

ACCOUNTANTS FOR BUSINESS

Management consultants and public sector transformation

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ABOUT ACCOUNTANTS FOR BUSINESS

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This paper outlines the costs, roles and impacts of management consultants within the public sector, and examines the evidence about how effective management consultants are at adding value to the organisations with which they work.

1. Introduction

Management consultancy within the public sector continues to attract public scrutiny, and rightly so because of the financial climate and the need for public services to operate efficiently. In 2009 central government alone spent £1.5 billion on management consultants.¹

The degree to which they add value may be debated, but it is widely accepted that their knowledge, experience and skills can potentially add value across three areas to the organisations with which they work.

Management consultants may:

- provide knowledge that helps clients take better decisions
- bring experience in project management that helps clients to execute their plans more effectively
- bring skills to help improve the capability and teamwork of managers.

This report examines the evidence on how effective management consultants are at adding value within the public sector.

It investigates the cost of consultancy in the public sector and considers how consultancy should be defined; for example, contracting out and interim management are often confused with consultancy.

The paper also considers how clients employ and use management consultants, the resulting relationships, and whether this has any impact on project outcomes and achieving the desired added value. It can often be the case that management consultants are to blame when things go wrong. Equally, the client can sometimes find it easy to deflect responsibility for making tough decisions to the consultant – *‘the consultant told us that this is how it should be’*.

1. http://www.ogc.gov.uk/procurement_public_spending.asp

2. The cost of management consultancy

It seems that every day management consultants are berated in the press: 'Health trusts spend £300 million on private management consultants...NHS figures show "wasteful" consultancy bill could pay for cancer treatments and fund 10,000 nurses'.² On the other hand, the public sector is criticised for poor productivity: 'Poor productivity in the workforce is the main reason why the productivity of the whole public sector has fallen over the last ten years',³ so arguably this sometimes requires outside private sector expertise to improve.

Current government policy is to reduce the cost of public services while continuing to improve outcomes and value for money. It has promised a crackdown on the use of management consultants as part of a savings drive. This will mean that now, more than ever, the focus will be on whether management consultants deliver added value. Currently, central government spends an estimated £1.5 billion on the hiring of management consultants.⁴ Government policy will seek to curb high-spending departments such as those identified by the Efficiency and Reform Group of the Cabinet Office (formerly the Office for Government Commerce (OGC)) including the Ministry of Defence (£204m expenditure on consultants), Department for Transport (£144m), and the Department for Children, Schools and Families (£70m).⁵

With this government, as with previous governments, when the point is reached at which they have to cut spending, management consultants are the first to go because spending on them is discretionary. In practice, the downsizing of some central government departments is not compatible with a continued need to implement new policy, develop new initiatives, and be seen to be doing new things. The irony is that government departments will need to demonstrate that they are responding to new ministerial requirements, so they will have to purchase capable resources in order to fulfil these.

The OGC, now in the Efficiency and Reform Group of the Cabinet Office, collected spending data for 2007/08 as part of its 'Consultancy Value Programme' (OGC was established in 2006, following a review of the use of management consultants in the public services, to ensure that better value for money was achieved by central government departments). Table 2.1 shows that over a period of three years there has been a 31% total decrease in spending on management consultants.

At first glance, the 'Consultancy Value Programme' appears to have been instrumental in achieving greater value from the use of management consultants, and organisations such as the Management Consultancies Association (MSC) are keen to refer to it to highlight their value. Further analysis of one central government department, the Department of Communities and Local Government (CLG), which on its website has made public all payments to suppliers in excess of £500, revealed that a total of £73 million (Table 2.2) was spent on consultancy services in 2009/10 compared with £35 million (Table 2.1) in 2007/08. Hence, department expenditure had doubled and not decreased.

2. <http://www.guardian.co.uk/uk/2010/aug/20/health-trusts-private-management-consultants>

3. <http://www.reform.co.uk/portals/0/Documents/Public%20Sector%20Productivity%20v2.pdf>

4. http://www.ogc.gov.uk/procurement_public_spending.asp

5. <http://www.guardian.co.uk/society/2010/mar/25/budget-2010-cuts-consultants-pr>

Table 2.1: 2007/08 spending on management consultants by the 16 highest-spending departments⁶

Department	NAO 2005/06 (£m)	2007/08 (£m)	%variance 2005/06–2007/08
BIS	54	22	-59%
CLG	36	35	-3%
CO	51	19	-63%
DCMS	1	1	0%
DCSF	22	61	177%
DEFRA	160	37	-77%
DFID	255	21	-92%
DFT	60	58	-3%
DH	126	132	5%
DWP	76	33	-57%
FCO	22	30	36%
HMRC	106	59	-44%
HMT	6	6	0%
HO	138	96	-30%
MOD	213	107	-50%
MOJ	24	56	133%
Total	1,350	773	-43%
Calculation for total central government (using NAO methodology)	1,583	909	-43%
Calculation for total central government, excl. DFID (using NAO methodology)	1,276	884	-31%

6. http://www.ogc.gov.uk/professional_services_consultancy_value_programme.asp

Table 2.2: CLG spending on management consultants 2009/10⁷

Nature of consultancy	£000s
Strategic consultancy	27,709
External research	31,218
Property services consultancy	2,844
Marketing and communications consultancy	354
Legal services consultancy	4,893
IT consultancy	4,669
HR consultancy	110
Finance consultancy	868
Total	72,665

No doubt further analysis of the invoices may reveal reductions in CLG's total spending on management consultants, as these amounts may include elements of interim management, contracting out of services, etc. Also, there may be some debate on whether external research should be included as a cost for consultancy services. Arguably, if external research includes evaluations of organisational performance and contributes to the formulation of policies and management decisions it should be considered as management consultancy. Nonetheless, if we take the cost of external research out of the CLG's total expenditure on management consultancy (Table 2.2) it would still be greater than the figure presented in Table 2.1 for 2007/08.

As shown, a key problem with the figures is that we do not really know how much is spent on management consultancy in central government or the public sector more widely. In part this is because of uncertainty about what should and should not be included under the heading 'management consultancy'. It is likely that the £1.5 billion quoted is an under- rather than an overestimate. The COINS data system (the Combined Online Information system) does not help in identifying the cost of consultancy as it does not categorise expenditure in sufficient detail.

7. <http://www.communities.gov.uk/documents/corporate/xls/1687998.xls>

3. What is and what is not management consultancy?

Few organisations in the public sector will have avoided recruiting management consultants, at some point during their lifecycle, in order to find new ways of working and to improve performance. The menu of programmes is extensive, stretching from organisational development, 'lean thinking', process re-engineering to achieve business excellence, project management, total quality, etc. Arguably, these programmes have had an impact on the efficiency and effectiveness of public services, although this is not known for certain as the evaluation of consultancy programmes has not been undertaken on a systematic basis. A Parliamentary report on the use of management consultants by the NHS and the Department of Health revealed mixed results.⁸

There is a considerable literature on consultancy, mainly because of its economic impact. Its origins can be traced back to the turn of the century and programmes in efficiency and time and motion studies introduced by Charles Bedaux, Lillian Gilbreth and Frederick Taylor.⁹ Management consultancy was historically a private sector phenomenon concerned with industrial production. In the 1980s and 1990s it was one of the fastest-growing sectors in advanced economies, with expansion across both private and public sectors. Clark and Fincham¹⁰ argue that increased demand for consultancy was a result of increasing international competition, technological changes, recessionary forces and changes in management requirements and that these factors led management to believe that new skills, values and qualities were lacking in organisations. The old structures, cultures and ways of working were unsatisfactory at a time when organisations had to make sometimes radical and fundamental changes.

Consultancy is often referred to as work by those that perform consultancy in the field of management. Its focus is on improving business practices and organisational performance. There are continuous debates about the scope of consultancy, particularly with the integration of management, business and information technology. The edges are often blurred and misunderstood. For example, most recently, public concern over the use and cost of management consultants in public services has been fuelled by the lack of understanding between what is understood as consultancy, interim management and contracting out of services.

This is because there has not been sufficient distinction made between the skills of the management consultants who provide specialist skills that are not available internally and those of contractors and interim managers who are there purely to replace staff or deliver specific parts of public services. In addition, information technology has become critical to organisational performance and information strategies can now be considered to be within the domain of management consultants. While recognising the lack of distinct boundaries between the roles of the various parties, in this report we consider the use of management consultants in providing knowledge, experience and skills that help clients to improve, as well as the key barriers to such improvement.

8. House of Commons Health Committee, *The Use of Management Consultants by the NHS and Department of Health*, fifth report of session 2008/09.

9. Timothy Clark and Robin Fincham, *Critical Consulting: New Perspectives on Management Advice*, Blackwell, 2002.

10. Ibid.

4. How management consultants are employed across the domains in the public sector

The National Audit Office (NAO) is quite specific about how it defines management consultancy – individuals or companies engaged to work on specific projects that are outside the client's usual remit, with a clear end-point for their involvement or for their responsibility for the final outcome of the project, eg cost savings or improving quality of service largely rests with the client. As such, consulting is distinct from 'outsourcing' or 'staff substitution'.

A survey conducted by the Management Consultancies Association (MCA) in 2010 indicated that 72% of management consulting work carried out in central government is commissioned because relevant specialist skills were not available within the departments.¹¹ One of the main reasons for using management consultants was to deal with difficult situations or crises.

In 2006 the NAO report states that:

*management consultants, when used correctly and in the appropriate circumstances, can provide great benefit to clients – achieving things that clients do not have the capacity or capability to do themselves. On the other hand, when used incorrectly, management consultants can drain budgets very quickly, with little or no productive results.*¹²

The report goes on to say that despite a spend of £2.8 billion on management consultants in 2005/06, it has not been possible to make an overall assessment of the added value that has arisen from this expenditure. In part this is because departments have rarely collected any information on what has been achieved.

The MCA argued, on the basis of case studies, that management consultants add value across the three areas identified in this report. For example:

consultancy helps bring prison education and work regime together, making an impact on prisoner rehabilitation....Working with the Department of Work and Pensions IT consultancy helps transforms the way pensions are processed.

The NAO also identified instances when management consultants have added value, eg the Ministry of Defence were able to make savings on procurement after using management consultants to help implement a new approach and develop internal capabilities. Similarly, management consultants were important in building and communicating the assessment framework for capability reviews for the Cabinet Office.

There are significant challenges in assessing the added value from consulting projects. As the NAO pointed out, it can be hard to identify useful measures that are suitable for all types of projects, and attributing cause and effect is not always easy, even where performance has improved. This has not stopped a plethora of toolkits developing to help managers make the best use of management consultants and assess their value, whether through peer review or post-contract evaluations. Web-based toolkits such as those developed by the NAO¹³ and 'Consultancy Value Programme'¹⁴ have provided a structured and coordinated way of managing government departments' use of management consultants.

But how do management consultants themselves convince clients that they can add value or know-how to a project, and what are the strategies they use? Much of the critical research in this area has focused on whether or not management consultancy sells itself as a profession. An organisational development specialist can for example, demonstrate worth by emphasising his or her knowledge of behavioural sciences to solve an organisational problem. This would imply some professional status to the client. On the other hand, some claims may be more nebulous and management consultants would have to work harder to convince the client that they have a unique specialism or knowledge base. As a result, they will resort to references to results of previous work or claims to having core or unique products, in order to obtain the work.

11. *21st Century Government, Adding Value, Cutting the Deficit*, Management Consultancies Association, 2010.

12. *Central Government's Use of Management Consultants*, National Audit Office, 2006.

13. *Web-based Assessment Toolkit for the Use of Management Consultants*, National Audit Office, 2007.

14. http://www.ogc.gov.uk/professional_services_consultancy_value_programme.asp

5. Key barriers to achieving added value

There are a number of factors that can prevent management consultants from providing added value in the public sector. The list is not exhaustive but we have chosen to focus on three areas:

- the relationship between client and management consultant
- the procurement and management of management consultants
- cultural and comprehension differences between client/consultant.

CLIENT/MANAGEMENT CONSULTANT RELATIONSHIPS

A lot has been written about how to characterise the client/management consultant relationship. Clark and Fincham¹⁵ describe the relationship as open-ended and contingent, that is, they see the relative power of both sides to define the central parameters of their relationship as varying widely. Similarly, relationships can vary from those in which the consultant works in partnership with the client to those in which the client has a completely hands-off approach. In practice, the most effective client–management consultant relationships are those that strive to develop a collaborative outcome from the beginning. The complementary expertise and capabilities brought jointly by the client and management consultant will achieve the most effective outcome.

A poor quality client–consultant relationship can pose a barrier to achieving added value for a project. The model of a dominant consultant and vulnerable client may well apply where clients are entering a new phase of development and where there is an established monopoly supplier, such as in the case with many large IT projects. Arguably, where large government departments and/or the public sector more widely do business with a great many small consultancy companies, in most cases the latter are at the client's beck and call. In practice, in small consultancy businesses the power generally remains with the client: the client sets the terms of reference, holds the purse strings and sets the tone of the relationship.

In addition, both the client and consultant carry with them some 'baggage'. For example, market uncertainties and reliance on repeat business, the pressure on individual management consultants to succeed and the status of management consultants as seen by clients, sometimes coloured by disastrous consultancy failures, can have an adverse impact on the client–consultant relationship from the outset. There is a perception among some clients that there are many disreputable consulting firms around, often accused of making empty promises, charging high fees and stating the obvious. Part of the management consultancy contract is to provide assurance to the client that the consultant concerned is not from one of those consultancies.

THE PROCUREMENT AND MANAGEMENT OF MANAGEMENT CONSULTANTS

The NAO's 2006 report emphasised that when management consultants are used correctly they can provide considerable benefits, but when used ineffectively they can be a drain on resources and lead to poor results. The failure to demonstrate added value by management consultants can be attributed to many causes, including, for example, how well the clients procure and manage the management consultants. We will now look at some examples of the procurement and management practices that lead to poor project outcomes.

For example, a consultant may be commissioned to undertake a project to deliver messages that the clients do not want to deliver themselves. Recently, Ian Watmore, one of the foremost experts on IT in government, told a House of Commons Public Accounts Committee hearing that government departments were 'wasting money hiring management consultants to say things that civil servants don't want to say [themselves]'.¹⁶

15. Timothy Clark and Robin Fincham, *Critical Consulting: New Perspectives on the Management Advice Industry*, Blackwell Business, 2002.

16. <http://www.computerweekly.com/blogs/inside-outsourcing/2010/10/has-government-it-leadership-got-its-teeth.html>

The civil service and the public sector more widely have too many initiatives going on to project manage them all effectively and to monitor/evaluate their impact. Experience has shown that where evaluation teams/peer review teams have been put in place these are usually made up of other management consultants. In some cases this can result in adversarial relationships between the peer reviewers and the management consultants undertaking the project. An MCA survey of management consultants has revealed that only one in three firms have been asked to demonstrate added value.¹⁷

The MCA report indicates that only one-fifth of senior managers are involved in decision making. The inexperience of staff who procure consultancy services has put projects at risk, in particular where initial terms of reference set by the client were inadequate or gave rise to unrealistic expectations about what outcomes could reasonably be achieved. For example, a small consultancy project requiring five London boroughs to agree performance targets for the London Olympic Legacy over a three-day period was never going to be achievable or value for money.

The lack of strong project management by the client can mean that divergent outcomes are being pursued, which has adverse consequences for a project. An arm's length approach by clients can result in outcomes that do not always meet their expectations. As a result, additional resources are sometimes required in the final stages of a project to achieve its objectives. Also, and perhaps interestingly, when projects go wrong within one client department owing to the poor performance of a consultant, it may nonetheless be found that the same consultant will still be employed in another department. The Public Accounts Committee raised this as concern in its report published in 2006.¹⁸

Poor communication during the delivery of a project between the management consultant and client can also contribute to project failure, eg where the client fails to communicate the expected outcomes at an early stage, and the consultant then fails to report progress and obtain client sign-off at critical stages. The lack of transparency about the management consultants' related costs also can lead to tensions.

Another key concern is the promise of a management consultancy to deliver sustainable results. At the end of an engagement between the client and consultancy, there is often an expectation that the management consultants will audit the project results for a period of time to ensure that their efforts are sustainable. In practice this does not happen because the consultant disconnects from the client once the project is completed. The lack of transferability of skills is often a criticism.¹⁹

CULTURAL AND UNDERSTANDING DIFFERENCES BETWEEN CLIENT AND CONSULTANT

The cultural differences that exist between client and the consultant can also frustrate the achievement of effective results. For example, there is a frequent perception that management consultants find it difficult to get used to working in, say, a central government environment because of the lack of incentives, and perhaps because of a desire to deliver high-quality services greater than the budget will deliver. In the case of healthcare it was recently reported in the *Guardian* that there has been a 'proliferation of management consultants within the NHS and it is not clear whether they have a true appreciation of the complexities of healthcare delivery – healthcare is not the same as selling clothes off a rack in a shop'.²⁰

17. *21st Century Government, Adding Value, Cutting the Deficit*, Management Consultancies Association, 2010.

18. *Central Government's Use of Management Consultants*, National Audit Office, 2006.

19. Milan Kubr (ed.), *Management Consulting: A Guide to the Profession*, 4th edn, International Labour Office, 2002.

20. <http://www.guardian.co.uk/society/2009/mar/19/nhs-targets-stafford-hospital>

Similarly, in the charitable sector it was reported that there was little correlation between the cost and quality of management consultants, and most charities shared common concerns about management consultants' failure to understand the sector. 'Larger firms have developed their own culture, which doesn't fit easily with the community sector,' according to Mark Parker, network development manager at umbrella body Bassac.²¹ He also claims that trustees sometimes pay undue respect to management consultants: 'many come with answers pre-packaged and lead organisations to their conclusions. But it's difficult for a committee to say "that's rubbish" if it cost £1,500'.²²

In practice, management consultants need to learn about a client's organisational culture as soon as possible, as this may have been one of the reasons for bringing in the consultants. Equally, if the consultants pay little attention to the culture of an organisation they will be seen as strangers and criticised for lack of understanding.

Also, there are potential incompatibility issues with the client's values, norms, culture. For example, a consultancy may uphold the values of social outcomes and try to satisfy this value in the consultancy projects it undertakes, but this may not necessarily fit with the objectives the client wants to achieve; particularly, if it wants to achieve results at any cost, social outcomes will be a secondary factor.

21. <http://thirdsector.co.uk/news/Article/617233/charity-advisers-professionals-part-two-management-management-consultants-culture-clash/>

22. Ibid

6. Conclusion

The cost of consultancy in central government and the public sector is not fully known. In part, this is because of uncertainty about the scope of the term 'management consultancy' and the lack of accurate financial information.

There is some debate about the effectiveness of management consultants, who continue to be criticised for management fads and for stating the obvious. What is certain, however, is that by providing knowledge, experience and skills to help improve capability, management consultants play a vital role in the public sector. Their contribution is also important for helping the public sector to innovate and create efficiencies.

It is critical that clients achieve a better understanding of management consultants and learn the lessons from poor procurement, management and evaluation, to ensure that added value is achieved.

It is, however, equally critical that management consultants understand their clients and the context in which they are working, provide more transparency about their costs, and set out how they will manage the risks of project failure.

A big criticism of the public sector's use of management consultants is the lack of sustainability and transfer of skills. Management consultants need to consider new ways of working with clients that will meet the requirements for sustainability and transfer of skills.

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