and the emergent new wave of services. Part II provides factual information on AFF including its history, development and current status with respect to the double challenge. In part III we explore AFF's services with a view to sketching its core competencies and in part IV we explore and discuss AFF's dynamic capabilities; i.e. its capacity to utilize resources differently in the development and transformation of its services. In part V AFF's various options are briefly explored, particularly with respect to the double challenge outlined in part I. Finally, by way of conclusion research activities relevant to these challenges and options are presented.

Methodology

In terms of the data we employ in this paper we make use of documents that are publically available such as AFF's annual reports and AFF's company history (Jørstad, 2002). In addition we utilize data collected through a web-survey of AFF-consultants which supplements a recent master's thesis on AFF's dynamic capabilities (Hartenberger and Sandoval , 2008). One of the authors, Rønning has a long-standing relationship with AFF as an employed consultant and another, Gooderham, has held a more peripheral position as a board member of the AFF Foundation for several years. In regards to Rønning, while on the one hand he has extensive knowledge of AFF and its history, we are on the other hand acutely conscious that as an on-going employee his views may be coloured by his own particular interests. In order to control for this we have ensured that the paper has been read, discussed and finally approved by a panel of senior AFF consultants drawn from all three of its offices as well as two external international leadership researchers. The paper does not take into account organizational changes in AFF which are being implemented in March/April 2009; prior to the paper's publication.

Part I:

Management consultancy services: current trends

I a) The internationalization challenge

In the introduction we argued that with increasing globalization management consultancies are facing the challenge of developing services adapted to clients who demand services for an international context. For AFF it is of importance that there is strong trend towards globalization of Norwegian companies. This is illustrated by the increase in the percentage of foreign employment within the 30 largest manufacturing companies in Norway from 6 percent in 1975 to 59 percent in 2000 (Gooderham et.al., 2003; Hagen et al., 2002). While this trend may not be as pronounced across all large Norwegian private-sector organizations it is clear that the purely domestic national market for management consultancy is contracting.

AFF's annual reports indicate that this change was experienced by AFF as early as the beginning of the 1990s and we argue that the need for leadership development in an international context is gathering pace and that there may be a need to adapt and transform services developed within a domestic context. Thus, "global leadership" and "global leadership development" has emerged as a field of research in response to MNEs' pressing needs for managing internationalization (Mendenhall, 2008). Lane et al. (2004) has argued that globalization implies significantly increased complexity for managers, evidenced by an increased multiplicity of issues and stakeholders compared to the domestic context, as well as increased interdependence and ambiguity. The field of global leadership, however, is plagued by the same persisting problems as the general field of leadership. Barker's choice of title for a paper on leadership, "How can we train leaders if we do not know what leadership is?" is

indicative of this state. Thus, unsurprisingly, Mendenhall (2008) observes that there is no agreement as to a definition of global leadership. As a consequence it is thus difficult to specify in precise terms what global leadership development is or should be. Nevertheless, if AFF is to meet the first of the dual challenges we have outlined it is important that AFF develops a characterization of the concept that is sufficient for it to engage with its MNE clients.

Ib) A new wave of management consultancy services

A number of observers of the management consultancy industry argue that its clients – particularly the largest - are becoming increasingly influential in defining managerial issues and problems. In effect, they appear to be “setting the fashion” for contemporary notions of organizational ideals and the role of management (Fincham and Clark, 2002). Thus, in line with the definition of management consultancy we offered above, the relationship between the management consultancy industry and its clients may be described as interactive and interdependent in terms of defining problems, issues and needs. Kipping (2002) observes that this dynamic has resulted in management consultancy being a reflection of current managerial problems. Hence, he argues, that the primary challenge of any single management consultancy is to ensure that its services remain “in sync” with that which is deemed contemporary. Individual management consultancies that fail to engage in this discourse are at risk of being deemed irrelevant.

A framework for situating AFF and its second challenge

Kipping (2002) has analyzed the historical evolution of the management consultancy industry and has identified several “waves” of management consultancy. We will apply Kipping’s analysis and perspective as a framework for describing historical and contemporary trends in order to clarify the second challenge management consultancies are facing. This framework will in turn assist us in our subsequent exploration of AFF’s services, position and particular challenges. Kipping tentatively identifies three consecutive and overlapping “waves” of management consultancy from around 1900 to the present: “*Scientific Management*”, “*Organization and Strategy*” and “*IT-based Networks*”. For Kipping the “Human Relations” tradition is subsumed under “*Scientific Management*”, but for our purposes we choose to treat “Human Relations” as a separate wave distinct from - and following - scientific management. There are two reasons for this; firstly the Human Relations tradition emerged (in part¹) as a reaction to the allegedly de-humanizing effects of scientific management. And secondly AFF has, throughout its history, maintained a strong link to the human relations tradition (Jørstad, 2002; Rønning, 2002). Thus, in figure 2 four partially overlapping waves are described:

¹ Frank (1999) has argued that the human relations tradition emerged partly as a way to alleviate the severe labor conflicts of the early 1900s (Frank, 1999).

Four waves of management consultancy:

Wave:	Main issue:	Duration:	Main expansion:
<i>Scientific management</i>	Production and efficiency of employees	1900-1980	1930-50
<i>Human Relations</i>	Effectiveness and workplace democracy/relations, development of employees	1930- ??	1930-60
<i>Organization and strategy</i>	Decentralization and portfolio-planning, governance through budgets	1930- ????	1960-80
<i>Management and governance of processes</i>	Internal and external coordination,	1960 - ????	1990- ??

Based on a figure by Kipping (2002)

Figure 2:

Scientific Management and Human Relations share a primary concern with the effectiveness of production and the efficiency of employees. Scientific Management emerged with the work of Frederick Taylor around 1900 and is strongly identified with precise measurement and analysis of work processes as well as managerial control. Human Relations emerged around 1920 with the work of Elton Mayo and grew in strength after World War II as organizational psychology and democratic values became prevalent in texts on organization and management (Rose, 1999). It differs from Scientific Management in its explicit and strong emphasis on attending to the social and psychological needs of employees (Kipping, 2002).

According to Kipping (2002) the main exemplar of the third wave in figure 2, “Operations and Strategy”, is McKinsey. McKinsey was established around the notion that budgeting was a way to obtain deep insight into the whole organization and as a means of business administration (Wolf, 1978). This approach met the needs of increasingly diversified and decentralized US enterprises as they adopted the M-form (multi-functional, multi-divisional) of managerial control. McKinsey came to be seen as epitomizing “modern consultancy” and in this wave the view of strategy as the corporate management and organization of a “portfolio” of divisions/company became prominent (Kipping, 2002).

While Kipping labels the fourth and most recent wave “*IT-based Networks*” we have chosen to refer to it as “*Management and Governance of Processes*”. According to Kipping (2002:34) this wave was triggered during the late 1960s and 1970s by increasingly global financial markets putting pressure on firms to concentrate on core competencies and to adopt leaner management structures. As a result the coordination of activities both within companies and between companies and their suppliers and customers became a crucial competitive advantage.

The role of managers also changed, focusing less on overall corporate organization and strategy and more on the management of the value chain, as well as on internal and external relationships and networks (Nohria and Ghoshal, 1997; Kilduff and Tsai, 2003). One example of this is the emergence of managerial roles such as “Supply Chain Manager” with a responsibility for the entire process of purchasing, sourcing and production as well as product

development². At the same time the IT-revolution from the 1980s onwards increasingly enables managers to monitor in “real-time” the networked organization (Kipping, 2002). The increasing importance of information and knowledge-sharing in the emerging “knowledge economy” only adds to organizations’ needs to coordinate and control organizational networks, internally as well as externally, for value creation purposes (Power, 1999; Dean, 1999; McKinley & Starkey, 1998). Kipping argues that the Big Five in management consulting - Deloitte & Touche, Ernst & Young, KPMG, PriceWaterhouseCoopers and Accenture (formerly Andersen Consulting) – with their combined capabilities in IT and accounting services are prime representatives of this fourth wave (Kipping, 2002).

Significantly Kipping (2002) argues that if management consultancies over-adapt to a particular wave they risk getting “trapped in their wave” thereby becoming – at least over time – less relevant to their clients’ perceived issues and problems. Accordingly two issues are of importance in our exploration of AFF’s second challenge: To assess whether it is in danger of becoming trapped in a particular wave and to assess what consequences the fourth wave of management consultancy may have for client organizations demands for leadership development, particularly in international contexts.

A fourth wave of leadership development?

Bartlett and Ghoshal (1999) have argued that MNE s may be regarded as knowledge networks and we would argue that such a perspective on the multinational enterprise has consequences for how leadership is regarded and also for the aims and effects of leadership

² Such a position was established recently in Rieber and Son, a Norwegian multinational enterprise participating in the GOLD project (Goederham & Rønning, 2009).

development. While the requirements of “global leadership” remain unclear we would argue that as knowledge in all the MNE’s operations becomes more important as a competitive advantage the former “knowledge privilege” of managers will be diminished (Spender, 1996). “Thinking globally and acting locally” implies sensitivity to local complexity and to allowing leadership to be distributed, egalitarian and episodic rather than hierarchical and centralized. Significant portions of this local and unique knowledge, embedded in communities of practice (Wenger, 1998), will be of the collective kind (Spender, 1996), whereby knowledge is not “in the heads” of individuals but located in routines and structures (Lave and Wenger, 1991). While MNE managers may react to this complexity by seeking anxiety-alleviating “quick fixes” from management consultants, they may also react by attempting to impose hierarchical control. However,, like Hedlund (1993; 1994), we speculate that managers in the fourth wave will seek to rise to the “heter-archical” challenge and seek to develop bottom-up, flexible networked organizations.

Certainly, as managerial roles are changing and new managerial roles are emerging, this may lead to changes in the rationale for utilizing leadership development and also to a change in the demands of such services, both in terms of content and in terms of service type. This is evident in the emerging demand for “global leadership development” (Mendenhall, 2008). It seems likely that leadership development services of the fourth wave will have to focus strongly on the expectations managers will be faced with of coping - through increased managerial discretion - with increasing demands for flexible adaptation to real-time processes in evolving international organizational networks, particularly with a view to enhancing knowledge sharing and situated learning (Lave and Wenger, 1991). Accordingly, standardized leadership services - and particularly those developed in domestic contexts - may not prove

adequate. A more customized and interactive approach to leadership may be needed. We now turn to a more detailed exploration of AFF with reference to the context outlined above and we will start by providing a brief account of AFF's history, development and current status.

Part II:

AFF's history, development and current situation

AFF's activities primarily take place in the Norwegian context and this has been the case since the organization was founded in Bergen in 1953. While AFF also provides various kinds of organizational development services to its clients, AFF's "flagship product" has always been an open enrolment leadership development programme for Norwegian managers. Thus, the AFF Foundation was set up in 1952 to develop a course in administration aimed at serving Norwegian organizations in the period of national reconstruction following World War Two. This offering, "A Course in Administration", was launched in 1953 and has been known as the Solstrand Programme since 1984 (Jørstad, 2002). The 2009 programme will be the 57th consecutive iteration of the programme. In 2003 AFF Konsulent (AFF) a limited management consultancy company, was established by the AFF Foundation to act as its "commercial arm". AFF is co-owned by the AFF Foundation (45 percent), AFF's employees (45 percent) and The Norwegian School of Economics and Business Administration (NHH) (10 percent). The Foundation retains its ideal purpose of "promoting insight into, as well as the development of, leadership and organizations" (our translation from the 2004 version of its statutes).

The development and growth of AFF

The historical context of the development of the Solstrand programme – as well as the continuing success of the programme in the Norwegian market - has had a significant effect on AFF's domestic market position, organizational culture and services (Jørstad, 2002; Rønning, 2002). While the programme was developed in close cooperation with ten major Norwegian organizations it was influenced significantly by Rolf Waaler who was the driving intellect behind the programme. In 1945 Waaler had published the book "Man and the Enterprise" (our translation from the Norwegian: "Mennesket og Bedriften") (Waaler, 1945), signalling his main area of interest and what he saw as the special contribution of the new course in administration: to alert and train managers to the importance of the relationship between an organization and the organization's employees. Thus, the programme differed from other contemporary leadership development programmes in its emphasis on psychology and in this it was seen as somewhat radical (Jørstad, 2002; Rønning, 2002).

The implication is that from the very beginning AFF was strongly influenced by the second wave of consultancy services, i.e. the Human Relations tradition (Jørstad, 2002). To the extent that the Solstrand programme and its core elements has been influential in the further development of AFF's services we speculate that AFF may have become relatively firmly rooted in the Human Relations tradition. Hartenberger and Sandoval (2008) also concluded along these lines in their master's thesis on AFF from 2008 as did Rønning (2005). The Solstrand programme certainly formed the bedrock upon which AFF's development was founded and it has continued to provide a platform for the development of AFF's activities and services as these have expanded beyond the programme, particularly over the last 25 years (Jørstad, 2002; Rønning, 2005). The growth of such activities and services is illustrated by

the Solstrand programme's diminishing share of AFF's revenue. In 1983, the programme accounted for 51 percent of AFF's revenue of 3, 5 million NOK. In 2007 AFF's open enrolment programmes, with the Solstrand programme constituting the largest offering, accounted for only 20-25 percent of AFF's total revenue of close to 80 million NOK (source: AFF's annual reports 1981 to 2007).

The Solstrand programme also underwent changes in this period but the importance of psychology became even greater during the 1970s and through to the 1990s (Jørstad, 2002; Rønning, 2002; Lind, 2007). Although the programme was strongly influenced during the 1980s by a focus on strategy³ (i.e. Wave 3 in figure 2), the attempts to integrate the third wave's particular take on strategy, however, did not "take hold" and nor was it particularly positively evaluated by the participants (Rønning, 2002). Towards the end of the 1980s and during the 1990s, the Solstrand Programme increasingly developed into a programme for the personal development of the manager within the framework of a standardized managerial role (Rønning, 1998; Rønning, 2002; Lind, 2007).

In the 1980s and particularly the 1990s AFF experienced substantial growth in its revenues. Part of this may be ascribed to the introduction of new domestic open-enrolment leadership development programmes. However, of more significance was the development of in-house leadership development programmes (Jørstad, 2002). Both of these developments had their roots in AFF's experience with leadership development derived from running the Solstrand Programme and various other in-house programmes. The significance of in-house leadership programs for AFF is clear when we examine growth in revenues for the period

³ In the early 1990s AFF also had a department developing, marketing and providing strategy services for client organization.

1983 to 2008. While the revenue from open enrolment programmes increased by a factor of 10, from 1, 8 million NOK in 1983 to around 18 million in 2008, the revenue from activities other than open-enrolment programmes increased by a factor of close to 60⁴, to 60 million NOK (source: AFF's annual reports 1982-2007)⁵.

Although AFF's growth occurred primarily in the Norwegian market, 15 percent of AFF's services in 2007 were provided for client organizations with international employees in international contexts⁶. These services were primarily leadership development services, and the majority of clients organizations were Norwegian owned MNEs (Jordahl, 2008). During the 1990s several in-house programmes were also provided in an international context for Norwegian MNEs (Jørstad, 2002). While AFF made two attempts during the late 1980s and early 1990s at marketing international open enrolment leadership programmes with partners in Scandinavia and Europe, these programmes were short-lived and AFF's work in international contexts increasingly took place within the context of the aforementioned in-house leadership development programmes for Norwegian MNEs. Very often this came about through relations with former participants at the Solstrand Programme who wanted the same kind of services provided to managers in their own organizations (Jørstad, 2002). There are no certain data available to us for the development of the percentage of international services over the last 10 years but the figure of 15 percent in 2007 suggests a fairly limited

4 This growth of the industry also seems to be continuing and even increasing, according to a recent survey published by The European Federation of Management Consultancies Association (FEACO, 2006).

5 The overall increase in AFF's revenue from 3,5 million NOK in 1982 to 79,6 million NOK in 2007 is very similar to the estimated growth of the management consultancy industry since the early 1980s (Kipping, 2002) (FEACO, 2006).

6 The data was provided for us by Atle Jordahl who points out that a large share of this percentage in 2007 was due to what is now one company, Statoil Hydro. As AFF's business with StatoilHydro diminished rather abruptly following the merger of Statoil and parts of Norsk Hydro this figure of 15% may overestimate the current share of international services somewhat. But updated data are unavailable.

development. In relation to the vertical axis in Figure 1 and given the considerable evolution we have noted of Norwegian companies into MNEs this limited development underscores AFF's concern with developing its scope of MNE-oriented services.

Based on this brief account of AFF's history, development and current status we are in a position to suggest some preliminary hypotheses regarding the double challenge we have outlined above. It appears that while AFF has achieved and maintained a strong position in the domestic Norwegian market within leadership development it has moved into the international context to only a limited extent. We also suggest that AFF is firmly rooted in the second wave of management consultancy services, i.e. Human Relations; although we accept that an in-depth exploration of AFF's services is necessary to precisely conclude in this matter. However, even with this reservation we would argue that exploring and investigating AFF's resources and capabilities for change in a quadrant 4 direction is warranted.

In one respect, its financial slack, AFF has a significant resource for change. Although AFF's profits declined somewhat after 2000(AFF's Annual reports, 1982-2007), profits during the latter part of the 1990s were so substantial that significant financial reserves were established (Jørstad, 2000). In addition to AFF's current financial base comprised 7, 7 million NOK, the AFF Foundation commands a financial base of close to 30 million NOK⁷. Potentially, this financial slack could be put to use in enabling the Foundation's "commercial arm", AFF, to invest in the development of new, MNE-related services. This represents therefore a resource for AFF in relation to the dual challenge depicted in Figure 1.

⁷ At its establishment in 2003 AFF received a loan of 15 million NOK while the rest of AFF Foundation's financial base remained with the AFF foundation (sources: AFF's annual reports 2003-2007).

Another resource that AFF has derives from the Solstrand programme. Over the years AFF has developed a network of some 2,500 former participants many of whom still occupy influential positions⁸. Moreover, many of these work in Norwegian MNEs. They constitute therefore a considerable network of “weak ties” (Granovetter, 1973, i.e. relationships that comprise a potential for achieving competitively advantageous positioning.

In the next part of this paper as we explore AFF’s services we identify additional resources that AFF may draw on in the form of core competencies. Additionally, we assess AFF’s current dynamic capabilities.

Part III:

AFF’s services and Core Capabilities in relation to international contexts

AFF’s core competencies

We have argued that AFF does not have extensive experience of working in international contexts and its offerings have to a large extent been based on the Solstrand programme. This raises the question of to what extent experiences and competencies from the Solstrand programme could provide AFF with a basis for building services adapted to a quadrant 4 development. The potential limitations are obvious as the Solstrand programme is a Norwegian programme for Norwegian managers taking place in a Norwegian context. However, the most significant developments in AFF’s practices and services over the past decades are arguably derived from the activities taking place within the framework of the

⁸ Close to 2500 have participated since 1953 but obviously a number of the participants are no longer active or even alive.

programme (Rønning, 2002). In other words the competencies that Solstrand is based on have formed the platform for services that have developed for other settings. In that sense the competencies underlying the Solstrand programme may be regarded as articulating AFF's core competencies (Prahalad and Hamel, 1990). This was also the contention of a group of consultants who 10 years ago set out to define AFF's core competencies (Rønning et. al., 1997). We will contend that these core competencies may hold promise with respect to enabling AFF to move into quadrant 4.

The Solstrand Programme and AFF's core capabilities

Core competencies may be regarded as a cluster of unique competencies embedded in routines, tacit knowledge and structures. This notion closely resembles what Spender (1996) terms "collective knowledge" implying that core competencies are not explicit; nor do they reside in any one single individual, and nor do they reside exclusively in the sum of the competencies of a number of individual staff members. They are more akin to distributed "knowing" at the collective level (Spender, 1996). Such "collective" knowledge, could it be reproduced in other settings, would confer competitive advantage. The question is whether AFF's core competencies are relevant platforms for deriving quadrant 4 services. This entails a closer exploration of the structures and routines of the Solstrand programme.

The fundamental concept underlying the programme's activities is, and has always been, the strong conviction that participating managers should learn from one another rather than be taught by the programme staff (Rønning, 2002). At present the Solstrand Programme is moving from a focus on the personal development of the manager towards a more contextualized focus on management and leadership (source: programme descriptions of

2008) (Rønning, 2002; Rønning, 2005). Today an AFF consultant at the Solstrand Programme will typically work within the context of small groups of 8 participating managers on issues, problems and challenges each of these is faced with in his/her everyday managerial role and practice (Solstrand programme description 2007).

These small groups, termed “basic groups”, are heterogeneous with respect to gender, age and the type of organizations the managers are employed by. According to the programme description there is a current trend towards more attention being paid to collective and collaborative exploration of the participating managers’ individual and situated practices. This includes reviewing events and processes in the managers’ organization as well as the “real-time” exploration of formal and informal leadership as these unfold in the various arenas within the context of the programme. In practice this involves a thorough exploration of each manager’s managerial practices, and also the exploration of the relationship between these practices and the context from which they emerge. It seems evident that this constitutes a very favourable context for the development and sharing of knowledge anchored in practices between participating managers as well as between AFF consultants and the participating managers. We will now explore how such a practice fits with typologies of leadership development services.

Leadership development typologies

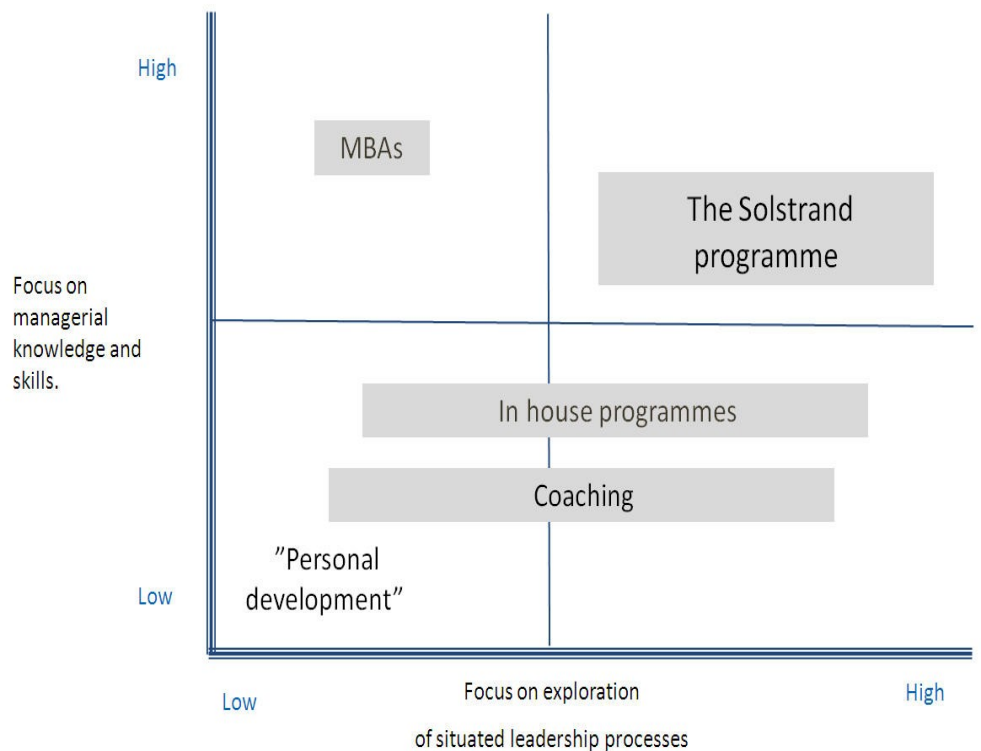
Leadership development services may be categorized in a variety of ways, for example on the basis of content, methodology or the characteristics of participants. Our aim here is not to provide a catalogue of such typologies but rather to apply some typologies in order to explore and situate AFF's services with respect to other leadership development services. By leadership development services we mean any service aimed at developing knowledge, capabilities and organizational processes related to increased effectiveness of leadership processes.

According to French and Grey (1996) the literature on leadership education describes two main approaches to leadership education, a utilitarian or vocational approach and a liberal approach. The utilitarian/vocational

approach is grounded in the assumption that leadership is broadly identical to management and that there exists a professional body of managerial knowledge and skills which may be acquired through teaching and training. The

liberal approach is more concerned with exploring managerial practices and processes

Figure 3:



without presuming that leadership is identical to management as the informed application of managerial knowledge and skills.

Based on these two approaches the Solstrand programme may be situated with respect to leadership education. In terms of figure 3 a vocational approach to leadership education would emphasize teaching and applying a body of knowledge judged to be essential for leadership practices while a liberal approach would include critical reflection on such existing bodies of knowledge. By “situated leadership” processes we mean practices and processes which take place and are embedded within a particular context. A high focus on knowledge and generalized managerial skills and a low focus on exploration of leadership practices would correspond to a “teaching” approach to leadership education, of which traditional Master of Business Administration programmes (MBAs) would constitute examples. On-the-job work which explore leadership processes in particular situations would constitute an example of exploring situated leadership practices.

While this typology may capture important differences between leadership development approaches it does not deal with the interactive relationship between the client organization and the service provider in management consultancy; it is not a service typology. We have already noted that a central issue for all management consultancies is the extent to which they are able to adapt their services to their clients’ needs. Such adaptation may involve extensive direct interaction with clients or very little interaction as when the client demands a specified and standardized service. An example of this would be the client asking: “We want

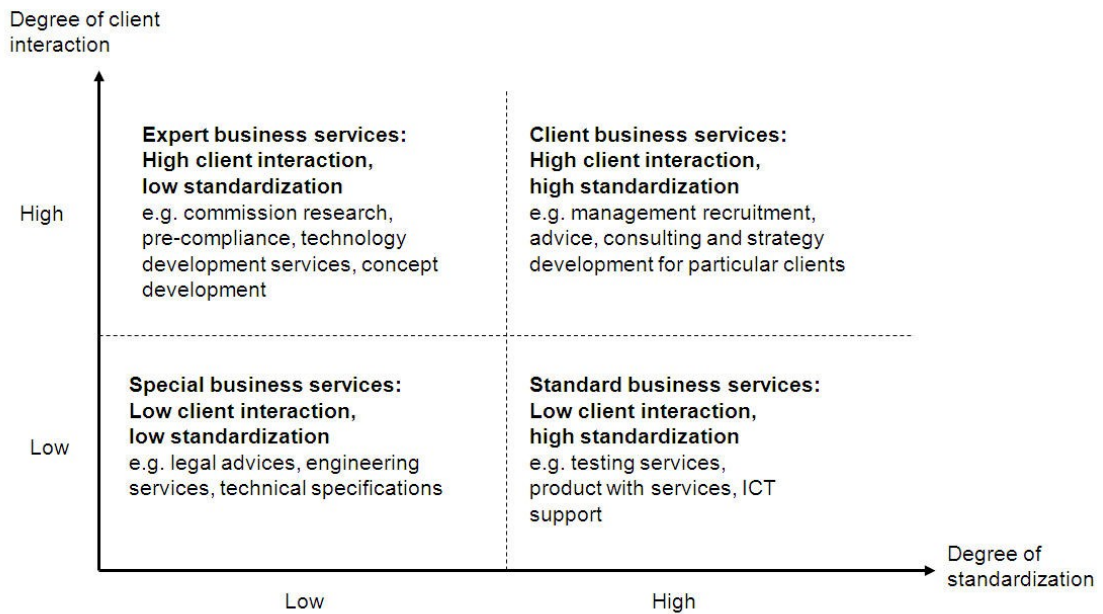
our managers to have coaches working with the GROW⁹ model of coaching. Can you provide such coaches?"

The process of service provision itself may also take place with various degrees of interaction and collaboration with clients. Thus, consultancy companies may market "packaged" "concepts" for leadership development which amount to standardized programmes that can be applied to various client organizations through relatively minor adjustments. An example would be a standardized training programme promising more effective persuasion skills. On the other hand consultancies may specialize in highly customized services where issues, problems and solutions are co-produced in close interaction with the client. In effect, this might amount to something approximating to a "real-time interactive process" of developing leadership development services where consultant and manager learn and develop together. Such an approach might be well suited to a globalized context in which increased complexity of processes and contexts are defining elements. For our present purposes a typology of management consultancy services should therefore include the interaction between the client organization and the service provider as well as the customization/standardization aspect.

Kvålshaugen et al. (2008) have developed such a typology of services (figure 4) along two dimensions, the degree to which services involve client interaction and the degree to which services are standardized as opposed to customized.

⁹ GROW is a specific method and framework of coaching. For an account see Rønning (2005b).

Service typology



Source: Kvålshaugen, R., Hydle, K. M., & Brehmer, P-O. 2008. Taxonomy for Business Service Innovation. Under review.

Figure 4

The upper left quadrant in figure 4 comprises services which involve intensive interaction between consultant and client as well as a high degree of joint attention to local contexts in the development and production of services. Thus in what the model calls “expert business services” the consultant does not deliver pre-defined standardized services. Instead client problems are typically defined, and services co-produced, in the course of the interaction between consultant and client, based upon an exploration of the clients’ context.

In the upper right quadrant there is also a high degree of interaction between consultant and client but not primarily in relation to defining problems and service provision. Instead there is a high degree of interaction across different service provisions, of a more

buying-and-selling type. Thus, the management consultancy provides a variety of standardized management services for the same client which address different issues and problems, usually defined by the client. One example would be a company providing strategy services, recruitment services and leadership development services to the same client on demand, or through “cross-selling”.

With respect to Kvålshaugen’s typology we note that in AFF’s Solstrand programme the consultant engages with client managers in exploring and reflecting upon leadership processes situated within the context of her organization. This may occur without any previous specification of the issues or problems involved and the service is co-produced by clients and AFF consultant. This element would correspond to “*Expert business services*”. However, the Solstrand programme is also highly standardized in other important respects. For example, it is structured into four two-week modules with “the programmed” part of the programme comprising a mix of standardized elements such as lectures, plenary activities and arenas for group work within the framework of a tight schedule (Rønning, 2002; Rønning, 2005). These elements of the programme correspond to standardized business services in figure 4.

The inclusion of both expert business services and standardized business services exemplify what Kvålshaugen et al. refer to as a “*mixed service logic*” (Kvålshaugen et al., 2008). Here expert business service provision is essentially embedded within a fairly standardized service provision context. Being forged in the Solstrand tradition, AFF’s in-house development programmes are often also structured in a similar way and they also – in varying degrees - incorporate an expert business services approach. To what extent this is always the case

requires empirical exploration. However, in regard to AFF's leadership development services that have been aimed at MNEs, it is Rønning's assessment that these have generally conformed to this "mixed service logic" type.

It is our contention that this mixed-service logic approach to leadership development may hold promise with respect to AFF's move into quadrant 4. Successfully applied in international contexts this mixed-service approach may provide substantial opportunities for exploring differences in managerial challenges across internal MNE boundaries. It would also promote a thorough exploration of processes which are in need of coordination. In addition, a mixed-service approach may provide AFF with opportunities to learn from clients and with clients about current MNE managerial and organizational processes. This would be highly beneficial for the further development of AFF's MNE-related services.

However, while AFF may possess significant collective knowledge, competencies and resources, embedded within its present services, AFF still faces the challenge of realizing this potential. We argue that realizing this potential will depend on AFF possessing or developing a range of appropriate dynamic capabilities.

Part IV:

AFF's dynamic capabilities.

In the previous sections we have situated AFF with respect to the challenges facing contemporary management consultancies and we have outlined AFF's core capabilities. We will now turn to a discussion of AFF's main challenges with respect to configuring these capabilities and resources for the adaptation and transformation of extant services. For this

discussion we will make use of the dynamic capabilities view of the firm. Building on Døving and Gooderham (2008) we argue that the dynamic capabilities view of the firm (Teece et. al, 1997; Eisenhardt et. al., 2000; Helfat et. al., 2007; Teece, 2007) has important implications for consultancies like AFF that aim at exploiting their core competencies for the development of new services.

The first implication of the dynamic capabilities view of the firm concerns the configuration of human capital resources. Consultancies whose human resources are predominantly homogeneous and that are first and foremost configured for the delivery of standard services will be considerably less likely to produce the synergies that generate a wide range of novel services. The second implication of the dynamic capabilities view of the firm is the criticality of possessing internal development routines and systems that ensure that the consultancy's human capital configuration is not static, but is subject to continuous development. Finally, the third implication of the dynamic capabilities view is that consultancies lacking in strong alliancing processes for accessing outside knowledge will be more confined to standardized services than those consultancies that interact intensively with an array of clients and complementary service providers. In summary, a dynamic capabilities view of consultancies emphasizes the possession of strategically derived organizational routines, systems, and processes that enable consultancies to acquire, integrate, recombine, and broker knowledge from heterogeneous internal and external sources.

In a recent master's thesis Hartenberger and Sandoval (2008) explored AFF's dynamic capabilities. They defined dynamic capabilities broadly as "capabilities that allow the firm to continuously create new competencies and therefore new advantages" (ibid: 11). Following

Døving and Gooderham (2008) they concentrated on three such capabilities: the heterogeneity of human capital, the presence of systems for change and reciprocal external alliances. Their interview data indicate that AFF's consultants are homogenous in terms of nationality¹⁰ and relatively homogenous in terms of education,¹¹ but that consultants varied considerably in terms of their professional backgrounds and experience, which would suggest at least some heterogeneity of human capital. Hartenberger and Sandoval also found that while AFF has alliances with non-Norwegian consultancies these appeared thus far not to have resulted in noteworthy benefits.

We will elaborate and expand somewhat on Hartenberger and Sandoval's findings concerning systems for change. These may be defined as *"the existence of systems that allow- the firm to develop and reconfigure its competence base in both a firm specific and inimitable manner"* (Døving and Gooderham, 2008). For our present purposes this involves routines, practices and processes intentionally aimed at facilitating exchange and combination of knowledge and expertise between consultants. In the qualitative part of their study Hartenberger and Sandoval found very little evidence of formal systems of this kind in AFF. Their survey data analyzed by us in following up their study, makes clear that the majority of AFF consultants concur with this (see table 1).

Table 1: AFF consultants' views of the degree to which there are systematic processes in place for innovation and new product development in AFF, the degree to which knowledge sharing

10 All of AFF's consultants are Norwegian nationals.

11 Close to 50 percent have psychology, or closely related disciplines, as their tertiary education.

is achieved mostly by informal means in AFF, and the degree to which there are systems in place in AFF for the integration of new consultants (N=38).

Table 1:

There are systematic processes in place for innovation and new product development		Total
Disagree strongly 1		16.2%
2		21.6%
3		51.4%
4		10.8%
Agree strongly 5		0.0%
Total		37

Knowledge sharing is achieved mostly by informal means		Total
Disagree strongly 1		0.0%
2		7.9%
3		7.9%
4		44.7%
Agree strongly 5		39.5%
Total		38

There are systems in place for the integration of new consultants		Total
Disagree strongly 1		10.5%
2		42.1%
3		31.6%
4		13.2%
Agree strongly 5		2.6%
Total		38

The findings in table 1 show that only 10, 8 percent of the consultants strongly agree or agree that there are systematic processes in place for innovation and new product development, while 37, 8 percent disagree or disagree strongly. When asked whether knowledge sharing is achieved mostly by informal means close to 85 percent agree to some extent and only 7, 9 percent voice some degree of disagreement. While this certainly cannot be taken as evidence that innovation, product development and knowledge sharing is entirely un-systematic, it is suggestive of a lack of intentional and formal systems aimed at knowledge development and sharing towards specific ends. Hartenberger and Sandoval's (2008) interview data suggested

that identifying colleagues with relevant knowledge who were willing to share was the key to securing knowledge. They also concluded that informal ways of sharing knowledge seemed to be what individual consultants preferred. Individual preferences, however, may not be preferable for AFF in confronting its double challenge in a coordinated manner.

The integration of new consultants is also indicative of a lack of intentional systems in AFF. Thus, 52, 6 percent of AFF consultants strongly disagree or disagree that there are systems in place for the integration of new consultants, while only 15, 8 percent strongly agree or agree that such systems are in place. Hartenberger and Sandoval (2008: 76) also found strong support for this in their interview data. To the extent that new recruits represent some measure of new perspectives and competencies AFF does not seem to have intentional systems in place for integrating these. The seriousness of this state of affairs is underlined by the fact that 20 consultants; or close to 40 percent of the consultancy staff by 2007 were recruited in 2006 and 2007 (Hartenberger and Sandoval, 2008: 55)¹². These largely informal and unsystematic practices may involve a risk that significant differences in learning processes exist, potentially leading to a large variability of competencies and capabilities.

The overall conclusion of Hartenberger and Sandoval was that knowledge transfer, integration of recruits and product development and innovation generally appear to be left to the individual discretion of consultants through unsystematic informal processes. Although we accept that ad hoc approaches are fairly typical of smaller consultancy firms (Werr, 2002) such ad hoc approaches fail to provide a sound basis for significant change of the kind represented by a move towards quadrant 4.

¹² The net growth of staff in the same period was a mere 8 and several of these new recruits left during this period.

Another issue, pertinent to AFF's general capability for change, is AFF's capacity to absorb new knowledge from clients. We have alluded above to the risk of AFF becoming trapped within the Human Relations wave, and we now return briefly to this issue. A relatively high proportion of AFF's staff has their tertiary education in psychology and pedagogy, disciplines often associated with the tradition of Human Relations. This may constitute – and here further research is required – a constraint on their client interactions and therefore a limitation on their ability to absorb knowledge from their clients outside of their Human Relations oriented specializations. In that sense knowledge pertaining to for example client organizations' financial and business issues is too "sticky" (Szulanski, 2003)¹³. Rønning et. al. (1997) also pointed out that AFF was in need of knowledge and competencies within the areas of business and organizational theory.

In the light of this one can surmise that AFF is at risk of becoming permanently trapped in the Human Relations wave of management consultancy. As such there is a danger of clients perceiving AFF's approach as "too soft" and insufficiently oriented toward "hard" business issues. Below we will draw on a case that not only illustrates this danger, but which also provides an example of how learning opportunities in international contexts may not be utilized for the adaption and development of new services because of a lack of appropriate dynamic capabilities. The case, the Rieber & Son Managerial Training Programme (R&S MTP), ran from 2000 through 2004 under the direction of Rønning and it is Rønning's recollections that form the basis of the case.

¹³ According to AFF's annual reports, a perceived lack of sufficient competency in strategy and business has led AFF to recruit consultant possessing such competencies. However, those who do not leave AFF tend to experience a re-socialization in terms of more psychologically focused work. Rønning (2005) has argued that, while there is certainly variation, the dominant discourse of AFF is very much tilted towards psychology and human relations.

The case of R&S MTP

R&S MTP took place in an international context and came about following strong criticisms voiced by capital market analysts concerning the total absence of coordinated management training in the company. The response of the R&S board was that it felt that the company's image and therefore its stock price might be compromised by this state of affairs. The CEO of R&S turned to his contacts at AFF's Bergen office for help, and the programme was designed, staffed and launched in what was essentially a precipitous manner. The result was that not only were the managers of R&S's very diverse businesses (see Gooderham and Rønning, 2008) minimally involved in the design and development of the R&S MTP, but AFF consultants running the programme also had very limited knowledge of R&S's organization and strategic challenges.

Accordingly the design of the programme leaned heavily on AFF's portfolio of Norwegian leadership development programmes, focusing strongly on psychological and personal issues in the Human Relations tradition and applying the main elements of AFF's Solstrand programme. Thus, it followed the AFF "mixed service logic" approach outlined earlier by its inclusion of work in smaller groups within a relatively standardized framework. There were four iterations of the programme – each with 25 managers participating – and managers of 12 nationalities took part. In the first programme top management participated and in the last one (2003-2004) R&S's newly appointed CEO took part. All in all 100 R&S managers participated.

The programme also comprised strategy sessions in which R&S's CEO gave talks on the company's current strategy and entered into dialogue with the participants. In addition,

the participants worked in smaller groups, across organizational divisions, on projects defined by top management. However, because R&S was a conglomerate composed of widely differing and highly independent divisions there were marked difficulties in finding project tasks which proved of interest and relevance for all of the participants. Also, the integration between these projects, the strategy session and the work in the small “Solstrand-style” groups was problematic because of the AFF-consultants’ very limited knowledge of R&S as a business. The degree of customization of the programme was very modest from the beginning but improved somewhat with new iterations.

From the start Norwegian values and ways of working were to some extent implicitly taken for granted throughout the service provision. This involved inducing the participating managers to discuss openly their practice and performance in front of superiors; a practice which might be acceptable to most Norwegian managers but proved extremely challenging for the central European and Eastern European managers. As a consequence of the relative lack of customization to R&S’s multinational business context little attention was paid to business issues in the managers’ discussions in small groups. As these challenges became increasingly apparent during the first two programmes, the third and the fourth programme focused more on analyzing and understanding managerial and organizational challenges in terms of differences in national cultures. The rationale for doing this was that increased understanding of cultural differences would enable better communication across national borders. However, differences in organizational cultures within R&S and interaction across existing organizational boundaries on tasks of mutual interest received little attention.

There is little doubt that the programme contributed to the establishment of relationships and some nascent networks among R&S's international managers. Some heightened degree of cultural awareness and mutual understanding was also achieved. However, the programme was "temporarily put on hold" in 2004 and has not been resumed since. This happened after the newly appointed CEO - after having participated - felt the programme was "too soft", and not sufficiently aligned with R&S's business challenges and needs for management development. In our present context we may note that the CEO's use of "soft" implies that Human Relations issues were of more significance for the AFF consultants than for the CEO.

However, it should be emphasized that the case should not be read as a criticism of drawing on competencies developed in the context of the Solstrand programme. Instead it should be read as an example of an inability to reconfigure these competencies as the R&S MTP programme developed and at its termination. A series of key questions might have been asked including: Were the experiences and the learning from this and other early international AFF in-house programmes made explicit, summarized and utilized within and across projects in AFF? Were the potential advantages and limitations of copying the Solstrand Programme elements understood and discussed? Did the development of competencies and knowledge within AFF relating to leadership development in international contexts take place?

Although these questions were addressed by the project staff informally in relation to the R&S MTP, arguably insufficient time and attention were allocated for an intentional and systematic in-depth exploration and evaluation. One perspective on this might be that at AFF, as with most management consultancies, competing business opportunities and projects keep the consultants too busy to engage in reflection and learning. However, another, perspective

would emphasize the lack of intentional and systematic attempts at combining and utilizing knowledge and competencies in new ways beyond the present projects.

In addition to AFF's lack of intentional systems for change Hartenberger and Sandoval (2008) tentatively concluded that AFF consultants tend to work together in relatively stable groups. One obvious, potential downside to this is the development of relatively isolated and mutually exclusive communities of practice. One such community of practice is the minority of AFF's consultants who are involved in running the Solstrand programme, the embodiment of AFF's core competencies. In the long run, if the capabilities embedded within the Solstrand programme are only available to this minority this will severely undermine AFF's ability to exploit and adapt its core competencies. This will be even more the case if AFF commits to a move to quadrant 4.

In summary we contend that while AFF has a number of valuable resources, including financial resources, extensive networks and distinctive core competencies, AFF's lack of attention to developing dynamic capabilities will act as a constraint on a move to quadrant 4. Thus a key challenge for AFF is to develop such dynamic capabilities.

Part V:

AFFs options: Summary and conclusion

AFF pioneered leadership development in Norway and has enjoyed a strong position in the Norwegian market for leadership development for more than 50 years. It seems probable that from the 1950s through the 1990s AFF's leadership development services to its Norwegian clients were valuable, rare, and apparently difficult to imitate (Barney, 1991). With its network of participants from the Solstrand Programme, AFF was well positioned to capitalize on the growing market for these services in Norway. As its Norwegian clients evolved into MNEs it faced a new, double challenge which must be confronted.

This double challenge involves developing services for Norwegian MNEs that are both international and rooted in the fourth wave of management consultancy. The two are closely intertwined as MNEs endeavour to integrate their operations across different national contexts. This involves a considerable rise in complexity not present in purely domestic contexts.

We accept that the waves we have outlined are generalized conceptions. Thus we acknowledge that within the fourth wave at least two major approaches may be identified. The one involves increased hierarchical control and the other what Alberts and Hayes (2003) termed "power to the edge" of the organization. These distinctions are correspondingly reflected in two generic approaches to knowledge sharing in MNEs: the knowledge management approach (KGA) of Foss (2007) is largely based on incentives and hierarchical control; the "social capital approach" of Nahapiet and Ghoshal (1998) that emphasizes the development of trust-based networks. It may be the case that AFF's Human Relations

tradition predisposes it to offering services that aim at facilitating social capital in MNEs. However, we accept that this is not a foregone conclusion.

We have pointed out that AFF's core competencies are primarily embedded within the fundamentally Norwegian Solstrand programme and that services deriving from it have been largely developed for a Norwegian context. Nevertheless, we see considerable potential in its "mixed service logic". We have also pointed to AFF's considerable network of Solstrand alumni in Norwegian MNEs and to AFF's financial slack. Thus AFF's attempts to become the preferred partner of Norwegian MNEs should take advantage of these strengths. However, we have also indicated that AFF's ability to share and develop the knowledge and skills needed to meet its double challenge is currently limited by relatively weak dynamic capabilities.

One resource that we have not discussed in this paper is AFF's relationship with NHH. This is because until the inception of the GOLD project – briefly addressed in the foreword to this paper – this resource has rarely been exploited to any significant degree. However, it may be that the GOLD project will make a significant contribution to AFF's ability to meet its double challenge providing its findings are communicated to the wider AFF organization. One potential benefit for AFF that GOLD could confer is a methodology for MNE analysis making customization of services possible. We regard the capability to conduct such analyses as a means to significantly enhancing the quality of MNE leadership development programmes. Further research on AFF itself within the framework of the GOLD project will explore more concretely how AFF may reach its goal of developing services – "tools and techniques" which will prove effective and helpful for contemporary and future Norwegian MNEs. To this end, a

master thesis in international business (spring 2009) will explore the conceptions and rationales of Norwegian MNEs with respect to global leadership and global leadership development. A reference group has been appointed in AFF which will be instrumental in defining and discussing further research activities.

Finally, we wish to reiterate that in terms of the options outlined in figure 1 we regard the quadrant 4 option as both feasible and ultimately highly beneficial for AFF. However, the taking of this option will depend on investing in the development of appropriate dynamic capabilities. Inevitably this will involve the deployment of significant financial resources which in turn will involve not only AFF but also the AFF Foundation.

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