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How Should We Govern Management Consultancy?

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The Challenge

The history of management consultancy is a paradox – exponential growth and an elite status for some, while continually beset by scandal and critique. Clearly, consulting services hold many attractions and potential value for some, even if things are currently in transition. And there always seems to be some new story in the media about over-selling or over-buying consultancy. Questions of 'revolving doors' between consultancy and government and 'open doors' between audit and advisory services are also never far from the surface. This cannot all be put down to sour grapes or disgruntled clients.

Despite the criticism, management consultancy is one of the least regulated of occupations (as is well known, anyone can become a consultant). Why is this? What could be done and what should be done? An exploratory research project at the University of Bristol, from an outsider to consulting, is starting to examine these questions and explore possibilities for the governance of consultancy and its use. The first stage is reported here and is based on previous studies of consultancy practice and a review of existing research in the field of governance (see Sturdy, forthcoming for full details). After setting out the problem, some possible options are proposed to help stimulate debate, further research and, ultimately action.

The Problem

Existing Government is Weak

Although not subject to specific state regulation (except, it seems, in Austria), management consultancy use is governed in different ways. As readers of this Institute of Consulting journal will know well, there are many professional bodies, each with an ethical code. Sadly perhaps, such bodies typically represent only a minority of the occupation and lack teeth. The large consulting firms and their associations also have guidelines, but these tend to place the responsibility for good behavior squarely on the individual consultant.

Probably the most visible form of governance comes through procurement regulations, especially in the public sector. Here, the aim is to replace seemingly cosy client-consultant relationships with something more transactional. As both clients and consultants know well, a key risk here is losing the flexibility often needed to find solutions, even if some now concede that the involvement of purchasing professionals has been a step in the right direction. That said, many in the industry might well argue that consultancy is best governed by the market or reputation. Indeed, while it is possible for anyone to call themselves a consultant, getting and retaining clients is another thing altogether. However, an uncomfortable truth is that the market is neither transparent nor equitable (see below). What's more, the reputations of some large firms at least, have proven to be quite resilient in the face of scandals, stigma and, sometimes, work of questionable quality.

Three Reasons Why it is so Difficult to Govern Consultancy

Firstly, most consultancy knowledge is relatively ambiguous or open to diverse interpretations. This, combined with the fact that it is also often produced jointly with clients, means that it is very difficult, often impossible, to evaluate its quality or impact. In short, we do not really know if consultancy works, or if it does, for whom? This view might seem controversial, but if it was straightforward, why would the industry continually be seeking ways to demonstrate its value?

Secondly, it is not only technically hard to regulate, but politically difficult. The power and scope of consulting influence, especially the large firms, extends to almost all areas of government and business and neither clients nor consultants seem to have much of an interest in transparency.

Thirdly, the financial value attached to consulting means that it is often just too tempting for firms to take advantage of the ambiguity of outcomes and over-sell, however sophisticated some clients are. Put bluntly, if there was less at stake, clients would be more likely to expose bad practice and consultants would be more inclined to turn down work or tell clients things they don't want to hear. This is an old criticism and people do have to make a living, but it is a central problem for the industry.

What Should Be Done – A Starter For Debate?

Such technical, political and moral challenges should not deter reform, but highlight the need to go further than conventional or direct forms of governance such as culture change and regulation and to involve all parties, beyond those responsible for regulation.

So, what can be done? In one of the first systematic attempts to identify an agenda for improving the governance of management consulting, four initial themes have emerged – reinforcement, transparency, reward systems, and alternatives.

Reinforcement - the first thing to do is to ensure that existing codes and guidelines are implemented or at least tried out. In the public sector, regular reports from advisory bodies such as the National Audit Office typically note poor progress and regulation itself is routinely resisted by both clients and consultants. Likewise, notwithstanding the efforts of those in professional bodies, there seems to be little appetite for strengthening independent professionalisation.

Transparency - while policy guidelines have always urged more systematic evaluation of consultancy, this could take novel forms. Take the example of how social media has transformed the travel business with reviews posted on different sites. Something similar might be developed to inform consultancy users on good and bad practice - 'consultantadvisor. com'? Likewise, the traditional media could be augmented by other stakeholders or actors such as 'third-party' or 'meta-consultants' who review projects.

Reward Systems - possibly the greatest impediment to good consultancy is the pressure to sell to new or existing clients. In the large firms especially, financial and career progression significantly depends upon this, sometimes regardless of client needs. Thus, the reward and value systems in consultancy need to be reformed. An example can be found in debates about the future of auditing and aligning staff rewards with 'cultures of challenge' as well as the, much discussed, break-up of audit and advisory parts of firms. There is even a case to question the 'partnership' model of the firm for the secrecy and weak accountability it effectively offers.

Clients also need to address rewards and values. The aim would be to overcome defensiveness and encourage knowledge sharing and performance monitoring. This might include using more sophisticated criteria beyond 'value for money'. More concretely, 'serial purchasing' could be introduced which limits the period of engagement or projects with a single supplier. But such systems always generate loopholes and unintended consequences and so can only be part of the solution.

Alternatives - given all the challenges of governance, it is important to recognise that non-use of external consulting is a realistic option. Many countries, sectors, governments, and individual organisations, including those who can afford outside help, manage effectively without external management consultancy. This might be by default or design - some CEOs have even banned the use of consultants. What rethinking implies though is the need to support alternative internal and external sources and types of organisational expertise. This could be something as conventional as internal consulting. Alternatively, clients may look to entirely different types of consulting structures or business models and of knowledge or approaches such as those which are consistent with addressing global challenges and distinct from the traditional 'business school' type formats which privilege economic growth and management as a way of organising.

What Next?

The four themes outlined above combine hard and soft governance, but are merely a starting point for a conversation.

HARD GOVERNANCE	SOFT GOVERNANCE
Reinforcement	Transperancy
Reward Systems	Alternatives

They address clients, consultants, regulators and policy makers in different ways. We need to hear more from these groups as well as non-users and the public. Indeed, this is the next stage of the research – an empirical one – to seek new solutions and engage all those involved.

References

Sturdy, A J (forthcoming) 'The Governance of Management Consultancy Use – Practices, Problems and Possibilities' in Hurl, C and Vogelpohl, A (Eds) Public Policy, Private Expertise – Professional Service Firms and Politics in a Global Era. Palgrave Macmillan.