

Rethinking the Governance of External Consultancy in the Public Sector

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Abstract

Management consultancy in the public sector faces persistent criticism regarding efficiency, ethics, and effectiveness. This study examines governance challenges, such as co-production complexities, secrecy under "commercial confidentiality," and sales-driven incentives, which undermine accountability and service quality.

Emerging trends in transparency and socially responsible practices offer pathways for reform. Key recommendations include stricter procurement rules, continuous monitoring of consultancy use, project evaluation transparency, and aligning consultant incentives with ethical goals. Strengthened governance and external oversight are essential to ensure consultancy delivers genuine public value.

Introduction

Management consultancy use in the public sector has long provoked controversy, with questions over efficiency, effectiveness and ethics. These continue to be raised globally, with occasional scandals with firms such as McKinsey in the USA, PwC in Australia, and Bain & Co. in the UK.

This all suggests that approaches to managing the use of consultancy have not been effective. In fact, there are few checks and balances on consultancy which is surprising given how much is spent on it (over £3 billion in the UK public sector in 2023-4). One periodic policy response, currently planned by the UK government, is to cut the use of external consultants and do more work internally through an empowered and enlarged civil service. This 'insourcing' mostly makes sense, but there will always be some need for external expertise. So, what can be done by both clients and consultancies to help make it effective?

Our research, published recently in a special issue on consultancy in the journal *Public Money and Management*, reviewed different ways to strengthen the governance of external consultancy. We focused on what is different and what can be learned from developments or challenges elsewhere. In particular, our proposals build on emerging trends in some private sector organisations around greater transparency and more 'socially responsible' practices and values as well as returning to some classic issues around expert advice such as the role of incentives and of other outsiders to keep an eye on things.

Policy Implications

1. Traditional forms of governance need to be strengthened or radicalised to be effective (e.g. make permanent National Audit Office monitoring of consultancy spending; procurement rules to limit repeat business and; independent licensing of consultants).
2. Reform pay and promotion systems to discourage 'over-selling' by consultancies and conservativeness among both clients and consultants so each party can challenge the other more easily - speak 'truth to power'.
3. Open consulting - use social/open-access media and regulation to share evaluations of projects/firms; provide declarations of conflicts of interests and; share outputs/knowledge.
4. Strengthen the role and range of third-party scrutiny of consultants and clients, using increased transparency from open consulting (e.g. 'meta' consultants or public service users as activists; journalists; NGOs; trade unions).
5. Leverage genuine, not superficial, moves towards socially responsible governance (e.g. 'BCorps') and values in consulting and generate client demand for such approaches.

Key Findings

From our review, we found that some core characteristics of consultancy mean that established forms of governance (e.g. procurement rules and professionalisation of consultants) are bypassed, resisted and/or ineffective. For example, consultancy is usually co-produced and hard to evaluate precisely; clients are often conservative/secretive; and consultants are mostly rewarded to sell regardless of what is needed or right.

These are familiar issues, meaning that, not only does current governance need to be strengthened, but new approaches are required. In particular, little has been done to address incentives in consultancy. While staff may often be paid and promoted on diverse 'balanced' criteria, in practice selling is 'sovereign'. This means that clients (indirectly, the public) are often exploited or, at best, not challenged. Further, clients often do not want to be challenged or placed under scrutiny. Both parties then, share an interest in secrecy under the guise of 'commercial confidentiality'.

More optimistically, some current developments suggest improvement is possible. For instance, there are moves in the private sector, including consulting and its Gen Z recruits, to adopt values beyond simply profit, towards diverse stakeholders and greater transparency. These echo some traditional professional values and can be leveraged to develop new types of firms and consultants who can be progressive, if clients allow.

Where such moves are absent or adopted for image only, external scrutiny and scandal has helped keep the pressure on reform. This too can be enhanced by the use of technology to help make the market more transparent and allow for ease of sharing knowledge. Indeed, changes in rewards, values, structures and openness cannot guarantee effective governance. Third-party scrutiny will always have an important role to play.

Traditional governance is not working, but our research identifies new opportunities to build on, as well as some ongoing challenges - see Table below.

Traditional Governance	Problems	New Potential	New/Continuing Challenges
Control through the market – only good suppliers survive?	Quality is unclear to buyers, hidden by 'commercial confidentiality' claims; market concentration limits choice.	Previous scandals have created pressure for future declaration of interests; technology helps openness in evaluation and with a role for 3 rd parties.	Work often coproduced so blame unclear; reputational threats; questions around intellectual property (IP)
Procurement – clear client objectives and 'fair' competition	Inflexible, cost-focused, and resisted/bypassed by both parties.	Strengthen rules to contain repeat business from same supplier; make national audits permanent, not occasional; wider focus than value for money (e.g. social values).	Tendency to favour trusted/personal relationships despite outward compliance with procurement rules risks opportunism.

Corporate governance of firms (e.g. Non-Executive Directors)	Poorly resourced compared to incentives/culture to over-sell.	Greater attention to firm structures from media or regulators; increased legitimacy for 'purpose-led' approaches.	Insufficient political will; focus on ethical image not values; pay and promotion remain based on income generation.
Professionalisation of consulting – occupational and through firms	Low client demand and lacks 'teeth'; little prospect of 'speaking truth to power'	Potential for social responsibility to emerge as a less-commercial alternative if aligned with rewards.	Conservative clients & ambiguous service quality means still a need for strong third-party scrutiny.

Conclusion

Consultancies need to reform pay/promotion away from revenue and towards social responsibility and openness. Clients must also be more open to change and scrutiny, and focus on knowledge transfer and sharing. Policymakers and regulators should not rely on self-governance, but strengthen existing approaches and support openness and external scrutiny.

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