



Invited submission to parliamentary joint committee on corporations and financial services' inquiry into ethics and professional accountability: structural challenges in the audit, assurance and consultancy industry

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SUMMARY

- On the basis of sustained independent research (see references 4, 6 and 7) and policy experience, the key issues to address from structural challenges in the industry are:
 - Ensure existing/known client-side governance through professional purchasing, knowledge transfer/sharing and internal skills development/planning (insourcing) are implemented, not by-passed or ignored.
 - Strengthen these practices through:
 - Selective *serial purchasing* which limits the extent of repeat business to suppliers and will help diversify supply.
 - Improved use of internal information systems to share knowledge and evaluations of client projects across government.
 - End the over-reliance on client-side governance (as above) and on ineffective industry self-regulation (e.g. codes) through:
 - *Review and reform of the selling-based reward system* (pay and promotion) to focus more on effectiveness of solutions for wider client stakeholders (not performance-related payments).
 - Requiring firms to declare conflicts of interest to potential clients.
 - Leveraging both the current trend to 'purpose-led' business and a traditional professional ethos to help shape changes in culture/values of consulting (and audit) away from solely financial interests/growth and the paying client, while also avoiding 'purpose' as solely for branding ('cosmetics').
 - Recognising that there are dilemmas which cannot be fully resolved; that the interests of consultancy are often already deeply embedded in government, but that this inquiry is timely and well-focused, with clear potential for effective and genuinely innovative reform.

KEY POINTS (*with related links to inquiry Terms of Reference, TOR*)

Context

- This invited submission is primarily based on the author's and colleagues' ongoing independent, peer-reviewed research (see references and links below) and policy experience on consultancy use over the last 30 years, including in Australia. The author led two UK research council-funded projects on internal and external

consultancy and has advised the UK National Audit Office on evaluating consultancy use. He regularly acts as an expert to the media and other bodies (always on an unpaid basis).

- Some external advice will always be needed and can be beneficial to clients and citizens, but there is a fundamental and systemic problem with its use by governments (and more generally) which cannot be removed entirely. It is often technically and politically hard to evaluate quality or establish accountability. **(TOR 2f/3)**
- However, various ways to improve effectiveness and reduce over-use are available. Much relies on the will to implement or reinforce existing and new governance mechanisms both of demand (clients) and, the focus of this inquiry, supply (the industry). However, better governance of demand helps influence supply. **(TOR 3)**

Demand/client-side reforms

- On the demand/client side, the need for professional (not just transactional) purchasing, knowledge transfer/sharing and prioritising skills development internally (insourcing) is well known. However, these are not always practiced, but resisted/by-passed because of short-term resource pressures and reputational risks for both parties from greater transparency. The UK government recently set up and then discontinued a 'Government Consulting Hub' which illustrates this tension. **(TOR 3)**
- Such approaches should be strengthened and supplemented, for example by:
 - o '*serial purchasing*', where repeat business with a particular supplier is highly constrained. This would be radical and have costs attached (see below), but could be effective if selectively applied, including by leading to a wider range of suppliers. **(TOR 3/3g)**
 - o (More could also be done with strengthening rules on 'revolving doors' and around whistle-blowing, but this is not covered directly in my research.) **(TOR 2i/3d)**
 - o Developing internal information systems to share not just knowledge gained from consulting projects, but evaluations of performance, akin to an internal '*trip advisor*'. **(TOR3a)**

Supply-side/industry reforms

- Such market mechanisms (e.g. 'transparency') are not sufficient to ensure quality or effectiveness, nor is a reliance on the above client-side (e.g. purchasing-based) governance. The industry also needs reform. There is no evidence of existing self-regulation (e.g. ethical codes, managing conflicts of interest) being effective at either firm or occupational levels. **(TOR 2a/2h/3b/3e)**
- Aside from firms being required to declare conflicts of interest to potential clients, most attention is needed in *reform* of consulting reward systems (and values) which prioritise 'sell-on' – the selling of further or 'repeat' business regardless of effectiveness/efficiency for client stakeholders. This practice applies generally, from global firms to individual practitioners, but is evident in large firms especially

(including 'partnership-like' structures) who also dominate the sector (high concentration). Selling is the key criterion for promotion and individual financial rewards – e.g. 'eat what you kill'. **(TOR 1a/1c/2a/2b/2h/3g)**

- It is important to note that the focus on selling does not necessarily imply misleading or manipulating clients. Consultants are, in many respects, 'servants of power' or of the *paying* client, rather than wider stakeholders or 'ultimate' clients such as citizens (see McKinsey opioid scandal in the USA). **(TOR 1a/1c)**
- Such structural reform of rewards (alongside related use of some element of serial purchasing noted above) is the most important and challenging policy issue. A problem is that clients also sometimes have a legitimate interest in longer-term relations (i.e. repeat business) with good individuals/firms who they know and who know their context/staff better than new suppliers. Also, this problem cannot be addressed by performance-related payments to suppliers as it is too hard to identify outcomes and/or criteria are set by suppliers. A review is needed to consider alternative 'scorecard' reward mechanisms which focus more on effectiveness of solutions for wider client stakeholders. **(TOR 1a/1c/2b/2g)**
- Supplier reward system change is not sufficient. A related shift in consulting/firm values/culture is required (much like in the related field of audit where client fee income dominated). Consulting operations, where selling and profit are *not* the driving forces of business are quite common historically and resonate with traditional professions, but rare. However, there are signs that apparently new forms of consulting are emerging with a different ethos or structure such as the *BCorp* (Benefit Corporation) model of purpose-led business. Even some of the 'Big Four' claim to be 'purpose-led'. This development might sometimes (often?) be more of an exercise in branding or 'cosmetics'. However, there is at least some potential to leverage this turn to different ownership/governance structures and approaches and secure some industry buy-in. **(TOR 2e/2g/3g)**

Conclusion (TOR 3)

- Many of the structural challenges in the industry are longstanding and well known and yet reform to date world-wide has been patchy or intermittent at best. This implies that:
 - In addition to the above, new mechanisms of governance are explored, and certainly, those which go beyond the traditional focus on purchasing/clients.
 - It is important to acknowledge that some of the issues are genuine dilemmas (e.g. the value of both close and distant client-consultant relations) which cannot be fully resolved. Hybrid or context specific approaches partly address this.

- There is a recognition that the interests of consultancy are often already deeply embedded across government/civil service and political perspectives.
- Nevertheless, this inquiry is timely and there is clear scope to implement effective and innovative reform where other governments have failed – see references 4, 6 and 7 below.

Selected recent research papers and related policy briefings and weblinks

- 1) Sturdy, A J, Kirkpatrick, I, Blanco-Oliver, A and Veronesi, G (2023) 'The relative (in)efficiency of external private sector management consultancy expertise in the public sector?' (unpublished conference paper – work in progress). [NHS managers perform better than management consultants | Comment | Health Service Journal \(hsj.co.uk\)](https://www.nhs.uk/news/2023/05/nhs-managers-perform-better-than-management-consultants-comment-health-service-journal/)
- 2) Kirkpatrick, I., Sturdy, A J Blanco-Oliver, A and Veronesi, G. (2023) 'Beyond hollowing out - Public sector managers and the use of external management consultants' *Public Administration Review*, [online first](#).
- 3) Sturdy, A J, Kirkpatrick, I., Alvarado, N R, Blanco-Oliver, A and Veronesi, G. (2022) 'The management consultancy effect in public organisations: demand inflation and its consequences in the sourcing of external knowledge?' *Public Administration* 100, 288-506. Briefing paper - <http://www.bristol.ac.uk/policybristol/policy-briefings/external-management-nhs/>.
- 4) Sturdy, A. J. (2021) 'The Governance of Management Consultancy Use – A Review of Practices, Problems and Possibilities' in Hurl, C and Vogelpohl, A (Eds) *Professional Service Firms and Politics in a Global Era - Public Policy, Private Expertise*. Palgrave Macmillan. (Winner of the Lyndall F Urwick Memorial Cup 2022 for consultancy research). Briefing paper - <http://www.bristol.ac.uk/policybristol/policy-briefings/can-management-consultancy-be-regulated/>.
- 5) Kirkpatrick, I., Sturdy, A J, Alvarado, N R, Blanco-Oliver, A and Veronesi, G (2019) 'The impact of management consultants on public service efficiency' *Policy & Politics*, 47, 1, 77-95. Briefing paper - <https://www.bristol.ac.uk/policybristol/policy-briefings/management-consultancy-inefficiency-in-nhs/>.
- 6) Sturdy, A. J. (2023) Consulting for Covid: outsourced experts or overpaid temps? Blog for University of Sydney site - <https://360info.org/consulting-for-covid-outsourced-experts-or-overpaid-temps/>
- 7) Sturdy, A J (2023) 'Responsible management consultancy – activist professionalism and/or oxymoron?', conference paper at Political Studies Association Conference, Liverpool, April. – see extract at <https://sciendo.com/article/10.2478/mcj-2023-0008>.

Further details of research at - [Andrew J Sturdy – Research Outputs — University of Bristol](#)

Andrew Sturdy, 18th August, 2023