

Ethics for Management Consultants

Flemming Poufelt

Management consultants and their moral standards and behaviour have been questioned and caricatured, but it is not sufficiently appreciated that they frequently have to operate in situations which are characterized by ambiguity, ignorance, uncertainty and sensitivity and they cannot always simply apply ethical rules in cooperating with their clients. In addition, more attention should be given to the ethics of the client, and "dual ethics" should be a joint concern. Research among consultants and clients has identified several ethical dilemmas frequently experienced by consultants which are explained and explored. Dr Poufelt is Associate Professor of Management at the Department of Management, Politics and Philosophy at Copenhagen Business School, Blaagaardsgade 23 B, DK-2200 Copenhagen N, Denmark.

Ethics in professions

Ethics among professionals has been receiving increased attention; witness "Ethicsplosion", the title of an article in *Financial World*, August 1994 (Cordtz, 1994). However, it is no matter for surprise that ethics has come more into focus during the last few years. The development in society and in business has triggered this movement. Turbulence, relentless competition, and economic creativity have been among the key characteristics. Sometimes the legitimacy and the reliability of business behaviour have been questioned. One example is the "corporate raiders" who represent a business philosophy where law, economics, taxes, and business morality – or lack of the same – are merging, and where the number of ethical questions is great.

In some professions, such as the legal profession, the medical profession, accountancy, and management consultancy, ethics has been an important issue on the professional agenda for many years. For instance, both lawyers and accountants have agreed on profession-specific codes of professional conduct, and physicians still frequently take the Hippocratic oath. Regarding management consultants the professional associations have formulated different sets of ethical rules. The European consulting organization, FEACO (Fédération Euro-

péenne des Associations de Conseils en Organisation), operates with a "Code of Conduct" (Feaco, 1989). The American organization Acme (Association of Management Consulting Firms) has formulated a "Code of Ethics and Standard of Professional Practice" (Acme, 1990). In addition, the local association in many countries has formulated a "national code." The contents of the individual codes either specify what professional conduct is, such as "We will serve two or more competing clients, or clients in any known adversary relationship, on sensitive problems only with their knowledge" (Acme, 1990); or they indicate what cannot be considered as professional conduct, e.g., "to do anything that does not accord with the statutes of the profession" (Feaco, 1989).

However, it is also obvious that professional rules only serve as overall ethical guidelines (Gallessich, 1982). The consequence of this is that the professional when practising is exposed to several more specific ethical issues for which there is no explicit or written solution. The need for an interpretation and operationalization of the ethical rules is therefore necessary. One example to illustrate this need is "We will charge reasonable fees that are commensurate with the nature of services performed and the responsibility assumed" (Acme, 1990). Among the basic questions that can be raised are

"What is reasonable?" and "Who makes the judgement?"

Management consultants and their ethical behaviour is the concern of this article. Whether they deserve it or not, it is notable that consultants and their business morals have been questioned and caricatured. Statements such as "The new witch doctors" (*Economist*, 1989) or "Consultants are people who borrow your watch to tell you the time – and then walk off with it" (Townsend, 1970) have often been quoted. A headline like "They change colour according to the environment" (Bøgelund, 1994) indicates a certain unreliability. However, it also has to be recognized that consultants often operate in situations characterized by ambiguity, sensitivity and bounded rationality. Therefore it can be expected that recipients in situations where they might be slightly criticized will react with some sort of bitterness and emotional outburst. Made explicitly this might be reflected in critical and condemning remarks about the professionalism of the consultants. This is supported by different studies focusing on client satisfaction (Payne & Lumsdon, 1987; Wilderom, 1990). While the consultant–client relationship might be one of technical superiority and unequal power, ethical behaviour of the consultant becomes a key issue. Consulting can be compared to walking the tightrope where it is necessary to strike the balance. Regarding ethical behaviour the situation is the same. Consultants are exposed to ethical issues that often appear as dilemmas. These might be easy to resolve in a world of rationality, but they are more complicated in a world of inconsistency and action.

The purpose of this article is to increase the understanding of the consultant–client cooperation and implications by presenting and scrutinizing some of the most frequent dilemmas with which consultants are confronted. The article is based on research undertaken on Scandinavian and international management consulting markets during the last five years. The studies have involved both the consultant side and the client side. The article also draws on observations from different professional conferences where ethics in consulting has been scrutinized, as well as on other studies conducted on the consulting business.

The theoretical framework of ethics guiding the discussion is primarily based on a teleological perspective as opposed to a deontological perspective (Hunt & Vitell, 1986; Ferrell & Gresham, 1985). Deontology refers to beliefs in universal moral principles, whereas teleology refers to actions based on

the intended consequences, so that ethics is not an absolute phenomenon. This can be perceived equivalent to the distinction between uniform "codes of professional conduct" and the behaviour of the individual consultant making the ethics situation-specific instead of absolutes.

Ethics as a brand name

The consulting service is a professional service with a high degree of knowhow (Sveiby & Lloyd, 1987) or esoteric expertise (Starbuck, 1992). Among the characteristics are that it is immaterial and intangible – and sometimes inconceivable, some will argue. It is mostly tailored to meet individual client needs, although consulting firms are struggling to balance the degree of programmed and unprogrammed knowledge in their service portfolio to obtain scale economies of already acquired knowledge. Exploitation and exploration of the knowledge base have to be balanced (Levinthal & March, 1993). Also the distinction between individual knowledge and structural knowledge (Sveiby, 1989) is an important element when characterizing the professional service. The key issue is how a consulting firm can develop the knowledge of the individuals into a more profound firm-specific knowledge base. Often it is necessary that the client takes an active part in the problem-solving process. For example, developing the service attitude of the employees in a company requires active participation from the management and the staff members to ensure the results.

Close teamwork between supplier and buyer is, therefore, a distinct characteristic. Another consequence of this is that the final result of the assignment is not delivered until the consulting project is concluded. Some clients will even argue that the project has not been completed until the results have been implemented although the consultant may not even participate in this part of the process. It is also notable that the final project may differ considerably from what was originally agreed upon, as the contractual agreement may have been adjusted during the process. A recent study showed (FMK, 1994) that in more than 50% of cases, there was a major difference between the problem which the consultants were called in to solve and the phrasing of the assignment after the initial discussions between the client and the consultant. The root problem, therefore, often differs substantially from the problems as perceived by the client before the consultants

*walking the
tightrope*

are asked to undertake the potential assignment.

Uncertainty also characterizes the use of consultants. Three types of uncertainties when buying professional services can be identified (Morgan, 1991): 1) Uncertainty about demand, which concerns problem identification and the need for hiring a consultant; 2) Market uncertainty, i.e., where to look for a consultant; and 3) Transactional uncertainty, i.e., how to cooperate with a consultant. Cooperation can also be jeopardized in situations where the consultant possesses technical superiority and the client is in a position of weakness and distress (Kubr, 1993).

In addition, other uncertainties are included in a consulting project irrespective of how carefully the actors involved try to outline and specify the content of an assignment. However, it is one thing to accept which matters are to be put in the hands of the consultant and another to accept how this proceeds. Still another is to accept the results. This might be problematic, especially if they are not fully in line with the expectations and wishes of the clients. Discrepancies in this area or conflicts of interest can easily lead to criticism from the client (Shenson, 1990).

Because opaque contexts characterize the work situations of consultants the ethical element becomes an important part of the profile of the profession (Taylor, 1988). Ethics becomes a "professional informative label" indicating that "we are a trustworthy and credible business partner. Trust us." This is not to say that "we are the best (although some will claim this) but we will during our work stick to a code of professional conduct." Key words are, therefore, "integrity and trust" (Watermann, 1993).

There are no institutional requirements regarding ethics in management consulting in contrast to other professions (Kubr, 1996; Gallessich, 1982). This means that ethics is a relatively individual phenomenon. Only members of professional organizations are formally required to obey certain professional code of conducts as defined by the association. However, an organization has only few means to sanction unethical behaviour among its member firms. In addition, most professional consulting associations represent only a minority of the total number of consulting firms and therefore of consultants (Berg & Poulfelt, 1986). This is not to say that firms outside professional bodies do not give priority to ethics. On the contrary; if ethical behaviour was not a part of the paradigm of the consulting business the whole industry would not survive and grow as has been the

case. Many management consulting firms, both large international firms and small national players, have their own – and some explicit – ethical principles and behavioural rules. Gaining a reputation in the market is therefore an indication of ethical standing. A firm having a brand name in the consulting industry can be considered as also having ethics as an informative label.

Ethical dilemmas in consulting

From a general perspective most ethical rules in consulting look reasonable. This seems to be valid from both a client and a consultant standpoint. The real hazard lies in the interpretation of the rules and the behaviour which occurs during the undertaking of assignments. As absolutes are rare in consulting, consultants often have to strike a balance between different opinions and options during the process. From an ethical perspective some of these balances can be phrased as dilemmas. From the research undertaken several ethical dilemmas have been identified. Among these seven will be discussed.

Maximum income vs. the best solution

A consulting firm is usually a commercial entity with a strong focus on revenues. Being organized as partnerships increases this focus, while the owners have personal goals of capitalizing the income. The professional efforts are to secure on the one hand the requirements on earnings, and on the other hand the best solution. Therefore, it is not an issue of "profit or pride", but of "profit and pride" (Berg & Poulfelt, 1986). There are, of course, examples of consultants who have been too focused on revenues at the expense of the professional effort needed. Also there are cases where the consultants have devoted too much time to problem-solving. The consequences of the latter have been projects of low profitability. Both situations are as such dissatisfactory for all parties. A true business and professional relationship should be of mutual benefit. Profits and ethics are intrinsically related (Primeaux & Stieber, 1994).

profit and pride

The optimal approach vs. the client's budget

Limited resources are a reality in most organizations. How to deploy scarce resources is therefore a continuous effort for a company. In the case where a company invites a consultant to help solve a specific problem the situation is analogous. Clients

will often have decided a (maximum) limit regarding resources to be spent on the potential assignment.

The dilemma that is embedded here concerns the potential misfit between the client's requirements and allocated resources on the one hand, and the consultant's suggested problem-solving strategy on the other hand. When there is a mismatch because the client's demands exceed the economic coverage of the strategy suggested by the consultant an adjustment has to be made. If it is possible to make a revised outline of the project without compromising the professional approach, no ethical issue occurs. However, the ethical implication surfaces if the project is adjusted in order just to get the assignment, and at the expense of the quality of the problem-solving. In a less transparent, but still competitive market this can easily be the case (*Economist*, 1989).

Professional effort vs. client's interest

In most codes of professional conduct or mission statements of management consulting firms it is emphasized that "client's interest comes first" (*Acme*, 1990; *Comer*, 1989). This is to be expected, as the formal definition of a profession includes the concept of service and social interest (*Moore*, 1970). Whether this is always the case in fact can be questioned. The passion for professional effort or just routinized problem-solving behaviour can disregard the specific client's needs. It is argued that the ideal of "client's interest comes first" is a myth (*Crossick*, 1995). This is also supported by other studies of management consultants (*Payne & Lumsdon*, 1987), in which consultants were characterized by some clients as "Ivory tower people, very expensive, and taking no risks" (p. 56). However, jumping to the opposite conclusion that consultants are professionally myopic and mainly working in their own interests is also a self-deception. It is not always obvious what "client's interest" means and what the client expects from the assignment (*Kubr*, 1993). This triggers the questions of who decides what the client's interest actually comprises, and who is included in the client concept.

Client's needs vs. organizational needs

A basic question in all consulting assignments is "Who is the client?" Although it may seem obvious this is very often not the case. *Schein* (1987) introduces four categories of clients: 1) the contacting client; 2) the intermediate

client; 3) the primary clients; and 4) the ultimate client. Another client concept is the sponsorship model focusing on the client as the one who pays for the assignment (*Bell & Nadler*, 1979).

If there is a misfit between the interests of different stakeholders in a particular project this raises several ethical dilemmas. How to handle the situation if the requirements and the needs of the principal differs from the organizational need? The immediate answer is easy to propose, but in reality it is much more complicated to implement. In projects where the CEO has hired the consultant, and has turned out to be the root problem, consultants are facing tough times of how to match the needs of the different groups and stay in business.

There is no easy solution to how to balance different facts and perceptions in the case of differences (*Shapiro, Eccles & Soske*, 1993). In a world of (bounded) rationality, emotional outbursts and political controversies, cutting the Gordian knot is not a simple task. Even if the consultant has behaved according to ethical standards, some within the client organization might argue that the consultant has favoured some groups at the expense of others. Or some might claim that the consultant has (mis)used his powerbase in an unethical manner. "How to measure such allegations?" and "Who within the client system is willing to pursue these matters?" are key questions that can be raised. Except for the consultant, who is often in a position where it is impossible and inexpedient to follow up on such charges, almost no-one within the client organization has any interest in further elucidating these issues. The perception that "consulting is a process of limited rationality" (*Ganzevoort*, 1993) is therefore well in line with the reality and experiences of many consultants.

Confidentiality vs. being impeded

Confidentiality is a virtue in many professions. Treating information or acquired knowledge respectfully is an important issue (*Moore*, 1970). Most consultants have been exposed to a situation where a manager or a staff member has asked for full confidentiality. Statements such as "This is only for your information and please don't disclose it," have been experienced by many practitioners. However, instrumentality and practicability decrease as the requirements of confidentiality increase (*Bell & Nadler*, 1979). The ethical dilemma is to respect the personal domain and the requirement of individual protection and at the same time

Who is the client?

not being impeded by promises to individual actors in the client organization. If the overall purpose of the presence of the consultant is to help the client improve its performance (Turner, 1982), then the consultant had better not limit his freedom of action. Therefore, motivation and caring are critical determinants of ethical behaviour. Focusing on how to ensure value for the client without neglecting the professional responsibilities for the people involved should be a key issue on the professional agenda.

Another aspect of confidentiality concerns the use of anonymity of people being interviewed during an assignment. In some European consulting markets there is a discussion on whether or not to allow anonymity in cases where person-related issues are on the top of the agenda or highly critical. Advocates of anonymity argue that it is necessary to stick to this principle to make people speak without the risks of potential sanctions. As opposed to this, adversaries argue that there is a risk of distorting the facts if people can hide behind a shelter of anonymity (Djøf, 1996). However, the ethical dilemma does not solely lie in the request for anonymity, but rather in how observations are being validated and used by the consultants. The process of ensuring that data are rooted in the organization and not biased by a few actors, and how to present the findings, are therefore critical – and ethical – parts of the consultant's approach.

Proximity vs. keeping a distance

The definition of a management consultant includes the element of being objective (Greiner & Metzger, 1983). This is often emphasized as one reason for using consultants (Gattiker & Larwood, 1985; FMK, 1991 & 1994): the consultant as the neutral and impartial person coming from outside and looking on the client situation with a fresh viewpoint (Kubr, 1996).

However, working closely with a client organization for a longer period will undoubtedly influence the consultant's perceptual map. A key issue is, therefore, how to gain deep insight into client matters and at the same time preserve a certain distance from what is going on. The risk of a distorting objectivity is obvious. Also, a close relationship involving more personal relations to persons in the client organization may have a disturbing impact on the objective behaviour of the consultant. Often a closer relation increases the trust between the client (or actors from the client organization) and the consultant, but this can at the same time

jeopardise impartiality. The professional task is to avoid becoming cognitively and emotionally socialized while still developing a relationship of trust.

Full knowledge vs. incomplete knowledge

The rational consultant perspective supposes that consultants share all their experiences gained from an assignment with the client. However this is not always the most appropriate behaviour. Different interventions in the client organization might have revealed information that seems better to withhold than to share. The key question is, of course, the judgement of whether the information will do more damage or whether it can be used to heal. Twisting the truth is also a possibility, or "when lying seems the best option" (Høivik, 1994). In some very special cases it can be an advantage to twist reality slightly, but from an ethical perspective this is (or ought to be) a tough decision.

The dilemma between full knowledge and incomplete knowledge can also concern the basis required for decision making (Andrews, 1989). The consultant might suggest additional data gathering before the decision is being made, and this might include additional costs. However, clients often want to act and decide on the facts available and to minimize cost. If it later turns out that the decision was a failure the consultant will certainly be blamed, even if he (or she) did warn the client about the inadequacy of the basis for decision making. In such a situation the consultant can very seldom reply. Dissemination of this type of consulting experiences through "word of mouth" from clients often confirms the stereotyped perception of consulting as a waste of money. Of course, management consultants are not infallible problem-solvers, but clients can also add (unnecessary) fuel to the fire to protect self esteem and their own image.

The dual ethics

The dilemmas we have been identifying illustrate some examples of key ethical issues in management consulting, although the presentation does not claim to be exhaustive. As can be realised, ethics is not an absolute phenomenon, but very much related to the set of values in a specific consultant-client environment. "There is nothing either good or bad, but thinking makes it so" (Shakespeare, 1604). Therefore ethics is a question of balancing the efforts and the behaviour in certain desirable directions.

Even if criticism of consultants still occurs (Wilderoom, 1990; Dagens Industri, 1991), consultants today are, in general, perceived as more professional. Some studies support this notion (FMK, 1991; FMK, 1994). While the issue of client satisfaction was analyzed from different perspectives in the studies, the answers were not just a reflection of the "cognitive dissonance" phenomenon (Festinger, 1957). For instance, a majority of the clients supported the view that "they experienced consultants as being professional in their approach and behaviour" (FMK, 1994) or "friends in need" (van de Poel, 1995). On the other hand, the consultants were more critical toward the clients and their lack of professionalism in the use of consultants. Approximately 50% of the consultants did not find that the clients were effective in their use of consultants. Whether this can be seen as a cognitive cover for a possible criticism from the client side of consultants can be questioned.

Both consultants and their clients have to acknowledge that "the more consultants a company is applying the more the reasoning process is being outsourced with the risk of losing internal creativity" (van de Poel, 1995). The professional and ethical issue is to ensure the innovative learning capabilities of the organization. The consultant as an "organizational diluter" is a risk.

However, ethics is not only a consultant matter. Criticism of management consultants from the client side could be turned round and directed toward the clients themselves. One assumption could be that lack of professionalism in the use of consultants harms the general reputation of consultants as the consultants often cannot reply. In addition, consultants are still invited into the client organization; they are not imposed, although it is typically a minority group of managers who decide on the hiring of consultants. Management therefore has full autonomy in the decision-making process. Criticism of management consultants is therefore comparable with lack of professionalism in management. Discrepancies between the client's espoused theory and their theory in action (Argyris & Schön, 1974) can have a negative impact on the problem-solving process. Also, the agenda for inviting consultants into an organization is sometimes ambiguous or coloured with more hidden political motives. Primarily seeking legitimation for unpopular decisions is not the best framework for consultants to work within. The problem might be apparent after the assignment has been finalized, but more complex to see through at the start of a

potential project. Clients should (re)consider their ethical policy for using consultants and how to cooperate with them.

The ethical agenda in a consultant-client relationship is a joint matter. Dual ethics is, therefore, of key importance. The joint responsibility should be a trigger for further developing the cooperation. "Always do more than is required and less than is allowed" (White, 1989). To explore and understand this balance further is one of the items on the future research agenda for ethics and management consulting ●

References

- Acme, Code of Ethics and Professional Practice. New York, 1990.
- Andrews, K.R., Ethics in Practice. *Harvard Business Review*. Sep.-Oct. 1989: 89-98.
- Argyris, C. & Schön, D., *Theory in Practice: Increasing Professional Effectiveness*. San Francisco: Jossey Bass, 1974.
- Bell, C.R. & Nadler, L. (ed.). *The Client-Consultant Handbook*. Houston: Gulf Publishing Co., 1979.
- Berg, P.O. & Poulfelt, F., Professionalizing a Profession - Increasing the Competence of Management Consultants. *Consultation*. Vol. 5, No. 4, 1986: 258-273.
- Bøgelund, E., De skifter farve efter årstiden. *DJØF-bladet*. No. 14, 1994.
- Comer, M., Marvin Bower Speaks Out. *Journal of Management Consulting*. Vol. 4, No. 4, 1989: 10-14.
- Cordtz, D., Ethicspllosion! *Financial World*. August 16, 1994, Special Issue: 58-60.
- Crossick, S., Consultancy in the EU Arena. In Høivik, H. von W. & A: Føllesdal (ed.), *Ethics and Consultancy: European Perspectives*. London: Kluwer Academic Publisher, 1995.
- Dagens Industri*, Klagomål på konsulter. October, 1989.
- Djøf*, Klynk eller nødvendighed. January, 1996 (2). *The Economist*, Management Consulting. February 13, 1989.
- Feaco, Code of Conduct. Paris, 1989.
- Ferrell, O.C. & L.G. Gresham, A Contingency Framework for Understanding Ethical Decision Making in Marketing. *Journal of Marketing*, Summer (49), 1985: 78-96.
- Festinger, L., *A Theory of Cognitive Dissonance*. Stanford: Stanford University Press, 1957.
- Foreningen af ManagementKonsulenter (FMK), *Profil af managementkonsulentbranchen i Danmark anno 1991*. Copenhagen, 1991.
- Foreningen af ManagementKonsulenter (FMK), *Managementkonsulentbranchen i Danmark 1994 - som konsulenterne og brugerne ser den*. Copenhagen, 1994.
- Gallessich, J., *The Profession and Practice of Consultation*. San Francisco: Jossey-Bass, 1982.
- Ganzevoort, W., *Ethical Issues in Consultancy*. Presentation at the EBEN (European Business Ethics Network) Conference. Oslo, 1993.

legitimation for
unpopular
decisions

- Gattiker, U.E. & Larwood, L., Why Do Clients Employ Management Consultants. *Consultation*. Vol. 4, No. 2, 1985: 119-129.
- Greiner, L. & Metzger, R., *Consulting to Management*. Englewood Cliffs, N.J.: Prentice Hall, 1983.
- Hunt, Shelby D. & Scott, J. Vitell, Jr., A General Theory of Marketing Ethics. *Journal of Marketing*, Summer (48), 1986: 30-42.
- Høivik, H. von W. & A: Føllesdal (ed.), *Ethics and Consultancy: European Perspectives*. London: Kluwer Academic Publisher, 1995.
- Kubr, M., *Management Consulting – A Guide to the Profession*. Geneva: ILO, third edition, 1996.
- Kubr, M., *How to Select and use Consultants*. Geneva: ILO, 1993.
- Levinthal, D.A. & March, J.G., The Myopia of Learning. *Strategic Management Journal*. Vol. 14, No. 14, 1993: 95-112.
- Moore, W.E., *The Professions: Roles and Rules*. New York: Sage Foundation, 1970.
- Morgan, N., *Professional Services Marketing*. London: Butterworth-Heinemann, 1991.
- Payne, A. & Lumsdon, C., Strategy Consulting – A Shooting Star. *Long Range Planning*. Vol. 20, No. 3, 1987: 53-64.
- Poel, J. van de, Ethics and Interventions in Business: Moral Issues in Consulting and Economic Systems Design. In Høivik, H. von W. & A: Føllesdal (ed.), *Ethics and Consultancy: European Perspectives*. London: Kluwer Academic Publishers, 1995.
- Primeaux, P. & Stieber, J., Profit maximization: The ethical mandate of business. *Journal of Business Ethics*. Vol. 13, No. 4, 1994: 287-294.
- Schein, E.H., *Process Consultation Vol. II – Lessons for Managers and Consultants*. Reading, MA: Addison-Wesley, 1987.
- Shakespeare, W., *Hamlet*, Act 2, Scene II, 1604.
- Shapiro, E.C., Eccles, R.G. & Soske, T.L., Consulting: Has the Solution Become a Part of the Problem? *Sloan Management Review*, Summer, 1993: 89-95.
- Shenson, L.H., *How to Select and Manage Consultants*. Massachusetts: Lexington Books, 1990.
- Starbuck, W.H., Learning by Knowledge-Intensive Firms. *Journal of Management Studies*. 29:6, November, 1992: 713-740.
- Sveiby, K.E. (ed.), *Den Osynliga Balansräkningen*. Stockholm: Affärsvärlden/Ledarskap. 1989.
- Sveiby, K.E. & Lloyd, T., *Managing Knowhow. Add Value by Valuing Creativity*. London: Bloomsbury, 1987.
- Taylor, J.W., Profile the Professional. *Journal of Management Consulting*. Vol. 4, No. 2, 1988: 17-20.
- Townsend, R., *Up the Organization*. New York, 1970.
- Turner, A.N., Consulting is more than giving advice. *Harvard Business Review*, September-October, 1982: 120-130.
- Watermann, R.H. Jr., *Adhocracy*. New York: W.W. Norton & Co., 1993.
- White, B., The Ethical Challenges of Consulting. *Business Forum*. Fall, 1989: 39-41.
- Wilderoom, C.P.M., Management consulting in the Netherlands: professional issues and prospects. *Consultation*. Vol. 9, no. 1, 1990: 51-61.