*Management Consulting Journal*
Volume 8.1 | January 2025
DOI: 10.2478/mcj-2025-0004
ISSN: 2631-987X



# Be Guided By Your Moral Compass

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## Abstract

Recent events in Australia exposed by a parliamentary inquiry have laid bare the high reputational costs of professional malfeasance for management consultants. Loss of career, future business, and professional status has devastated the accounting, auditing, legal, and management consulting components of at least one of the Big Four firms. This paper discusses the importance of consultants developing a moral compass and adhering to well-founded codes of ethics. It also highlights the importance of creating a corporate culture and codifying ethical standards to protect clients and the profession.

## Introduction

In 2019, journalist and thought leader Aron Maira raised the question: "… in the race to generate wealth for their partners, are management consulting firms in danger of losing sight of their original purpose—to be trusted advisors to CEOs?"(Maira, 2019). The question was put in the context of reports of conflicts of interest by McKinsey consultants who were alleged to have been advising firms on their business strategies while simultaneously profiting from taking a stake in the outcome of that advice. More recently, PwC was forced by the Australian Government to front a parliamentary enquiry into "management and assurance of integrity by consulting services" (Australia, 2024) that was set up to investigate breaches of confidential government information by the firm. The enquiry was expanded to embroil the so-called 'Big Four'. While the Parliamentary Committee has issued a report, the Government is yet to announce its response.

As professionals, we are responsible for upholding the standing of our profession; this commitment should guide our every action (Blackman, 2024). After all, we are judged not just by what we do but also by the conduct of our character. The recent events in consulting in Australia (Australia, 2024) have highlighted the profound costs to individuals, practices, and the profession of failing this test of character. Ethical breaches often involve either sharing confidential information across clients or result from consultants deriving an undisclosed benefit from the confidential information gained during an assignment. However, they stem from a business culture focused not on what is best for clients but on achieving the biggest gain for the consultants involved. The outcomes for a consultancy found to be in breach can be severe.

The penalties are fourfold. First, they affect individual consultants, potentially ending their careers and resulting in criminal charges and lawsuits. Second, they affect the client, whose trust and business have been compromised. Third, they damage the reputation of the consultant's company and might lead to financial ruin. But perhaps most importantly, they damage the profession's standing as a whole, leading to a loss of public confidence in consultants in general.

Our ethical framework is not just a set of rules but a guiding force behind our conduct. Ethics, a system of moral principles founded on personal values, guides us on how to live a good life and influences our rights and responsibilities, language, and decisions about good and evil. As a value-based system, it is, by its nature, enduring (Rockeach, 1973). It defines what is good for individuals and society. Our ethics define us and carry significant weight in guiding our choices. They are the compass that should always point us towards the right path, especially in the face of difficult choices. Upholding these ethics empowers us to make the right decisions in our professional journey, instilling in us a sense of confidence and capability.

As a management consultant, you are part of a profession that upholds recognised ethical norms. You carry the significant responsibility of upholding these norms, which is not just a duty but a privilege. Your actions not only reflect on you as an individual but also on the entire profession. In addition, an agreed code of conduct should be observed to guide each consultant's moral and professional conduct during an assignment. This code of conduct includes professional behaviour, sustainability, social responsibility, conflict of interest, and integrity. Upholding these norms and codes of conduct is an obligation that allows us to contribute positively to our profession and society, and it is an honour to be part of this esteemed profession.

Many professional organisations, such as those representing management consultants, lawyers, architects, and engineers, have developed codes of ethics that guide members in practice. For example, in management consulting, ethics is defined as “the voluntary assumption of an obligation to exercise judgment and self-discipline above and beyond legal requirements”(Blackman, 2024, p. 60). However, the norms in the code demand more than respecting the law. After all, actions deemed to be legal might not always be considered entirely ethical, and as we all know, the law can sometimes be an ass.

In many situations, though, it is only sometimes possible to refer to the letter of the code or a formal declaration of norms by an employer to know genuine professional and ethical behaviour. Therefore, management consultants must be guided by their ethics and conduct based on their background, development, beliefs, and perception of what is proper or improper and beneficial or not to the community, the client and other stakeholders. It is incumbent on those in professional practice to hone their ethical barometer through training, research and diligence.

## Ethical Theories

Several moral theories have evolved over the centuries and are relevant to applying ethics in management consulting. While no one is universally superior to others, it is startling how they agree when applied to common ethical problems. As a result, they are well worth studying by any professional.

There are two primary schools in moral philosophy: consequentialism and deontology. In consequential ethics, all actions aim to achieve the greatest happiness for the most significant number of people. Subscribers to the consequential school of thought, for example, Aristotle and Mills, hold that ethical decisions are based on outcomes. In other words, the consequences of a person’s conduct are the ultimate basis for determining right from wrong. On the other hand, in deontology (non-consequential) ethics, those who subscribe to this school, for instance, Kant and Locke, believe that people base their decisions on rational and deeply held values of duty and obligation to others.

Consequentialism may be fraught. For example, if it is in the majority's best interests for one to be killed, then that would be an ethical outcome for the consequentialist, notwithstanding that the dead individual may have been innocent. Unfortunately, it is sometimes challenging to balance the two ethical schools. We have seen that dilemma play out in the recent COVID-19 pandemic. In that case, pressure to protect as many people as possible from disease conflicted with the damage caused to the economy and restrictions on personal liberty. In the context of management consulting, ethical dilemmas could include issues of client confidentiality, conflicts of interest, or the balance between profit and social responsibility.

## Professional Conduct

Management consultants in many countries have established voluntary professional associations to represent their common interests. These associations play a leading role in promoting professional management consulting standards, gaining management's confidence, and promoting the reputation of management consultants in society. Perhaps most importantly, these organisations guide consultants' ethical practices and enforce codes of professional conduct. The codes identify those obligations that protect the public and the client. They also recognise members' expectations concerning other participants and the profession.

Codes of conduct have been shown to inhibit unethical conduct, although not its reporting (Somers, 2001). It is important to note, though, that the effectiveness of a code of conduct is only as good as the commitment by individuals and firms to abide by it, their awareness of the consequences of non-compliance, and the ability of professional organisations to enforce it. Both PwC and McKinsey had codes of conduct.

A code of conduct may come in different shapes and sizes, and company codes will differ from those developed for a profession. While a company code is likely to focus on narrow elements of importance to a particular organisation and be driven by the owner's values, the code for a profession will necessarily be broad and client-focused. A professional code must cover obligations to act in the interest of the client and the public good, regulatory compliance, protection of the profession's reputation, confidentiality, integrity, objectivity, accountability, openness, honesty, and property protection. To be effective, adequate and enforceable penalties must be available for code breaches, and the policy must be enforced. However, unlike other professions, such as accounting and law, and notwithstanding that most management consulting institutes have developed codes of conduct for their memberships, the number of institute members represents only a fraction of the total number of consultants, and the industry has not yet developed a mandatory uniform code.

The following summarises the content of the code in force for members of the Institute of Management Consultants in Australia. The Australian Code, under review at the time of writing, is like codes for other national professional management consulting organisations. In addition, it now forms the basis for a Universal Code of Conduct promoted by CMC-Global and is quoted in the International Standards Organisation's ISO20700:2017. Therefore, the complete Code and its *Statements of Interpretation* are integral as a guide for CMCs in Australia.

1. Management consultants must maintain the dignity and prestige of the profession and not damage it in any way.

2. Management consultants must consider their public and professional responsibilities. Therefore, they must act according to the law and may only speak on behalf of the profession with appropriate authorisation.

3. Management consultants must act in their clients' best interests, providing professional services with integrity, objectivity, and independence. Other responsibilities to the client include strictures regarding competency and ensuring clients are fully informed regarding how an assignment will be carried out and for what fee. Conflicts of interest must be declared, and client confidentiality must be maintained.

4. Management consultants are responsible for other members, and they must inform them before critically reviewing their work. In addition, a consultant must report another member's unbecoming professional conduct.

5. Members are also expected to be conversant with the profession's evolving body of knowledge and keep abreast of developments in any job area where specific expertise is claimed.

6. Anyone working under the leadership or direction of a member must act within the bounds of the Code.

These obligations require that individual practitioners maintain familiarity with the Code.

## Applying The Code In Practice

A professional management consultant is responsible for several stakeholders. While each project will differ from another, the consultant is obliged to prevent acts or omissions that harm or could cause damage to the public, other consultants, or clients. They must make themselves aware of those aspects of their work or public activities that could breach professional conduct and plan the steps required to avoid a breach and manage any risk of harm. For example, when leading a team on a project, the member must ensure that everyone under their direction adheres to the Code—Table 1 lists familiar sources of conflict of interest.

## Issues That May Arise During The Consulting Process

The Code's “responsibility to the client” section has been created to guard against unethical or unprofessional conduct. From contracting to closure, every step in the consulting process requires a professional consultant to conduct due diligence and be aware of the Code's applicability.

**First Contact**
When contacting a potential client, the consultant must sincerely present their scope, work plan and costs, level of competence, and experience. The client must also be fully informed in writing of the assignment objectives.

**Diagnostic Phase**
During diagnosis, present the findings fully and as accurately as possible and make recommendations in your client's best interest (the Code defines the client as “the organisation”). Note that those interests must not conflict with your ethical and societal responsibilities.

**Ongoing**
Once an assignment has begun, the consultant must concentrate on the client's and the public's needs and, through openness, transparency and ongoing dialogue, avoid abusing client and employee trust. For example, a member must keep confidential any information obtained during an assignment unless permission is given, preferably in writing, to share that knowledge. Confidentiality includes not identifying the client's name or employees who have provided critical intelligence.

*Table 1: Potential sources of a conflict of interest (IMC (Australia), cited byISO, 2017, p. 23)]*

| Source | Explanation |
|---|---|
| **You have a client or a former client in the same industry** | Where you have a current or former client, perhaps in the same industry as the client that you now seek to advise, do you have proprietary information that could impact that advice? |
| **Multiple projects with the same client at a different level or different location** | Are there parallel or similar contracts in the same group, past or present? |
| **The client is a former client.** | Where a client is also a former client, have you provided previous advice or conducted an earlier analysis that would constrain your direction in the new situation? |
| **Staff members have a relationship.** | Do any staff members at your consultancy have family relationships with client staff members, particularly those in management positions? |
| **Internal consulting organisations** | Do any staff members at your consultancy have hierarchical relationships with client or recipient staff members, particularly those in management positions? |
| **You, your family, or your staff have a financial interest.** | Do you, or any member of your family, or staff members have a financial interest in the client or its management team, including an overdue receivable account, loan, or equity investment? |
| **You or your organisation has an audit relationship with the client.** | Where you have a financial audit relationship with the client, are the prospective consulting services allowed by the relevant securities regulator?<br>Note that where a client is also an audit client but not subject to securities regulation, the client's audit committee may choose to restrict the additional services provided by you or your organisation as a matter of policy. |
| **Other** | Other business relationships may include situations where you or your staff have a shared interest with a client in a third-party contract (such as a software partnership, leased premises, a subscription to sports tickets, etc.) or where you or your staff members are "captive" on the client's staff, as in the case of "contract" or "interim" management or "internal consultants." |

Potential remedies include:

- *Seek consent*: in certain circumstances, you may be able to manage conflicts through full disclosure of past or current client relationships, seeking the written approval/consent of the affected parties;

- *isolate areas of potential conflict of interest*: establish confidentiality/non-disclosure agreements concerning new client information, staffing restrictions, separation of service teams and data, differing client reporting points and other approaches;

- *termination*: you may be unable to manage or mitigate a conflict and will be required to turn down an assignment.

## Questions To Ask When Faced With An Ethical Dilemma

There will be times in your career when you are faced with an ethical dilemma, the answer to which is not apparent to you. When that happens, answering the following questions may provide a helpful guide. (Blackman, 2024, pp. 66-67; ICMCI, 2021):

1. Have I reflected on or consulted with the Code Administrator about whether I am compromising my responsibilities under the Code?
2. Have I considered the issue from a legal perspective?
3. Have I investigated whether my behaviour aligns with a policy or procedure of my IMC or CMC-Global?
4. Could my private interests or relationships be viewed as impairing my objectivity?
5. Could my decision or action be viewed as resulting in personal gain, financial or otherwise?
6. Could my decision or action be viewed as furthering the private interests of someone with whom I have a significant personal or business relationship?
7. Could my decisions or actions be perceived as granting or receiving preferential treatment?
8. Have I disclosed all conflicts of interest to my client(s)?
9. Am I proud of my decision or actions?
10. Given that they know the circumstances, would my family be proud of my decision or actions?

If you must answer no to one or more of those questions, reconsider your course of action. If you don’t care about the answers, choose another vocation.

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