The transfer of management knowledge and practices: the reorganization of CUF by McKinsey (1969-1974) (Preliminary text. Do not quote)

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The importance of consulting firms as a means for knowledge transfer and to disseminate best practices across different firms, industries and countries have been emphasized elsewhere (McKenna, 2006). This paper tries to develop this issue focusing on the contribution of McKinsey to reshaping the organizational structure and the strategic perspectives of CUF, the largest Portuguese business group before the 1974 Revolution, at the time the largest corporation in the Iberian Peninsula and ranked within the 200 largest corporations outside the USA. The business interests of this conglomerate spanned from chemical products to food industry, mass distribution to tobacco industry, textiles or engineering, ship building and repair, insurance or banking, tourism or transport activities.

In the mid-1960s CUF faced several challenges. The Portuguese economy was growing at an amazing rate of 7% per year, when we consider real GDP per capita. However, at the same time the core businesses of the CUF group experienced slow rates of growth and some of the recent investments of the group were stagnating. In 1969, CUF's Board of Directors decided to approach McKinsey on order to provide a solution to the difficulties faced by the business group. McKinsey had been responsible for several major reorganizations of large European firms throughout the 1960s. The aim of this consultancy project was to design a new organizational structure, taking advantage of the economies of scale and scope embedded in such a large business group.

This paper presents the challenges faced by CUF and the solutions provided by McKinsey. The proposals presented by the consulting firm touched upon some major issues: the effective introduction of the M-form; the reorganization of the business group, merging activities and resources spread by different independent firms within the group; the introduction of management accounting and IT technology to support it; the establishment of the controllership function across the different levels of CUF; the introduction of modern marketing. Therefore, the discussion of this consultancy project as a basis for the transfer of knowledge and to disseminate best practices is the most important aim behind this paper.

Keywords: consulting, CUF, Portugal, knowledge transfer

1. Introduction

The importance of consulting firms as a means of knowledge transfer and of disseminating best practices across different firms, industries and countries has been emphasized by different authors[1]. McKenna proposed transaction cost economics as the theoretical framework to understand the success and the rapid growth of consulting. As a source of explanation, transaction cost economics would be more important than the resource-based view, related to the increasing complexity of markets, technology and firms[2]. Therefore, economic growth and the expansion of the modern business enterprise, as it had been studied by Chandler[3], international competition and the complexity of modern management, all have a weaker explanatory power to discriminate the reasons for the success of consultants as a profession than their position as knowledge-brokers[4]. Peter Drucker (1981) also highlighted this characteristic as defining consultancy as a profession, as well as the detachment attribute, which propels firms to seek advice outside their boundaries. Therefore, hiring outside consultants for solving corporate problems is sensible because consultants as "suppliers of management information enjoy substantial 'economies of knowledge' that are, in turn, passed along to their customers" (McKenna, 2006: 10)[5] and as an external expert "the management consultant brigs to the practice of management what being professional requires: Detachment" (Drucker, 1981: 478).

The main objective of this paper is to study a case of management knowledge and practice transfer. The interest of this study relies not on any further insight on consultancy as a profession, but on its importance as a means to promote the circulation of management ideas and practices. In the present case, this happened in a poor European country[6], but experiencing a very rapid rhythm of growth during the last two decades before the episode analysed in this paper (1950-1970)[7]. In some sense, this does not seem atypical, as many European economies went through rapid economic growth during the same period of time, particularly during the 1960s. However, this was an uncommon situation for Portugal, which did not benefit from identical context of global economic growth during the late 19th century and early 20th century, in contrast with many other European countries.

Therefore, this is a case of knowledge transfer for still a poor country, but which was undergoing very quick economic growth and was also benefiting from very high levels of foreign direct investment over the same period of time (Silva, 2005). It also a had an institutional context characterized by a strong state intervention over the economy through several means: administrative industrial licensing; prices were administratively

[1] McKenna, 2006; Amorim and Kipping, 1999; Schröter, 2005 ***

[2] For the presentation of the resources-view approach see Amorim and Kipping, 1999, 45.

[3] Chandler, 1962 and 1977.

[4] Kipping and Kirkpatrick (2005) use the expression "consultants as knowledge entrepreneurs". However, it should be substituted with advantages by the definition of consultants as knowledge-brokers.

[5] Oliver Williamson extended Coase's approach and argues that when transactions are not nonrecurring, the market persists as more efficient than the internalization of these transactions (Wiliamson, 1985). The same reasoning could be applied to the decision to hire external experts or to internally produce the knowledge to deal with the problems faced by consultants.

[6] Portuguese income per capita in 1970 was 55% of the level attained by an average of 12 of the most developed European countries (Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, and United Kingdom).

[7] For the analysis of this period and the reasons for Portuguese economic growth over the period see Amaral, 2002.

fixed by the government in some economic sectors; state regulation and intervention over the market, through the corporativist bodies; investment policy on sectors which were considered as strategic, through special contracts and benefits to private enterprises. The *condicionamento industrial* was especially important in this context, as it limited the functioning of a market economy. It was a process of industrial licensing, which imposed discretionary decisions by the administrative authorities over the opening of new factories, the restructuring or expanding of the existing (Brito, 1989 and Confraria, 1992).

Strong state intervention over the economy was common to other authoritarian regimes born between the First and the Second World Wars. What was peculiar was the form it assumed in Portugal. In Germany, Italy or Spain this state intervention gave rise to the creation of public enterprises. On the contrary, in Portugal the *Estado Novo* regime did not follow this path. State intervention took the form of the above mentioned indirect mechanisms. As a result, Portugal had one of the lowest weights of public enterprises in Europe[8].

This model of state intervention over the economy was favourable to the rise of some strong business groups in Portugal[9]. They benefited from the industrial licensing regime, from tariff protection or from the definition of economic sectors reserved to domestic firms. They also profited from state subsidies and several forms of economic promotion which channelled privileges to some enterprises. The most important business group was CUF, which had its origins in the second half of the nineteenth century, but which evolved to a large and complex conglomerate during the *Estado Novo* period.

As a consequence, this study analyses a case of knowledge transfer in management channelled through one of the most important consulting firms (McKinsey) and having the largest business group in Portugal as target[10]. It took place in a peculiar institutional environment, very different from the Western European market economies at the time.

The argument will be presented following four steps. Firstly, there will be an introduction to the CUF Group, stressing its situation at the end of the 1960s, when for the first time the possibility of McKinsey consulting was raised. In a second step, the approach to McKinsey is explained, trying to put the contract with the American consultancy into the general trend to choose similar firms by the most important European firms at the time. In a third instance, McKinsey's proposals are scrutinised on order to understand what were the most important changes to the organization, management processes and culture existing in CUF at the time. Finally, the impact of this consulting work is addressed in the conclusion, trying to find out not only its importance to business performance, but mostly its importance as a means of knowledge transfer.

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[8] References
[9] References
[10] This consulting work has been referred previously in Mateus (2001) and Amorim and Kipping (1999), without any in-depth analysis.

2. The evolution of CUF: the 1960s challenges

The *Companhia União Fabril* (CUF) was created in 1865, producing soap and wax candles. In the aftermath of the 1891-1892 budgetary and financial crisis in Portugal, it had a large debt to *Banco Lusitano*, a Portuguese bank also in financial troubles, and merged with another firm in difficulties, the *Companhia Aliança Fabril*, under the leadership of Alfredo da Silva. Under the new ownership, the company entered into the fertilizers business, setting up the first chemical fertilizer plant in 1899. CUF would become the center of a large business group, which started to be created during the first decades of the new century.

The first third of the twentieth century shows an expansion of CUF activities, either for other sectors (olive oil, textiles, tobacco, shipping, banking or agrarian production and trade in the overseas colonies) or for consolidating the chemical production in the modern Barreiro industrial complex. The Great Depression suspended this expansion for a decade, following the severe crisis suffered by the bank owned by Alfredo da Silva (*Casa Bancária José Henriques Totta*). This expansion was resumed in the early 1940s, entering into two new business areas – insurance and mining. This trend accelerated in the 1950s (paper industry, publishing, detergents, paints, petrochemical or pharmaceutical products). The 1960s amplified even more this rhythm of growth (50% of the firms composing the CUF group in 1970 were created or acquired in the 1960s), through the inclusion of canned food, juices, cosmetics, more detergents, plastics, animal foods, shipbuilding and ship-repairing, real estate, building industry and hotels, engineering, consulting and data-processing services[11]. After the early 1960s, this business empire was managed through a holding, the *Empresa Geral de Fomento*, which gave managerial support to the financial holding, the SOGEFI, Sociedade de Gestão e Financiamentos. This financial holding represented the share portfolio of the Mello family, grand-children of the founder, Alfredo da Silva.

The primitive industrial core, based on CUF company, also developed into other related areas in chemical industry – nitrate fertilizers added to the old phosphate fertilizers, pesticides, new types of soap and soap powders, sulphuric acid, etc. Metallurgy and metal-mechanical plants were also introduced in the CUF company since the early 20th century, followed by the metallurgy of copper and lead, the production of stainless and refractory steels and machine-building. Jute and sisal-based textile production supported the fertiliser and pesticide business, being also sold to industrial use by third-parties. Therefore, there had been a clear evolution from using by-products coming from the first industrial activities (oils used for the production of soap) to the production of rudimentary fertilizers, which were later expanded to superphosphate and nitrate fertilizers. The need to pack the fertilizers led to the introduction of jute sacks and yarn, and an earlier diversification to textile production. The access to raw materials (jute, cotton oils) supported the expansion to African colonies and also the investment in shipping. The need to support chemical and textile industrial activities, as well as the synergies coming from some chemical processes, led to metallurgy and machine-building.

[11] See table 1. This table was based on different information coming from the CUF archives: descriptions of the group (The CUF Group, 1973; 100 Anos ao serviço do país, 1965), CUF accounts and administration reports, Alves (2004), Faria (2004), Fernandes (2002) e Martins (1973).

Table 1: Composition of CUF Group in 1970, including date of establishment or acquisition of the different firms and if they had been included in McKinsey reorganization

Economic activity (ISIC rev. 3.1)	**Firm**	**Date**	**Incl.**
Portugal Mainland			
13. Mining of metal ores	Sociedade Mineira de Santiago	1966	
15. Food industries	CUF – Oil and Soap Division		I
	COMPAL – Companhia Produtora de Conservas Alimentares	1963	I
	SICEL – Sociedade Industrial de Cereais	1963	I
	PROALIMENTAR - Companhia de Produtos Alimentares do Centro	1968	
16. Tobacco industry	Tabaqueira	1927	
17. Textiles	CUF – Textiles Division		I
	SITENOR – Sociedade de Indústrias Têxteis do Norte	1962	I
	PROTÊXTIL – Promoção da Indústria Têxtil	1963	
	IPETEX – Sociedade de Indústrias Pesadas Têxteis	1965	I
21. Paper and paper products industries	Celulose Billerud	1965	
	Celuloses do Guadiana	1956	
22. Publishing	Editora Arcádia	1957	
24. Chemical industries	CUF – Products for Agriculture Division		I
	CUF – Products for Industry Division		I
	CUF – Oil and Soap Division		I
	Companhia Industrial Portuguesa	1955	I
	UFA - União Fabril do Azoto	1948	I
	MICOFABRIL – Sociedade Industrial de Bioquímica	1961	
	SONADEL – Sociedade Nacional de Detergentes	1956	I
	TINCO – Sociedade Fabril de Tintas de Construção	1958	
	PREVINIL – Empresa Preparadora de Compostos Vinílicos	1969	
	Unisol	1967	
	Sociedade Portuguesa de Petroquímica	1957	
25. Rubber and plastics	LUSOFANE	1962	I
34. Basic metalurgical industries	CUF – Mechanical Engineering Division		I
27/28. Manufacture of basic metals and metal products, exc. machinery and transportation equip.	CUF – Mechanical Engineering Division		I
	Companhia Portuguesa do Cobre	1943	I
	Feruni – Sociedade de Fundição	1969	I
29. Machinery and equipment construction, exc. electrical machines	CUF – Mechanical Engineering Division		I
31. Electrical machinery and apparatus	EFACEC – Empresa Fabril de Máquinas Eléctricas	1948	
35. Shipbuilding and ship repairing	LISNAVE – Estaleiros Navais de Lisboa	1961	
	NAVALIS – Sociedade de Construção e Reparação Naval	1957	
	GASLIMPO – Sociedade de Gasgasificação de Navios	1967	
	PROMARINHA – Gabinete de Estudos e Projectos	1969	
	Estaleiros Navais de Viana do Castelo	1945	
45. Construction	EMACO – Empresa de Administração e Construções	1964	
	REALIMO – Estudos e Realizações Imobiliárias	1969	
51. Wholesale trade	UNIFA – União Fabril Farmacêutica	1951	
	SOVENA – Sociedade Vendedora de Glicerina	1956	
55. Hotels	HOTAL – Sociedade de Indústria Hoteleira do Sul de Portugal	1962	
	SALVOR – Sociedade de Investimento Hoteleiro	1963	

61. Shipping	Sociedade Geral de Comércio Indústria e Transportes	1919	
	Companhia Nacional de Navegação	1956	
	TRANSFRIO – Sociedade Marítima de Transportes Frigoríficos	1964	
	TRANSNAVI – Sociedade Portuguesa de Navios Cisternas	1967	
	SONATRA – Sociedade Nacional de Tráfego	1953	
	SOPONATA – Sociedade Portuguesa de Navios-Tanques	1947	
	TRANSNAVI – Sociedade Portuguesa de Navios Cisternas	1967	
	SOCARMAR – Sociedade de Cargas e Descargas Marítimas	1969	
65. Banking	Banco Totta-Aliança	1961	
	Sogestil – Sociedade de Gestão de Títulos	1965	
	International Factors Portugal	1965	
66. Insurance	Companhia de Seguros Império	1942	
	Companhia de Seguros Sagres	1951	
70. Real estate	EMACO – Empresa de Administração e Construções	1964	
72/73/74. Services to enterprises	NORMA - Sociedade de Estudos para o Desenvolvimento de Empresas	1963	
	PROFABRIL – Centro de Projectos Industriais	1963	
	ENI – Electricidade Naval e Industrial	1969	
92. Projection of motion pictures	Companhia Animatógrafica dos Restauradores, (Cinema Éden)	1941	
Overseas			
01/02. Agriculture and forestry	Companhia da Ilha do Príncipe	1943	
	Sociedade António Silva Gouveia	1921	
	SOCAJÚ		
13. Mining	ECA – Empresa do Cobre de Angola	1944	
15. Food industries	INDUVE – Industrias Angolanas de Óleos Vegetais	1957	
17. Textiles	CICOMO – Companhia Industrial de Cordoarias de Moçambique	1966	
	Companhia Têxtil do Punguè	1959	
	SIGA – Sociedade Industrial de Grossarias de Angola	1951	
24. Chemical industries	INDUVE – Industrias Angolanas de Óleos Vegetais	1957	
51/52. Wholesale and retail trade	Sociedade António Silva Gouveia	1921	
	COMFABRIL – Companhia Fabril e Comercial do Ultramar	1900	
65. Banking	Banco Totta-Standart de Angola	1966	
	Banco Standart-Totta de Moçambique	1966	

Therefore, after some first ventures based on related diversification, corresponding to the period before the Great Depression, much of the CUF expansion was channelled to business areas not related to its former and core business, as it is evident in table 1 and was summarized above. The CUF group became similar to the conglomerates created in the Asian tigers, in a comparable environment of strong state intervention to boost economic development and the expansion of large business groups[12]. In Portugal, the CUF Group presents an analogous large scope of goods and economic activities[13], much

[12] References
[13] Jorge de Mello, the President of the Board of Administration from 1966 to 1975, presents the parallelism between the evolution of Portugal in the 1960s and early 1970s and the "Far-East Asian

larger than what was usual in current Western conglomerates, even growing through unrelated diversification[14].

As a result, CUF had become the largest Portuguese business group. Just before the 1974 Revolution, the volume of sales of all the firms included within the group amounted to 20% of the Portuguese GDP. It was the largest corporation in the Iberian Peninsula and ranked within the 200 largest corporations outside the USA. The business interests of this conglomerate spanned from chemical products to food industry, mass distribution to tobacco industry, textiles or engineering, ship building and repairing, insurance or banking, tourism or transport activities.

In the mid-1960s CUF faced several challenges. The CUF company was the clear core of the Group, not only in historical terms, but also due to its assets and sales[15]. In spite of the successful conglomerate expansion, the former core businesses of the CUF group experienced slow rates of growth and some of the recent investments of the group were stagnating (table 2). In the period just preceding McKinsey's consulting activity, the sales annual growth had been 4.7%, well below GDP growth during the same period, which was rising at 8.1% per year[16]. Average CUF annual profit performance, measured on the basis of return on investment (ROI) and return on sales (ROS) was considered unsatisfactory too and showing a declining trend (table 3).

This poor performance had several causes. The first one was related to the fact that CUF's growth prospects were held back by the dominance of goods and businesses, which attained the maximum possible level of growth or were in their descending phase. This characterized the type of goods which constituted the industrial core of the CUF Company: fertilizers, soap, vegetable oils or jute, for instance. Table 2 presents the mix of traditional versus new or fast growing activities. It emphasizes the fact that, in 1969, 78% of the sales were concentrated in businesses which had attained their mature phase. Sales were experiencing very low rhythms of growth or were stagnating, due to a domestic market which reached its potential of growth. In aggregate terms these traditional activities had an annual growth rate far below the total sales rhythm of growth: 1.8% vs. 4.7%.

Tigers", even if nothing is said about any comparison between the business groups (Alves, 2004, pp. 195-196).

[14] References

[15] CUF company sales corresponded to 38% of the entire Group revenues in 1969.

[16] The best basis of comparison should be the value added by CUF, which is conceptually closer to GDP definition. However, the comparison between sales growth and GDP growth provides a basic measure of relative performance.

Table 2: Sales of CUF company and related firms distributed by different business areas

Business sectors	**1965**	**1969**	**Annual rate of growth**	**Share**
Traditional				
Jute textiles	460	540	3.25	
Soaps	130	160	4.24	
Fertilizers	840	870	0.70	
Pesticides	160	180	2.38	
Industrial chemicals	140	150	1.39	
Metals	500	384	-5.14	
Cereals	70	60	-3.36	
Oils	530	750	7.19	
Others	76	78	0.52	
	2906	3172	1.77	77.9
New				
Animal foods	190	360	13.63	
Supermarkets	-	100	-	
Canned food and juices	50	80	9.86	
Cosmetics and detergents	70	260	30.00	
Plastics	20	30	8.45	
Carpets and synthetic textiles	-	70	-	
Total	330	900	22.22	22,1
TOTAL	3236	4072	4.70	100.0

Source: CUF Reports and Accounts, 1965-1969; McKinsey work documents.

Table 3 – Evolution of CUF company sales
(in thousands *contos de réis*), net profits and return on sales

	Sales	Net Profits	ROS
1965	2627.8	78.6	2.99
1966	2831.3	70.2	2.48
1967	3187.8	79.6	2.50
1968	3148.0	77.3	2.46
1969	3282.7	57.8	1.76

Source: Reports and Accounts, 1965-1969

In contrast, the new activities (canned food, soft drinks, plastics, detergents, carpets) had an astonishing yearly growth rate of 22%. As they only reached 22% of CUF

Company sales in 1969 – even if more than doubling their share, from 10% in 1965 – the overall impact of this impressive rhythm of growth was very low. Furthermore, launching costs in these modern and fast-growing businesses were very high. These launching costs were not only in manufacturing facilities, but also in creating strong marketing capabilities and investing in promotion and advertising, since for many of these new lines of goods purchasing decisions were taken at retail or consumer level. Even if the consumption of these goods was growing fast, the penetration of goods like detergents, canned food, cosmetics, toiletries or soft drinks was very recent and was constrained by the dimension of the Portuguese market and by a population characterized by low-incomes. As a result, even successful products achieved only a relatively low volume of sales and absolute returns. Marketing costs could not be spread by high volume of sales. Therefore, this constitutes the second main reason for explaining the poor performance of CUF Company in the late 1960s.

Thirdly, some of these industrial activities were facing an increasing rise in the cost of raw materials. In fact, subtropical or continental agricultural goods, indispensable for the production of soaps, oil or animal foods, revealed a trend of rising prices during the 1960s[17]. Therefore, a large proportion of CUF's industrial activities were squeezed between rising costs of production and a stagnant domestic market.

Another reason was the increased competition within the domestic market, either from national or foreign firms. Fertilizers and pesticides, for instance, had a stagnant or slowly growing market, but problems of over-capacity (fertilizers) or increased competition from new entrants (pesticides). The same happened in the case of goods in which market had good growing prospects, but where competition was fierce, as in the case of animal foods, cosmetics or detergents.

Besides these economic reasons, the institutional environment characteristic of the corporativism also militated to weaken CUF's position.

Firstly, prices had remained constant or even decreased in real terms for some goods, as a result of political or administrative pressure. Fertilizers – the major single business activity of CUF, representing 21% of the total sales coming from the group or from related firms – had their prices set by government decision, which resulted in very low margins and a declining trend for the profits coming from the sales in this business area from 1965 to 1969. Oils and soaps also had government-fixed maximum prices and they also represented an important share of CUF's sales.

Secondly, not only the small and poor domestic market restrained growth, but gaining market share was very difficult due to the administrative agreements between producers, within the corporatist regimen. This is particularly evident in the case of fertilizers. Foreign competition was not very important in the case of fertilizers in the late 1960s. CUF had ensured an extensive depot network and a strong sales force. Furthermore, its fertilizers were highly reputed. However, there was a situation of over-capacity within the industry, which had been solved by government intervention through the administrative allocation of markets to the different firms active in Portugal at that time[18].

[17] References

[18] Besides CUF, there were other domestic players in the production of different types of fertilizers – Sociedade Adubos de Portugal, Nitratos de Portugal, SAPEC. References

To sum up, CUF industrial core activities had been growing in markets where it had a first-mover advantage (traditional chemical activities, like fertilizers or pesticides, and industrial textiles), a protected market and an institutional environment which limited competition. This situation sustained the growth of industrial basis of the group throughout the 20th century, exemplified by the Barreiro industrial complex. It promoted the expansion of the group to new ventures too. However, the 1960s had experienced a major change in market conditions, due to rising prices of raw materials, lower tariff protection, increased competition and the constrains *corporativismo* posed to face these new challenges.

New business ventures tried to counterweight this tendency. The first decade of the 1960s witnessed several attempts to enter into new industrial activities (plastics, carpets, cosmetics, detergents, canned food), some of them related to the industrial core of the group. However, more resources – capital and managerial – had been directed to new ventures in banking and insurance, tobacco manufacturing, ship building and ship repairing, tourism and real estate. Some new industrial investments developed in the late 1950s and 1960s could reinforce the industrial core – oil refining and petrochemical activities, paints, synthetic textiles. However, as they were joint-ventures, mostly with foreign firms[19], they had been put outside the management of CUF company.

This difficult situation was acknowledged by the CUF board of administration. For the first time a professional manager was nominated in 1969 to become *Administrador Delegado*, a position similar to the CEO[20]. José Vístulo de Abreu, engineer and manager at CUF since 1949[21], took charge of this position in November 1969. One of the first steps of the new *Administrador Delegado* was to assess the situation within the CUF company. Furthermore, there had been a latent debate on the best organizational structure to boost CUF Company performance. The contact with McKinsey tried to provide an external advice on this major issue[22].

3. Approaching McKinsey

The McKinsey Company had been particularly active in the wave of corporate restructuring, which started in Europe in the second half of the 1950s and accelerated during the 1960s[23]. It was a movement of innovation transfer, introducing the American

[19] References

[20] Until then the top of the CUF Company had been occupied, in sequence, by Alfredo da Silva, the founder, his son and grandson.

[21] In fact, he entered CUF in 1949, after graduating in engineering. He was responsible for the creation of the engineering center at CUF. The technical capabilities developed within this center headed by Vístulo de Abreu, supported his proposal to the board of administration to spin off the engineering center into an independent firm (Profabril). The success of Profabril was one of the reasons to be invited to head the CUF company.

[22] Hiring McKinsey as a way of increasing legitimacy for a new management, for supporting tough decisions and breaking internal deadlocks (Kieser, 2002; McLarty and Robinson, 1998), might be an additional motivation too. Even if it did not come out in the different sources, written or oral, it is a trail to be followed.

[23] For the importance of McKinsey in the reorganization of European firms during the 1960s and 1970s see McKenna, 2006, 169 ff; Kipping and Kirkpatrick, 2005; Whittington and Mayer, 2000; Kipping, 1996. For the evolution of McKinsey see also Wolf, 1978.

organizational model based on the multidivisional firm to the largest European corporations, as part of a comprehensive trend for transferring "values, behaviour, institutions, technologies, patterns of organization, symbols and norms from the USA to the economic life of other states", commonly labelled "Americanization"[24]. Some of the first jobs McKinsey got in Europe were to subsidiary of American firms (IBM World Trade in 1956, for instance). However, very briefly European companies like KLM, Shell, ENI, Dunlop, ICI, Nestlé, Sandoz, United Fruit, Pechiney, Rhône-Poulenc, Air France, Volkswagen or BASF became McKinsey's clients. At the end of the 1960s, 32 of the largest 100 British companies hire consulting firms for organizational restructuring. Two thirds of these firms hired McKinsey[25].

In 1959, McKinsey opened the first office in London, which was followed by offices in Geneva, Paris, Amsterdam and Dusseldorf. In the late 1960s, when CUF assignment started, the revenues coming from Europe matched the ones earned in the USA and with increased profitability[26].

The decision of hiring McKinsey was not straightforward. The first approach was not easy, due to the fact that the American consulting company did not seem interested in having CUF as a client[27]. The reasons provided by the American consulting firm emphasized the underdeveloped characteristics of the Portuguese economy and managerial structure. Therefore, the CUF company would not be able to assimilate and implement the proposals and solutions provided by McKinsey. Some years before, in 1965, a leading Spanish bank tried to hire McKinsey to reorganize the industrial firms controlled by the bank. The proposal was declined and the argument provided by Martin Bower was that Spain did not belong to the European Common Market and was a dictatorship. Therefore, starting business in Spain, eventually opening a new office in Madrid or Barcelona, was not considered an attractive move[28]. It is not possible to speculate if this reason could also explain the difficulties raised by McKinsey to the first approach. At the time, the consultancy firm had a large demand of its services by European firms in different countries and was turning away work proposals. Moreover, the characteristics of the Portuguese (and the Iberian) market for developing further consulting jobs, as well as the type of political regimen ruling Portugal at the time might influence the initial lack of interest in accepting CUF proposal, in a similar was as it happened with the Spanish bank. Nevertheless, the Portuguese situation had some different characteristics when compared with Spain. Not only Portugal was a member of EFTA since its beginning, but it also participated in the major international economic institutions created after the end of World War II since their very beginning. In political terms, even if political and civic freedom was restrained, there had been general elections for the Portuguese Parliament, with the participation of other electoral lists, besides the official one-party (*União Nacional*).

In the end, McKinsey agreed to develop the consulting work, after the Administrador Delegado went personally to New York. The negotiation took place with New York

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[24] Schröter, 2005, p. 4. It could also be explained from the perspective of the fashion theory approach, summarized by Kipping and Kirkpatrick, 2005.
[25] Kipping and Armbruster, p. 73.
[26] McKenna, 2006, pp. 174-5. See his table 1 for data on the profitability of McKinsey's European continental offices.
[27] Personal statement provided by eng.º José Vístulo de Abreu, the administrador delegado who contacted McKinsey company.
[28] This episode is presented in McKenna, 2006, p. 176.

office and the first written reference is the information by the Administrador Delegado to the Board of Administration, in 22 December 1969, transmitting the contacts with McKinsey. He referred that the consulting firm had restructured companies like Rhone-Poulenc and Lesieur, and explained the methodology that would be followed. It was agreed to have a meeting in January with a McKinsey representative in order to further decide to formalize a contract. It is mentioned in the Board of Administration proceedings that "if there is agreement, the team responsible for carrying out the study should be composed by very high-qualified consultants".

This concern about the quality of the consulting team reveals the typical problems in hiring a consultancy firm: difficulties in designing contracts, asymmetric information, variability of quality between one assignment and another (lack of standardization)[29]. Trust relationships or looking for information on the quality of the consulting work through business networks are common means to overcome this concern. In the case of CUF, the choice of McKinsey was only based on indirect reputation and published information about the work the consulting firm was carrying out in Europe[30]. ICI had been reorganized by the American consultancy six years before and the English chemical firm had good business relations with CUF. Other European chemical firms had been also "McKinseyed" throughout the 1960s – BASF, Rhône-Poulenc or Geigy. However, in-depth or inside information about these experiences – their successes or difficulties – had not influenced the decision-making process to hire McKinsey. These reorganization processes were known through the specialized business press, but there was no direct information from any of these firms[31].

Eventually, McKinsey's final proposal was analysed and approved in the meeting of the Board of Administration, the 12th February 1970. It was stressed at the meeting the need for introducing a cancellation clause in the final contract and reiterated the requirement to carefully analyse the CVs of McKinsey consultants. The cost of the consulting project until the presentation of the final report would be 6000 contos (210,000 1970 USA dollars). Additional work by the consulting firm would be extra paid.

The methodology followed by McKinsey started with an economic and financial analysis of the CUF company, as well as the affiliated and subsidiary companies operating in the same business areas. Therefore, much of the business group was left apart [32]. The purpose of this first step was to know the role of CUF in several markets where it participated and provided the kind of general survey, holistic approach, typical of management consulting firms since the 1930s[33]. Secondly, divisional long range plans were examined in the different business areas in order to determine future management tasks. The third step was to evaluate CUF's organizational and managerial weaknesses and strengths in order to accomplish those tasks (similar to a very simple SWOT analysis). Finally, there was an identification of the most practicable and

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[29] Amorim and Kipping, 1999, p. 46 ff; Kipping, 1999, pp. 191 ff; Mitchell, 1994.
[30] Personal statement provided by eng.º José Vístulo de Abreu.
[31] Personal statement provided by eng.º José Vístulo de Abreu.
[32] See table 1 with the identification of the firms belonging to the CUF group, which were integrated in the consulting work.
[33] In fact, McKinsey specialized in this holistic approach to the firm, as the best means to study and understand a company (McKenna, 2006, pp. 66-7; Kipping and Kirkpatrick, 2005). McKenna quotes the presentation of the general survey methodology in the following way: "such a survey appraises the effectiveness of the management, checks the organization procedures, the nature of records, the standards, budgets, quotas, and the like." (*ibid*., p. 67)

efficient organizational proposals. To sum up, this methodology takes the organizational structure and management methods as the basis for analysing and restructuring the company, much in line to what was the specialization and strength of McKinsey.

There had been prior consulting tasks for CUF carried out by independent consultants or by firms[34]. Engineering consultancy was used to introduce new processes and manufacturing activities, as well as to enhance the efficiency of existing activities. The use of scientific management in order to improve shop-floor industrial activities was also evident. However, the consulting work developed by McKinsey to CUF Company in 1970 was the first one belonging to the management consulting type, as it was characterized by McKenna or Kipping[35]. Besides CUF, other consulting activities had existed in Portugal since the 1940, but always limited to the improvement of efficiency and work processes on the shop-floor[36]. Therefore, the work assigned to McKinsey became even more exceptional, because it dealt with problems of strategy and organizational issues, rather than with the typical problems analysed by former consultancies.

4. McKinsey at work: "Organizing for Profitable Expansion"

In October 1970, McKinsey's final report was delivered to CUF Board of Administration. Its title – "Organizing for Profitable Expansion" – emphasizes the purposes and the directions followed by the consulting analysis. Before reaching this final report, several preliminary reports circulated, which took into account self-assessment documents prepared by Portuguese managers for each CUF division, interviews and the analysis of the Company.

The report emphasizes the economic and market challenges previously stated in section 2. In addition, it raised several other issues, regarding the level of competition and market difficulties which CUF traditional businesses would face in the future. For instance, protection against foreign competition enjoyed by fertilizers, pesticides and industrial chemicals would disappear at the beginning of the 1970s, due to the tariff agreements resulting from EFTA membership. Industrial textiles were also heavily protected, but in the near future they would have to cope with an increased competition, coming from two directions: cheaper production from countries like India or Pakistan and a substitution effect, coming from other raw materials and industrial processes (synthetic textiles and plastics would inevitably substitute jute industrial textiles). Therefore, intense and growing competition from synthetics and from lower-cost Asian producers would likely eliminate CUF's advantages in jute business in a few years. Finally, some traditional products had a stagnant market, as it was the case of soaps. However, as CUF detained an almost monopolistic position in the market, it was the cash cow for the company.

McKinsey identified three major strategic problems faced by CUF and responsible for the modest sales and financial results experienced since the mid-1960s[37]. The first one

[34] References
[35] McKenna, 2006, ***; Kipping, 2001; Kipping and Kirkpatrick, 2005.
[36] Amorim, 1999; Amorim and Kipping, 1999.
[37] These strategic issues are identified in McKinsey, 1970, pp. 1.1 and 1.2.

concerned the high percentage of CUF's assets in products in the mature or declining phase of their product life cycle. Therefore, their sales would tend to slow down and profits would shrink due to raising costs[38]. The second strategic problem was connected with the new areas of business. They had not been able to provide adequate sales and profits to counterweight the stagnation in traditional businesses. The third and final reason concerned the expansion followed by the CUF group since the late 1950s towards these new business areas. The new diversification investments of the group had taken place outside the CUF company, through the creation or acquisition of other firms, but without enough investments in marketing and managerial capabilities. They had been too limited to offset the major investments made in the more traditional businesses. As a consequence, the aggregate results reflected largely the mediocre performance of traditional businesses.

McKinsey consulting work explicitly left some problems outside the scope and recommendations of the study. One of them is the strategic assessment on the allocation of investments to new areas. It is stated that "a number of major new investment decisions critical to determine the Company's long term viability will be required over the next 5 to 10 years"[39], in order to counterbalance the low profitability and maturity of the core industrial basis. However, some emphatic words of caution are raised in the report against some potential new investments, noticing that foreign companies were having problems in some of these businesses. There is not any reference to particular business areas. However, one of them might be margarines, in which Unilever already had a position in Portugal through a joint-venture with a Portuguese firm, Jerónimo Martins.

Internationalization is another issue stated as being outside the objectives of the consulting work. Several times export initiatives are recommended for some business areas analysed in the report (fertilizers, canned food), even if this is not very frequent, certainly due to the fact that there were not many goods in which the company could be competitive abroad. It is plainly stated that "the CUF Company and the other activities of the Group have been built on the need to serve and develop the Portuguese economy, and they have benefited in many cases from various restrictions on foreign competition" (*ibid.*). However, future liberalization of world trade might require CUF to expand its activities beyond simply selling abroad.

It is possible to speculate about the reasons for leaving these strategic concerns outside the consulting work developed by McKinsey. CUF Group and Company top management were aware of any of these issues as critical problems to the near future. The discussion on new investment decisions was taking place within the Group (Alves, 2004). The movement towards petrochemicals, synthetic textiles, tourism and services in the next years validates this assertion. In the same light, the need to compete in a global market is something acknowledged and expressed by CUF managers in several instances: "From the statements of the Common Market and EFTA ministers, as well as from the Portuguese Minister of Economy, everything seems to suggest that we are rapidly moving to a large European economy, open to competition and a market composed of 300 million customers. […] In the short term, tariffs will be removed. We will have to think in European terms instead of Portuguese ones, and be aware of the potential these markets might have to our goods" (CUF 1970). Therefore, the reason for

[38] The reasons for these raising costs were identified in section 2, above.
[39] McKinsey, 1970, p. iv.

leaving these problems outside the scope of the study may suggest that CUF administration intended to circumscribe the consulting project to issues already identified as management problems in the Board of Directors.

McKinsey study emphasizes the organizational diseconomies and inefficiencies which prevented CUF to face the identified challenges. They can be summarized in the following points, starting with the shortcomings at the organizational level, moving to the limitations in the management processes and ending with the problems related to management philosophy.

CUF had adopted a divisional structure in the late 1950s[40]. However, decision-making was highly centralized, meaning that not only divisions lacked autonomy, but that even CUF Executive Committee was too dependent from decisions taken at Group level. The same happened in the affiliated and satellite firms. In addiction, functional organization within CUF's divisions became overburdened, meaning that top management was spending too much time with operational decisions. As a result, strategic issues were not considered or were considered too late. New businesses were not getting enough top management attention.

Management processes were considered inadequate too. Long-term planning existed, with the identification of strategic objectives to CUF Company[41]. However, short-term planning was not related to long-term planning, meaning that there was not an association between annual financial budgeting and the long term objectives. There was a noticeable lack of management control, due to the inexistence of efficient management information systems to provide enough, accurate and timing information, critical to support planning, decision-making and control. Computers and data-processing were used to handle accounting or human resources data, but were not exploited as the basis for a management information system[42]. Management development should also be improved, in order to provide CUF with capable executives.

Finally, the deficiencies in management philosophy emphasized the lack of orientation in decision-making across different levels of the managerial hierarchy, the need to provide effective delegation of authority, making the different layers of management responsible and accountable by their actions, and finally the shortage of profit motivation, guiding managerial actions down the line.

As a consequence of the diagnostic summarized here, these three targets (organizational structure, management processes and management philosophy) organize the solutions and requirements proposed by the consultancy firm. These aspects are summarized in table 4. Therefore, the presentation of the organizational innovations and changes in management philosophy and processes will focus on the most important issues.

[40] Mateus, 2001; Alves, 2004. See Fig. 1 and 2, representing the CUF Company organizational structure in different moments, before McKinsey consulting work.

[41] It had been firstly introduced in the chemical division – the most important division in 1969, with 57% of the sales and 69% of the profits. – and lately extended to the other divisions.

[42] On the use of computers at CUF see Almeida (2004) and Silva (2006). The use of computers as the infrastructure of modern management information systems is also addressed in Silva (2006).

Figure 1: CUF Company – Organizational structure in the 1950s

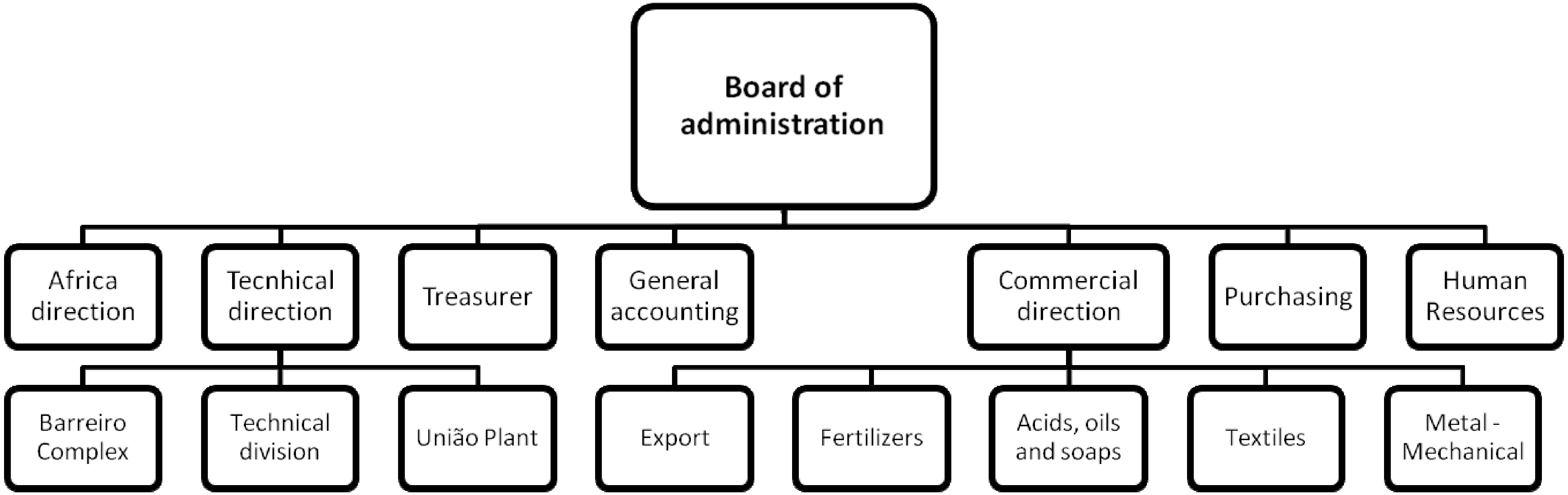


Figure 2: CUF Company – Organizational structure in the 1960s

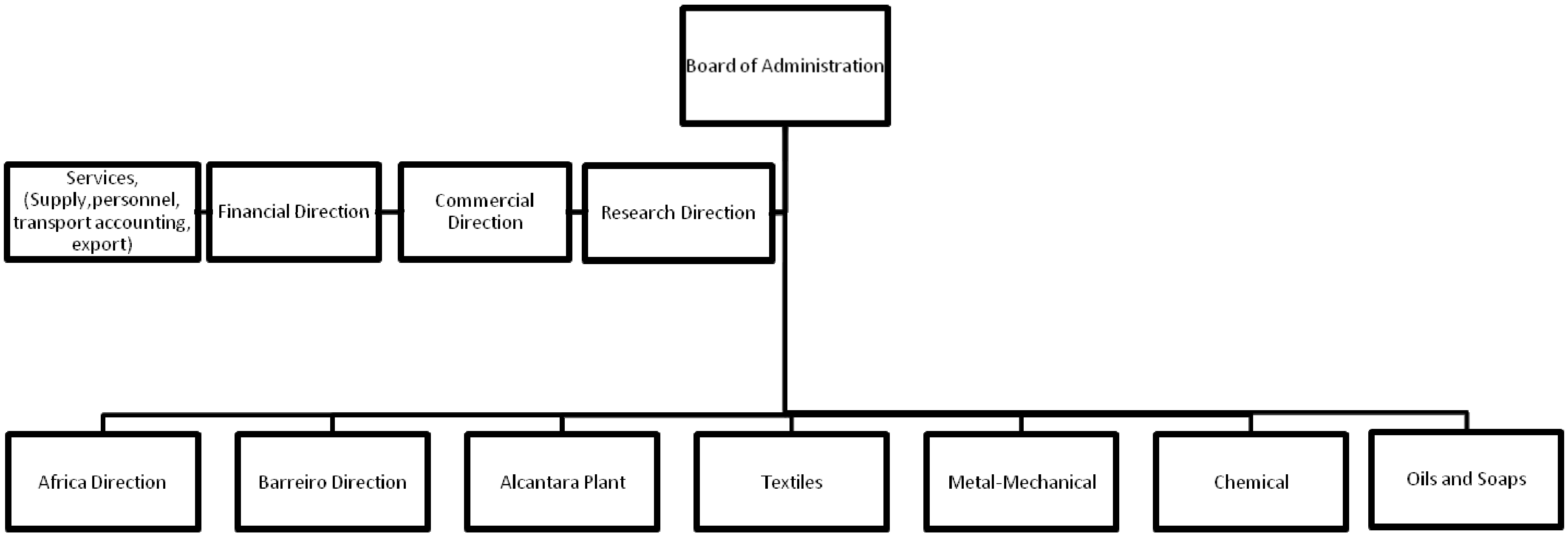


Figure 4: CUF Company – Organizational structure proposed by McKinsey (1970)

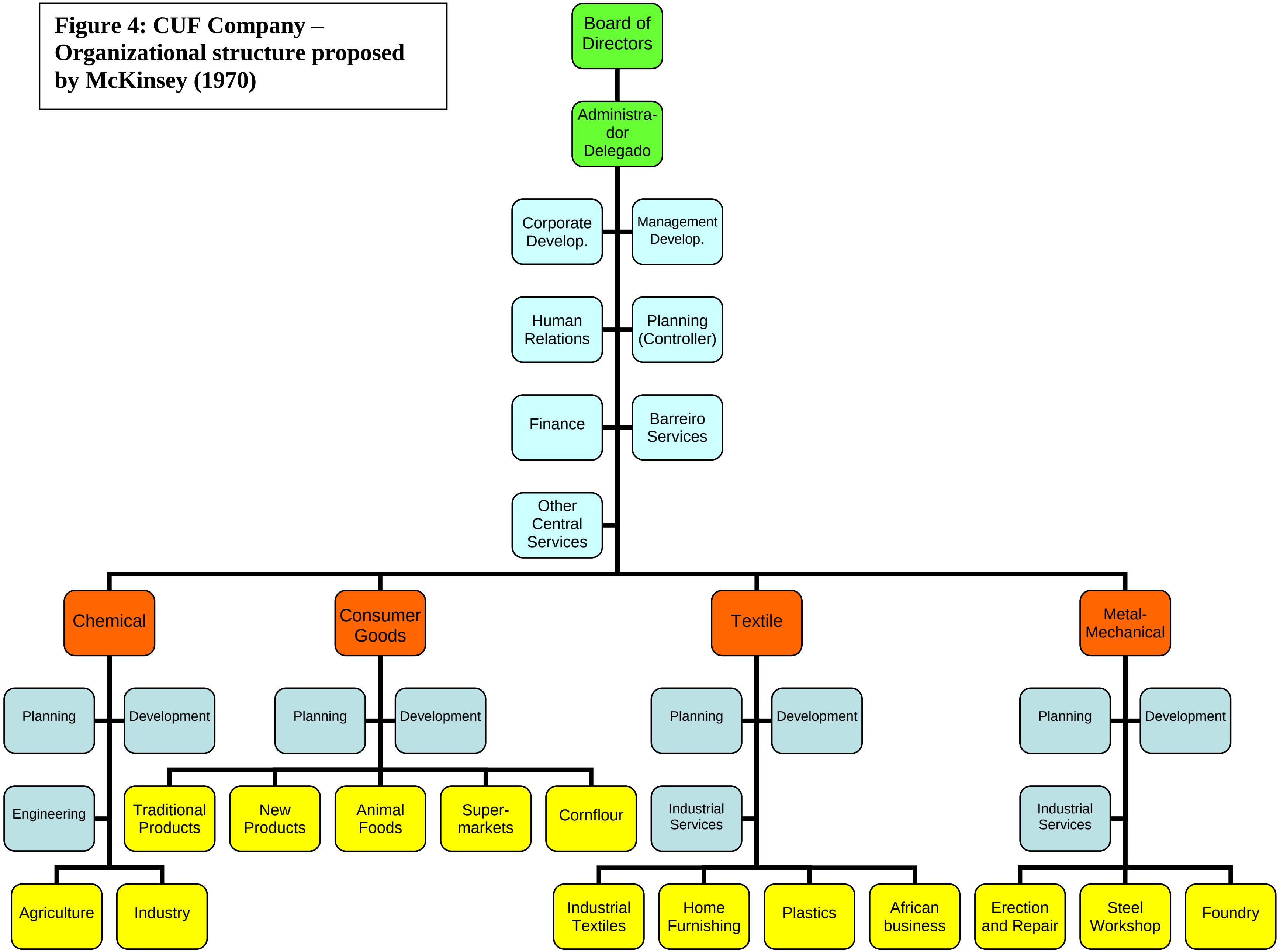


Table 4: Shortcomings and solutions in organization, management processes and philosophy

Target	Defficiencies	Innovations
Organizational structure	Too centralized decision making - proper divisionalization had not been implemented	Reorganization of the group through the M-form Definition of the management requirements for each profit center Redefinition of central staff functions Reorganization of related businesses, merging activities and resources spread by different independent firms
	Functional areas within divisions became over-burdened	
Management processes	Short-term planning was absent	Planning, giving top management a firm hold over operations by focusing on key profit components
	Lack of management control, inexistence of management information system	Controllership, introduction of management information systems: supporting delegation of authority and control of performance, allowing top management to react quickly to major problems
	Insufficient management development	Management development, providing top management control over the development and allocation of scarce management resources
Management philosophy	Too centralized decision making	Encouraging delegation of authority
	Lack of marketing orientation in decision-making	Developing marketing orientation Rewarding-profit-related performance

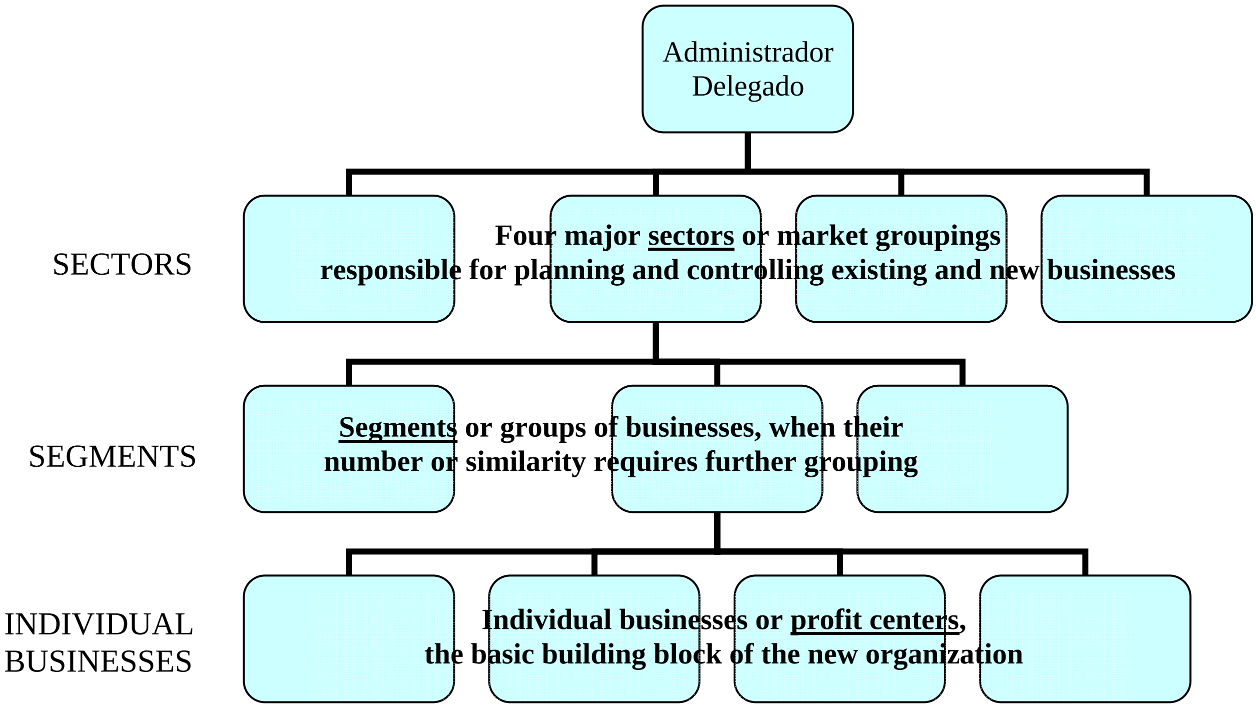
The effective introduction of the multidivisional organization is the first solution proposed. This was achieved through the definition of profit centers, based on individual business, which should be considered as the basic organizational unit responsible for profits from its activities (see Figure 3). This would be important for allocating responsibilities for performance, allocating resources (financial, managerial, marketing) and designing strategies. Similar businesses would be grouped in segments, when their number would require further grouping. This would save in common functional areas (purchasing or marketing) and in scarce management resources, which could be centralized at segment level. Finally, segments would be grouped in major sectors (divisions), responsible for planning and controlling existing and new businesses. These sectors correspond to the old divisions in which the CUF company was organized: chemical sector, consumer products sector, textile sector and metal-mechanical sector. Individual business and/or segment managers will be responsible to the sector top manager for the performance of the respective profit center. The sectors heads will be responsible to the Administrador Delegado, who was chosen by the CUF Group Board of Directors. The Administrador Delegado and the four sectors managers sitted in the Executive Committee of the CUF Company. This would allow the effective management of the business areas in which CUF Company was participating and the decentralization of responsibility and authority. Management requirements were defined for each profit center, which would guide the organizational design and the managerial capabilities to use.

The new organization should be extended to all affiliates, belonging to the CUF Group and having business activities similar to the ones included in the different sectors. For instance, the Agricultural Chemicals segment (part of the Chemicals Sector) included two other firms affiliated to the CUF Group – União Fabril do Azoto and Companhia Industrial Portuguesa[43]. Assigning affiliated firms to segments or sectors would save on managerial resources and functional services, could rationalize production, purchasing or marketing, merging activities and resources spread by different independent firms within the group.

In some way, McKinsey proposal tried to frame the new organization in the old structure existing for 10 years[44], circumscribing the responsibility for operating decisions to divisions (sectors). The major changes were the inclusion of affiliated companies and, mostly, the redefinition of business units below the Sector level, assigning each business to a profit center, and in this sense applying the principle of managerial decomposition and specialization across the entire structure below the Sector head.

[43] McKinsey report states that integrating CUF Company agricultural chemicals, UFA and CIP within the same segment, could pave the way to create an autonomous agro-chemical corporation (p. 2.4). It is interesting to note that this was the solution adopted in 1977, after the nationalization of CUF Group in 1975. All the nationalized firms producing agricultural chemicals (CUF, Amoníaco Português and Nitratos de Portugal) were merged by governmental decision, creating Quimigal, a state enterprise (law 530/77, 30 de December).
[44] Compare figures 2 and 4.

Figure 3: Recommended organizational model proposed by McKinsey



The most important characteristics of the profit centers (different business areas) are presented in the Report, as well as their market and organizational challenges. A second step is to identify the critical factors for achieving success. CUF's situation is appraised and matched with the requirements for improving profitability. Finally, the management requirements are synthesized, which provide the rationale for the organizational and managerial changes.

The analysis is very detailed and difficult to summarize in a few paragraphs. However, using the differentiation between mature or declining businesses and new/fast-growing businesses, it is possible to provide some sort of taxonomy, presented in table 5.

Several issues can be raised from the analysis of this table. The importance of the controllership function at different levels of the structure and business activities of the company is the most evident conclusion that can be reached. In fact, this is one of the most important innovations at the level of the management processes proposed by McKinsey, in order to ensure control over the use of assets and to improve the profitability of existing businesses.

In the case of the profit centers based on mature and declining businesses there is an emphasis on cost-saving proposals, focused on operations and logistics efficiency, rationalization and specialization of plants (specifically in the case of oils)[45], and improvement in purchasing capabilities, in order to have access to cheaper raw materials, one of the challenges previously identified. Some of these businesses face disappearance (jute textiles, for instance). Therefore, it was critical to minimize costs

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and improve efficiency, to derive the maximum cash flow from the remaining life of these products. Even in the case of fertilisers – traditional and emblematic business area within CUF – there is the belief that it is impossible to grow further in the domestic market. Due to the technical and marketing capabilities accumulated, the only way to escape stagnation and further decline is to expand to foreign markets[46].

For mature businesses which revealed growing prospects, besides the previously referred importance attributed to cost-saving, emphasis is put on marketing and product development, in order to gain market share and to launch new products.

New businesses were characterized by fast-growing potential, but very small market penetration, with the exception of animal foods. Expanding market share is the main objective, explaining the references to the need to invest in marketing capabilities[47]. The only exception is the plastics sector. In this case entrepreneurial venture capability is the main purpose. Finally, the only profit center that had attained a large market – animal foods – did not have any mention to investing in marketing capabilities, as it benefited from the sales network for agro-chemicals. In this case, on the contrary, management requirements are similar to the declining businesses. CUF already had a large market share in animal foods, thus rationalization of production and purchasing is stressed.

Changes in management processes emphasize the importance of planning, control and management development (table 4). Any of these innovations in managerial processes were critical for the future development of CUF. Besides general recommendations in the General Report which are being quoted, separate documents were prepared in order to develop these issues ant to apply them to specific businesses. Summarizing this transformation in more detail is not practical. As a consequence, we can single out the innovations in the control function, which led to the introduction of controllership units and managers at different levels of the organizational structure and the establishment of management accounting and Information Technology supporting management information systems. This also had consequences in the redefinition of central staff functions, supporting the *Administrador Delegado* and the Executive Committee. A controller manager is recommended, reporting directly to the *Administrador Delegado*, responsible for carrying out planning and control in CUF as a whole, reviewing the plans at profit center level to ensure they meet CUF profit and growth objectives. In addition, he will identify deviations to plan and try to find out proposals for corrective action. McKinsey report stresses the critical impact the Controller could have on the future success of the Company[48].

[46] In fact, this recommendation was followed in the next years, with the creation of an export firm to Europe, seating in Switzerland, Interacid (1971). In 1973 was created the Intercuf, in Brazil, for producing and selling fertilizers.

[47] Home furnishing textiles business also had the requirement to invest in purchasing capability, in contrast with the other new products. This was the result of exceptionally high raw material costs in home textiles (McKinsey, 1970, p. 2.17 and exhibit 22).

[48] Detailed job description is presented by McKinsey. It is, for instance, noted that "his task is not simply financial control, and almost none of it will be routine. He will not spend his time on calculating ratios or variances, but on analyzing why (*sic.*) they have happened and how (*sic.*) they me corrected; again he will not spend his time on elaborating detailed consolidated plans and budgets, but on interpreting what they mean for CUF and whether they are acceptable." (McKinsey, 1970, p. 3.5)

Table 5: Management requirements for different profit units

Characteristic	**Business**	**Matrix of proposed changes**					
Mature without growing prospects	Fertilizers	Controllership function	Operation and logistics manager	Purchasing	Export		
	Metals		Inventory reduction, improve workflow	Coord. sales / purchasing			End
	Jute industrial textiles	Controllership function		Purchasing			End: substitution by plastics and synthetics
Mature with growing prospects	Pesticides	Controllership function	Operation and logistics manager	Purchasing	Marketing	Product development	
	Industrial chemicals		Operation and logistics manager	Purchasing	Marketing	Product development	
	Oils	Controllership function	Rationalization of plants	Purchasing	Marketing		
	Soaps	Controllership function			Marketing		
New, fast growing prospects	Animal foods	Controllership function	Rationalization of organization design	Purchasing	Marketing		
New, fast growing prospects, but small market	Detergents	Controllership function			Marketing		
	Canned food	Controllership function			Marketing		
	Fruit juices	Controllership function			Marketing		
	Cosmetics	Controllership function			Marketing		
	Home textiles	Controllership function		Purchasing	Marketing		
	Plastics					Entrepreneurial manag.	

These new tasks on information gathering and processing should lead to a redefinition and investment in the electronic data-processing unit existing in CUF, which should be expanded besides accounting or human resources data-processing[49]. In addition, it would be necessary to integrate Teledata in these changes, an affiliated firm dedicated to data-processing, which provided services to the CUF Group and to third-parties (Silva, 2006). In order to develop a detailed management information system the Administration decided to hire Walter Reed, professor in the London Business School and specialist in information systems, to work with McKinsey[50].

There were other changes in central staff functions that should be noticed. For the sake of brevity, one of them is revealing of changes in Portuguese society at the time. McKinsey report suggests the improvement and reinforcement of the Personnel Department. It alerts to the possibility that industrial relations would become more tense, due to shortage of labour and more active trade unions. Portugal did not have free trade unions at the time, but only corporatist trade unions, controlled by the state. However, since the 1960s clandestine trade union movements developed, supported by catholic, communist and socialist activists. CUF industrial complex in Barreiro was considered a stronghold of the clandestine Communist Party and of its influence in the working class. In October 1970 – precisely when the final McKinsey Report was delivered – there was the creation of the *Intersindical*, the embryo of a federation linking those clandestine trade-unions. Even not being aware of this change in the organization of the trade-unions, McKinsey warned that "industrial relations could thus become one of CUF's critical functions".

The transformation of management philosophy points up the inner dimensions behind the changes in the organizational or management processes changes. Once again table 4 summarizes the basic issues. A very clear emphasis is put on delegation of authority as the basis for improving efficiency, applying to management the principles of division of labour. Delegation of authority was based on a policy of management by objectives and control by exception, which could provide autonomy and responsibility to managers down the line, but maintaining control through the mechanisms of planning. Marketing orientation is another clear path to a new management philosophy. Putting customer needs as the basis for action, paying attention to deficiencies in products or services, supporting product innovation to meet customer needs and market trends[51] represent some of the points associated to this market orientation approach. Therefore, marketing orientation – as well as planning and control – represent the most important issues which were developed by McKinsey team in association with CUF managers from top to down the line. Finally, a significant change in management philosophy was the promotion and reward policy regarding managers[52]. In line with the management by objectives, delegation of authority and profit-orientation, the basic guide to promotion and reward would be the assessment of profit-related performance[53].

[49] McKinsey, 1970, pp. 3.4 ff. A detailed document was issued, reviewing CUF's EDP function and proposing the necessary changes to install a management information system.
[50] Almeida, 2004. Oral information from Vístula de Abreu.
[51] "The marketing effort focus too often on selling goods that have been produced, rather than on producing goods to satisfy customer needs" (McKinsey 1970, p. 4.6)
[52] From the interviews with managers McKinsey consultants refer that CUF "managers believe that promotion and success in the Company are based less on performance than on other factors" (*ibid*., p. 4.7)
[53] Another illuminating statement about the existing management philosophy: "[…] where performance is rewarded, it tends to be identified with the competent performance of particular technical specialities or

The complete implementation of these recommendations was expected to occur throughout two years. The most critical difficulty was the lack of qualified managers to put into practice the organizational changes and the new management processes. Detailed schedule is presented and agreed with CUF Administration, in order to phase in different steps over six months. Leaving the detail of this implementation plan, what is interesting is to disclose the priorities and the methodology followed.

Besides changes at organizational level, starting with the Chemicals and Textiles Sectors, priority is given to implement the new philosophy and processes "to make the structure work" (*ibid*., p. 5.2). And it is stressed that both targets are strictly interrelated: it is not possible to motivate managers to achieve superior financial performance through profit-orientation behaviour, if control and monitoring systems does not exist to measure their individual performance.

In order to accelerate changes in philosophy and processes, the McKinsey Report suggests the creation of joint teams (McKinsey consultants and CUF managers) to work together in two functional areas – marketing planning and controllership – for the next three months. Looking back to the recommendations in the three dimensional perspective followed (organization, processes and philosophy), marketing-orientation and the controllership function are the two fundamental concepts underlying the new organization and linking together the most important proposed changes. Therefore, it does not surprise that these were the functions selected to launch the transformation of management philosophy and processes within CUF.

There would be two programs of seminars dedicated to managers with responsibilities in these functions, "to improve consumer product management, industrial marketing planning and venture management skills" (marketing), and to "describe the role and the principal responsibilities of controllers in the new structure" (controllership). These seminars would be followed by practical work exercises, based on real problems faced by CUF and on-the-job training. In the case of marketing, McKinsey consultants and five CUF teams of managers would apply the theoretical principles to the development of pilot plans for some products and businesses. Later on, these CUF managers would extend these marketing planning skills and experience to other businesses. In the case of controllership, the theoretical basis would be applied and deepened into two other phases: "practical work exercises […] carried out by CUF managers to develop the basic analytical tools to identify profit improvement opportunities, a key aspect of the controller's role" and a pilot project for the development of the information systems needed to plan and control the animal foods profit center[54].

processes, rather than with a real contribution to Company profitability" (*ibid.*). Reference to the study by the Stanford Research Institute.

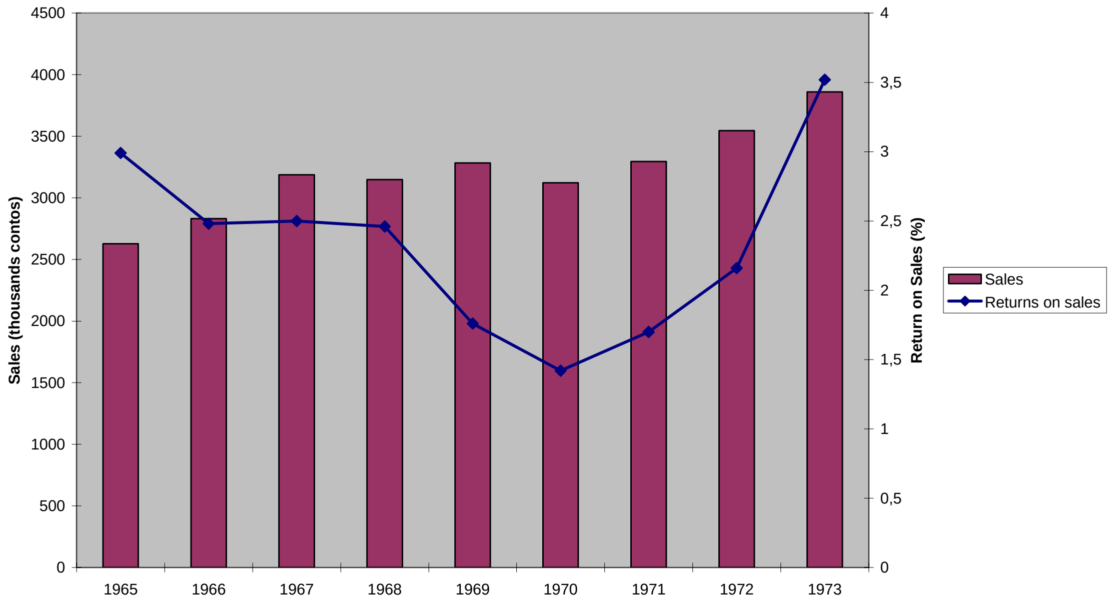
[54] There were 98 middle managers involved in these seminars. Much more participated in the meetings to discuss and analize this process of reorganization.

5. Conclusion

In 25 April 1974, the democratic revolution ended the one-party regime which had ruled Portugal since 1926. Political and institutional change were followed by social unrest, working class demands for rising wages and trade-union rights. Changes in the industrial relations were much more intense and significant than the ones presumed in McKinsey Report. Demands for higher wages and better working conditions rapidly evolved into requests of radical political transformation and the nationalization of the main economic sectors. The largest business group in Portugal, whose most important industrial complex was located in the most radical district, could not be unhurt by this changing environment. Starting in March 1975, with the bank and insurance companies, the whole CUF Group was nationalized in rapid sequence between March and October: transport companies, petrochemicals, tobacco, mining firms, ship-building and repairing and the CUF Company. In 2 October 1975, the nationalization of the two holdings of the Group – Sogefi and Sociedade Geral – integrated the remaining firms into state ownership[55].

Any assessment of McKinsey consulting impact on CUF has to take into account this historical evolution. Just a few years after the presentation of the Report mentioned above, when organizational changes and the implementation of the new management philosophy and processes were still in motion, the revolution interrupted this development. As a result, the impact of these changes in the performance of the company is difficult to weigh up. The chart displayed in Fig. 5 reveals a significant increase in sales and an even more marked rise in the profitability of the company, measured through the returns on sales. However it is difficult to say what might be the role played by the organizational and managerial changes on this evolution.

Fig. 5: CUF Company: Sales and Return on Sales (1965-1973)



[55] Sousa and Cruz, 1995; Alves, 2004, pp. 167-8.

For McKinsey and for the evolution of consultancy in Portugal, the work for CUF had clear consequences. It initiated in Portugal the second stage of consulting works, as it is defined by Kipping (1996)[56]. The focus of previous consultancies had been on innovating and improving manufacturing processes. They were concentrated primarily on the efficiency and control of the industrial output. McKinsey consulting work provided new philosophy and processes to manage a highly diversified firm and their affiliates, from a top-down approach. This is typical of the approach followed during the "second wave of consultancies"[57].

This consulting work for CUF also had a clear consequence for McKinsey. It represented the bridge to open the first office of the American consulting firm in the Iberian Peninsula, which was created in Lisbon in 1973, following a similar path to other European countries – a major consulting contract created the opportunity to establish a permanent working basis in the country[58]. McKinsey's presence in Portugal was brief. Political and social turmoil led to the closing of Lisbon's office in 1975, only returning in 1985, but what is important for the argument is that CUF work represented the possibility to enter into the Portuguese market. Therefore, from an initial position of refusing the proposal to restructure the CUF Company, McKinsey looked at this work not only as a long-term assignment, but also as a potential bridge to other Portuguese firms and institutions.

Coming back to the major aspect of this study, it can be said that McKinsey had a pioneering role in transferring the modern organizational models and managerial processes to Portugal. It can be argued that this transfer was "mitigated by the 'systemic context'" of the Portuguese case[59]. However, this pioneering consulting work resulted in three major influences, even if it is not possible to assess its impact on the business performance of CUF.

Firstly, it became a source of a new management philosophy, based on decentralized management, delegation of authority, customer, market and profit orientation. This emphasis on distribution and profitability, rather than technical attributes or competences, characterizes the "Americanization" of the European economy in the second half of the twentieth century, as it is argued by Schröter (2005). This was clearly very important in the Portuguese context, in which the approach to management was largely influenced by the engineering background of many managers at the top or down the line.

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[56] The same is emphasized by Amorim and Kipping (1999), which provides a historical synthesis of Portuguese market for consultancy firms.

[57] Kipping and Kirkpatrick, 2005. Also McKenna (2006), even if he stresses that modern consultancy firms doesn't have their roots in the scientific management consultants, working at the shop-floor level. See McKenna (1995) for an earlier statement of this thesis.

[58] McKenna, 2006, ch. 7; Kipping, 1999, p. 193. It must be discarded the statement in Amorim and Kipping (1999, p. 49) that McKinsey had this first appearance of in the Portuguese market, "but did not establish a permanent presence.": "It took McKinsey another twenty years after its initial work with CUF, before finally opening an office in Lisbon in 1989. In the meantime, it supplied the market on an ad hoc basis form the London or Madrid offices." (*ibid*., p. 52)

[59] Kipping, 1999, p. 113. Kipping's statement refers to the influence American-style management practices channelled through consultancies had on the leading Western European countries, but the same reasoning could be applied to Portugal, with additional arguments related to the backwardness and the peculiar institutional evolution of the country.

Secondly, McKinsey's project represented the first time the divisionalized structure was implemented in Portugal[60]. The Sectors became responsible for the operating decisions, the Administrador Delegado and the Executive Committee being in charge for the strategic decisions involving planning, allocation of resources, control and assessment, supported by specialized central staff personnel. This commitment to strategic planning was even formalized in the organizational proposal, through the creation of a Corporate Development Department, responsible for collecting and analyzing information about potential commercial opportunities and for reporting these findings to the Administrador Delegado. Furthermore, strategic thinking and decision was also institutionalized in the Venture Review Committee (Executive Committee plus divisional top managers), which would evaluate those new commercial projects[61]. Therefore, McKinsey equipped CUF not only with an organizational structure. It provided strategic, planning and control tools which would support the new organization, as it was demonstrated before. This was only possible because new control tools became available, based on IT technology and management accounting[62].

The multi-divisional form was sufficiently straightforward to be applied to enterprises in different "systemic contexts". The organizational chart implemented in the leading European chemical manufacturers reorganized by McKinsey (ICI, Rhône-Poulenc and Geigy) seems very similar (McKenna, 2006, pp. 180-181). However, the M-form is sufficiently plastic to be adapted to different contexts and firms. Comparing these organizational structures it is possible to find out different solutions to the functional areas, placing them at different levels, for instance, in order to gain economies of scope and scale. Or formalizing the marketing or research functions in powerful divisional or central departments according to the different contexts. In the case of CUF, for instance, there is a clear tendency to save in scarce managerial human resources, centralizing some of these functions. On the contrary, the Central Research Center is closed, under the argument that CUF's research strategy is focused on acquiring, adapting and exploring foreign technology. Therefore, the Company did not need research resources to create new technology, but to adapt and develop new commercial opportunities at the level of the Sectors' Development Departments.

The third impact of this consulting work can be labelled as a substitution effect in a country without any modern business school and with faculties of Economics not oriented for management and business studies[63]. Of course, some young top managers at CUF went to take business executive courses or MBAs abroad, as it was the case of Vístulo de Abreu, the Administrador Delegado at the time of McKinsey assignment and work[64]. The number of managers exposed to the impact of these new management processes, tools and philosophy was significantly high. The seminars and team work for

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[60] CUF was divided into divisions since 1959, as it was referred above. However, the decentralization of decisions and the mechanisms of control were absent.

[61] The process of management decentralization "will free CUF's top management from undue involvement in the details of the operations for which it is responsible, and it will tend to create entrepreneurial thinking at all levels." (McKinsey Report, 1970, p. 4.5) The Venture Committee was an expression of this strategic and entrepreneurial thinking.

[62] References

[63] The 1949 reform of ISCEF (the School of Economics in Lisbon) was important from the perspective of novelties at macroeconomics level, but not in business studies or managerial economics.

[64] For instance, before becoming Administrador Delegado, Vístulo de Abreu had been at the London Business School. Jorge de Mello assumes that this policy of sending promising managers abroad was one of his most important decisions when he became the President of the Group (Alves, 2004, pp. 86-7)).

implementing the new planning and control, and marketing tools involved 106 managers. Much more managers and other employees were integrated in the meetings to discuss and analyse the different proposals at Sector, Segment or Business Levels. In this sense, this consulting project was also a vehicle of management education.

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