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Foundations and Challenges: Ethics in Consulting

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Abstract

This paper critically examines the principle of professional independence in the consulting industry, focusing on ethical challenges through the lenses of consequentialism and stakeholder theory. Utilizing a case study involving a Dutch media company's acquisition bid, the analysis reveals the tension between maintaining professional independence and succumbing to client pressures, resulting in an inflated and ultimately unsuccessful bid. The discussion highlights the importance of consultants adhering to ethical standards, considering all stakeholders' interests, and maintaining objectivity to ensure long-term beneficial outcomes. By integrating stakeholder theory and consequentialism, the paper underscores the necessity of ethical rigor and professional integrity in consulting practices.

Introduction

In the evolving discourse of ethics within the consulting industry, two prevailing frameworks - consequentialism and stakeholder theory - have guided scholarly debates and practice. Consequentialism, a term first introduced by Bentham (1789), Mill (1861), and Sidgwick (1907), is a form of utilitarianism, which holds an action as ethical if it produces more beneficial outcomes than negative ones. Stakeholder theory, on the other hand, was first introduced by Freeman (1984) and refers to the responsibility of a firm to create value for all stakeholders, not just shareholders.

Despite their long-standing presence in the fields of ethics and their clear frameworks, the application of these theories in the context of consulting continues to present challenges (Poulfelt, 1997; Shaw, 2019). This gap is acknowledged and addressed by professional bodies who seek to guide consultants in navigating these grey areas.

One such an organization is the Order of Organizational Consultants (OOA in Dutch) who have developed practical guidelines. The 'Rules of Conduct for Management Consultants' aims to embed ethical considerations into the nature of consulting work. One of the key areas that is discussed here is professional independence, which requires consultants to maintain distance from the assignment, the principal, and the organization in such a way that they remain capable of using their skill and knowledge without restriction and to the best of their ability (article 2.5).

To people unfamiliar with consulting, this may seem obvious. However, from previous research it has become evident that businesses sometimes seek external validation for strategies they have already decided to pursue. Consultants, with their reputed analytical prowess and industry insights, provide credibility to a company's decision, which can be crucial in convincing stakeholders (Sturdy, 2009).

This essay will critically examine the principle of professional independence as outlined in the OOA Code of Conduct, exploring its applicability through a real-life case study, and evaluating how adherence to this key value can empower consultants to navigate ethical dilemmas, with the aim to foster ethical consulting practices.

Thus, in the quest to explore this ethical challenge in consulting, I initially interviewed a seasoned consultant, aiming to uncover specific cases and insights into ethical dilemmas. However, extracting detailed examples proved challenging, as discussions remained largely superficial. Therefore, I shifted focus, opting to interview a client experienced in working with consultants instead. This new direction offered a unique perspective on the ethical considerations and challenges within the consulting industry, enriching my understanding of the ethical dynamics from the client's viewpoint.

The Bid Dilemma

Daan Jansen[1] was working at a leading Dutch media company when an exciting opportunity emerged: the potential purchase of a television company. This would

[1] The name of the interviewee has been fabricated to protect their identity.

create ‘cross-mediality’, which entails merging various media platforms, enticing customers to interact more broadly across the company's offerings.

Recognizing the complexity of this endeavour, the company enlisted a reputable consulting firm to assist with the acquisition. Their task was not slight; they had to set a purchase price, factoring in expected profits and the somewhat hazy benefits of cross-mediality. This required a forecast reliant on numerous assumptions rather than concrete data, yet confidence was high that the consultants could produce a precise valuation. Consequently, a bid was placed, believed to be sound and justified.

After submitting the bid, an interesting twist occurred. The bid - though carefully calculated - was not enough. There was a sense of 'deal-lust’, a term Daan used to describe the enthusiasm for making the deal happen at any cost. This eagerness to secure the television company led to a revisiting of the bid. The consultants were asked to re-examine the figures and explore if there was any flexibility in the estimate of the valuation, which could justify a bid increase.

The consultants agreed and looked over the calculations again, leading to an increase of the initial bid by a staggering 20%. This increased bid, a bold move reinforced by a mix of data and desire, was accepted. However, the reality post-acquisition painted a different picture; the inflated crossmedia benefits that were so central to the bid, failed to come to realization, leading to a purchase that did not deliver the expected transformative success, resulting in an unsuccessful acquisition and six years later, the television network was sold off.

This case clearly highlights the ethical challenge of professional independence and objectivity in consulting. The core of the dilemma is whether consultants can maintain their professional independence amidst the pressure to conform, highlighting a fundamental concern for the consulting industry's commitment to integrity and ethical business practices.

Beyond the Bid: Ethical Implications

The ethical dilemmas presented in the case and the business deal highlight the importance of applying stakeholder theory principles, emphasizing the well-being and involvement of all stakeholders in business decisions. Engster (2011) supports this view by advocating for a stakeholder perspective grounded in care ethics, which suggests that decisions should prioritize the needs and well-being of those directly affected, such as employees and clients, and involve them actively in the decision-making process. In the scenario with Jansen, the consultants appear to have overlooked this imperative, giving assurances about the project's success without fully addressing Jansen's practical concerns regarding the feasibility of the crossmedia benefits, despite his direct responsibility for realizing some of these benefits.

This oversight demonstrates a failure to fully consider all stakeholders, including Daan Jansen himself, who voiced his reservations about the project. The consultants reassured him by saying, "*We understand, but Daan, you are only involved in this context, but from our research it’s evident that what we expect is definitely achievable*." This response indicates a lack of sufficient consideration for his insights and concerns, undermining the ethical imperative to nurture stakeholder relationships and address their most pressing needs comprehensively. By aligning more closely with the principles of stakeholder theory and care ethics, the decision-making process could have been enhanced to not only aim for specific outcomes but also strengthen the relationships and responsibilities the company holds toward its stakeholders, ensuring a more ethical and holistic approach to business decisions.

From a consequentialist standpoint, the morality of actions is based on their outcomes, suggesting that the ends can justify the means if they lead to the greatest good for the greatest number (Sinnott-Armstrong, 2023). The initial phase of the bid formulation appears to align with this ethical principle. The consultants' preparation of a realistic bid, rooted in careful analysis and measured assessment of cross-media synergies, aimed for an outcome beneficial to the company's long-term interests. Yet, the shift in strategy to significantly increase the bid, driven by *'deal lust'* and a desire to secure the acquisition at any cost, marked a departure from consequentialist ethics. This shift from a realistic appraisal to an optimistic re-evaluation underscores a deviation from maximizing the overall good, showing the complexity of applying consequentialist ethics in practical decision-making scenarios.

In this case, the consulting firm's behaviour raises critical questions regarding adherence to the OOA's stipulation of professional independence. Had the consultants firmly adhered to this foundational rule, they would have been more likely to resist the "deal lust" that clouded their judgement and to question the optimistic projections that ultimately led to a misinformed bid. Their role was not to affirm preconceived strategies but to offer impartial advice based on thorough analysis. True adherence to professional independence would have steered the consultants to prioritize the long-term welfare of the client and all stakeholders over the immediate gratification of winning the bid. By compromising on this ethical cornerstone, the consultants inadvertently set the stage for an outcome that was both financially and reputationally costly, demonstrating the profound implications that a lapse in ethical conduct can have in the consulting world.

Through these lenses, the behaviour from the consultants may be labelled as ‘unethical’. Daan however, disagrees. "*Of course, it is always a collaboration between the client and the consultants. This led to ‘groupthink’ where all of us, including the consultants thought: 'Yes but this is indeed a great idea! We should indeed do this’.*

Consequently, Daan refrains from attributing blame to the consultants, instead emphasizing the clients' responsibility in this process: *‘Are you actually asking for real advice or are you asking for your opinion or desire written down on the letterhead of a big consultancy?*’ he noted. Both consultants and clients must prioritize ethics in their professional engagements to ensure the integrity and success of their collaboration (Poulfelt, 1997; Fuqua, Newman, Simpson, & Choi, 2012). This mutual commitment fosters a foundation of trust and leads to sustainable outcomes that benefit all the stakeholders, which aligns with the stakeholder perspective.

In conclusion, the case study highlights critical ethical concerns within the consulting industry, particularly in relation to stakeholder theory and consequentialism. By applying the principles of stakeholder theory, consulting practices can prioritize the needs and involvement of all stakeholders, enhancing the ethical foundation of business decisions. However, this case also illustrates the challenges of strictly adhering to consequentialist ethics, especially when outcomes diverge from the anticipated benefits, thus questioning the justification of means by their ends. The case study serves as both a warning against the neglect of ethical guidelines and a reflection on the role consultants play in influencing corporate decisions. It is through commitment to professional independence that consultants can deliver unbiased and informed recommendations, thereby preserving the integrity of their profession and serving the broader interests of the community, including those not at the negotiation table.

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