How a Famous Strategy Firm Collapsed

Idea In Short

Even the most prestigious professional services firms can go bankrupt, and one particularly instructive case involves a strategy consulting firm once mentioned in the same breath as the industry's most elite names. Its collapse offers a genuinely useful case study in how prestige, academic pedigree and global reach can still fail to protect an organization from losing strategic focus and making reputationally damaging decisions.

Even Elite Firms Are Not Immune to Bankruptcy

Professional services firms are not immune to bankruptcy, no matter how prestigious their reputation or how deep their academic roots run. One particularly instructive case involves a strategy consulting firm once mentioned in the same breath as the industry's most elite names, a firm that many ambitious graduates once aspired to join.

Deep Academic Pedigree

The firm was founded in the early 1980s by a group of entrepreneurs closely tied to a prominent business school, including a professor famous for developing widely taught frameworks on competitive strategy.1 That academic pedigree gave the firm enormous early credibility and helped it attract some of the most sought-after graduates in the industry.

Genuine Global Reach

At its peak, the firm employed well over a thousand people across dozens of offices worldwide. Its alumni were regarded as genuine thought leaders, publishing extensively in respected business journals and building a reputation for rigorous, academically grounded strategic thinking that few competitors could match.

A Reputationally Damaging Client Relationship

Despite that reputation, the firm made a decision that would later prove seriously damaging: accepting a substantial annual retainer from a foreign authoritarian leader to help improve his international public image. Once that relationship became public, it raised serious questions about the independence and judgment of a firm whose entire brand rested on credible, trustworthy strategic advice.

Losing Strategic Focus

Beyond the reputational damage, the firm expanded into new service areas and built an expensive supporting infrastructure that its revenue base could not sustain over the long run. When a major economic downturn arrived and corporate clients pulled back on pure-play strategy engagements, competitors that had already diversified into more operational and implementation-focused work absorbed the shift far more smoothly. The firm had been slower to make that same pivot, and its finances deteriorated as a result.

The Irony of a Strategy Firm Losing Its Own Strategy

There is a genuine irony in a firm built around teaching clients rigorous strategic discipline ultimately failing to apply that same discipline to its own business. Expanding into unfamiliar service areas without a clear supporting infrastructure, accepting reputationally risky client relationships, and moving too slowly to adapt to a changing market are exactly the kinds of mistakes the firm's own consultants would likely have flagged had a client brought them the same situation.

What Happened After the Collapse

Following the bankruptcy filing, a large global professional services firm acquired most of the collapsed firm's operations and absorbed much of its staff. Former employees generally described the firm as an excellent place to work, filled with capable, passionate colleagues, which made the financial collapse feel even more avoidable in hindsight.

Lessons for Any Organization

Several lessons travel well beyond the consulting industry specifically. Prestige and academic credibility are valuable, but they are not substitutes for financial discipline or strategic focus. Reputational risk deserves the same rigorous scrutiny as any other business decision, since a single damaging client relationship can undo decades of carefully built credibility. And diversification, while often sensible, needs to be matched by supporting infrastructure the underlying revenue can actually sustain, rather than pursued simply because competitors appear to be doing the same thing.

Applying the Rigor Internally

The clearest lesson may be the simplest one: any organization that sells discipline, rigor and strategic clarity to its clients owes itself the same standard internally.2 Firms and leaders who fail to apply their own stated principles to their own decisions eventually pay a real, sometimes existential, price for that inconsistency.

A Cautionary Tale Worth Revisiting

Business history is full of once-dominant firms that assumed their reputation alone would carry them through changing conditions, and this case belongs firmly in that tradition.3 Revisiting stories like this one periodically is a useful discipline for any leader, if only as a reminder that no brand, however strong, is immune to the basic economic and reputational risks every organization must manage continuously. The firms that endure longest tend to be the ones that keep questioning their own strategy with the same rigor they apply to a client's, long after early success might tempt them to stop asking hard questions of themselves.

- 1Competitive Advantage
- 2Strategic Management
- 3Business Failure

Summary

A once-elite strategy consulting firm's bankruptcy shows that prestige, academic pedigree and global reach offer no real protection against losing strategic focus or making reputationally damaging client choices. The firm that built its name on rigorous strategy frameworks ultimately failed to apply that same discipline to its own business.