

**MANAGEMENT CONSULTING: DOES THE
'ADVICE BUSINESS' QUALIFY AS AN
ETHICAL PROFESSION?**

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ABSTRACT

It is difficult to determine the size of the 'advice business' because of the vast number of services it provides, as well as the number of industries it serves. Criticism against the industry is rising. There is almost no barrier to entry for a career in consulting, causing professional standards to be questioned. Little or no inspection occurs from outside the consulting arena, and almost no research on the industry or related themes are available. Ethical standards are being questioned by the business community, especially because there is no punishment for lapses. Consultants try to explain this situation by the sheer complexity of their industry. Academics as well as outside commentators need to become nosier about what goes on inside the industry. Most problems come down to the fact that it is difficult to measure competence. In this paper the way is paved towards more research and it is an endeavour to highlight some of the problems and to suggest some solutions.

1. INTRODUCTION

The management consulting business is a tale of mystery and imagination. Nobody seems to know quite what it is, or whether it delivers value for money. The consultants themselves do their best to maintain this mystique, pleading client confidentiality when people try to probe into the consulting business (Wooldridge, 1997:3). The field of consulting is in many respects unlimited, ranging as wide as there are problems to be solved and knowledge to be used.

Management consulting will become more specialised. Consulting specialists will need to be ever diligent to avoid obsolescence. Consulting firms will need to continually add new specialities (Wilkinson; 1986:13).

In June 1997 a survey by the Swedish researchers, Universum established that consultancy is currently the profession of choice for graduates in Europe (Curnow:1996). It follows that the bright graduates of management and business schools will continue to be attracted to careers in management consulting (Wilkinson; 1986:14). In the United States between 1982 and 1992 the number of consulting firms increased from 780 to 1593 (104 percent growth), the number of consultants from 30 000 to 81 000 (170 percent growth) and consulting revenue from \$3.5 billion to \$15.2 billion (334 percent growth!). In the United Kingdom in the past two to three years, some 4.7 billion pounds have been spent on consultancy. Between 1995 and 1996 this spending increased by 14 percent. In 1997, the increase was even greater. A number of firms have reported growth rates in excess of their own business plans. In consulting, single-digit growth rates that would look perfectly satisfactory in other industries are regarded as a sign of crisis (Abbott:1998). The profession of management consulting is growing at an accelerating rate, and the end of this growth trend is not in sight (Wilkinson; 1986:3). A similar quantum expansion is occurring in South Africa (Stout; 1998:40).

As can be expected from a country transforming rapidly, and trying to compete worldwide, South Africa's management consulting industry is enjoying good times. And despite the economic slowdown, the fee income of management consultants is rising. Managing Country Director of Deloitte Consulting, Pierre Tredoux, estimates the industry is growing at 15 percent per year. Ian Armstrong, country managing partner of Andersen Consulting, the largest worldwide and local consultancy, reckons South Africa's consulting market to be worth about R4,5 billion per year within a total business service market of about R16 billion. It includes advertising, engineering and all consulting fields. Locally, its revenue has grown by an average of 45 percent over the past two years (Anon.:1999).

To try and explain the success of management consulting, the industry provides the following two answers: complexity and uncertainty. Complexity creates confusion, uncertainty creates fear, and both create a booming demand for outside advice. In particular, the boom has been fuelled by a number of far-reaching forces:

- Information technology.
- Deregulation.
- Re-engineering and downsizing.
- Specialisation.
- Deskilling.
- The competition for ideas and talent.
- After-effects of economic isolation.
- Emergence from the apartheid-era.
- Global competition.
- Social transition.

2. MOTIVATION AND PURPOSE OF THIS ARTICLE

A concern facing the consultancy business today is the level of real and perceived professionalism in the profession. It has no agreed standards, anybody

can call himself a consultant and start dispensing “management wisdom”. Unlike regular professions, consulting has almost no barriers to entry. Would-be consultants in most countries have to do nothing more than get their name cards printed. Kubr (1996:117) states that the growth of management consulting has given ample evidence that at one time almost anyone could call him or herself a consultant and set up in practice. Critics of management consulting also note that, for such an influential and booming business, management consultancy is remarkably free from outside inspection (Wooldridge; 1997:21).

There are no serious studies of whether consulting really does any good. Case studies undertaken in the United States give conflicting results, such as the ones depicted in ‘Dangerous Company – The consulting powerhouses and the businesses they save and ruin’ (O’Shea & Madigan:1997). Consultants explain this gap by the sheer complexity of their industry, but complexity has not stopped academics from producing cost-benefit analyses of, for example, every medical procedure under the sun. As one author puts it: “So if consultants are so brilliant, why the screw ups?” (Stout; 1998:41).

If there is to be genuine and lasting reform, it can only come from the consultancies themselves. To steel themselves for the task, would-be reformers should remember a phrase popularised by one of their leading practitioners, Tom Peters: “The customer is king.” The King customer is showing signs of being bored with the consultancies’ secrecy, and put off by the dubious standards of some of its gaudier practitioners (Wooldridge; 1997:22). Do consultancies still have plenty to offer in terms of smart brains, new ideas, global experience, independent judgement, and a fresh perspective? Even if this is true, in order to regain the trust of an increasingly sceptical public, it needs to become less secretive and more ethical – like other professions. The first step would however be to determine whether consulting, as practised currently, actually qualifies as a profession.

We should all hope that the consulting industry solves its problems – even if a few business people will get a certain wicked pleasure from seeing it struggle with them in the process (Taylor; 1998:67).

The purpose of this paper is to report on the current status of the consultancy industry in the Republic of South Africa. In order to get a picture of the current status, it is necessary to investigate perceptions of consumers of the consultancy industry, to look into the debate concerning the professional status of the industry and finally to evaluate the ethical status of the industry. The paper is, of course, only a brief summary of some of the aspects of the research project.¹

3. RESEARCH PROPOSITIONS

The following propositions will be investigated:

- Management consulting firms will be perceived more favourably in the business community if ethical standards are strictly adhered to, and ethical lapses are punished.
- The positive relationship between the perceived level of professionalism for consultants and a professional body of consultants where consultants need to be registered before they can start to practise consulting.
- South African management consultancy qualifies, in terms of the defined requirements, as an ethical profession.

4. RESEARCH METHODOLOGY

The study took the form of a qualitative literature study, researching literature for and against management consulting, as well as relevant literature on South African management consulting firms such as Andersen Consulting, Gemini

¹ If you need more information, please get in touch with the authors

Consulting, Bain Consultants, Monitor Company South Africa and IBM Consultants. Emphasis was placed on the ethical standards of the firm, and professionalism of the consultants. Research into the management consulting industry was evaluated.

5. RESULTS

- The management consulting industry is very difficult to narrow down in terms of scope and size due to the variety of services offered, and the vast number of industries or companies that it sells advice to.
- Being the career of choice for graduates from a variety of disciplines, it deserves more attention and research than is currently available on the industry.
- Growth of the industry has been phenomenal, not only in Southern Africa, but also around the world.
- The income generated by consulting firms has astonished the world – single digit growth rates in management consulting are almost unheard of! (Stout; 1998:40 and Wilkinson; 1986:3)
- In South Africa management consultants are doing very well. The opportunities for consulting in the post-apartheid, post-sanction South African business community continue to develop and grow rapidly.
- Included in the forces fuelling the growth of management consulting is information technology, globalisation, deregulation, re-engineering, downsizing (and the subsequent fashion to outsource following downsizing and the advice to stick to core competencies), global best practice and benchmarking.
- Unique South African social issues also creep into consulting – labour relations, affirmative action, crime and empowerment.

- Government departments have become the main targets for especially the “fly by night” consultants. They are an easy target and open to advice.

5.1 Issues raised against consulting

Despite the rapid growth and tremendous opportunities, concerns about the consulting industry are also rising.

- There are almost no barriers to entry, professional standards are seldom questioned.
- Outside inspection is almost unheard of (hiding behind confidentiality).
- Research on the industry is few and far between.
- Ethical standards are under attack due to lapses and the subsequent lack of punishment.
- Consultants must be sensitive to “pseudo” needs and save companies’ money out of their own free will.
- Consultants often accept unethical assignments and it is this kind of action which gives the industry a bad name.
- Consultants should never even try to act as decision makers, salespersons or arbitrators of internal management disputes.

5.2 Professional and Individual Consultant requirements

The debate as to whether management consulting qualifies as a profession is inconclusive. Even consultants themselves disagree as to whether they are professionals outside their original profession (e.g. engineering, medical, etc.). A profession is based on lofty ideals:

- it has a concept of service and social interest, it has a body of knowledge and skills, clear language and ethical standards;

- community sanction and enforcement are required;
- self-discipline and aforementioned self-control are further requirements.

Other factors include it being:

- full-time,
- a calling,
- an organisation of members,
- autonomous.

Criticism against the industry includes:

- the lack of barriers to entry,
- second wave solutions used to solve third wave problems,
- inexperienced consultants sent in to companies where the sales pitch was done by highly qualified consultants,
- preparing “excellent” reports is simply not enough anymore,
- clients want to see a link between the exorbitant fees charged and the value to their bottom line,
- Contingent fees sometimes cause the consultants to focus on short term wins, and not necessarily the long term growth and wellbeing of the company.
- In South Africa we are faced with the problems of old paradigms and new products. The majority of businesses are still second wave institutions.

5.3 Common requirements of a consultant

The consulting process can be defined in a variety of ways, probably because of the variety of consulting interventions that can occur. Skills, knowledge and training required for consultants are also very difficult to narrow down to a

standard set of requirements. There are, however, some common core requirements, being:

- education requirements (obtaining the specific type of training, as well as the length of education),
- technical training, and
- personal traits (both inherent and developed).

Competencies can be divided into:

- knowledge areas, which are aimed at solving the theoretical problems
- skills areas which are aimed at solving the practical problems and
- attitude areas which are aimed at solving the people problem.

Bear in mind that they are interdependent, which makes the whole issue more complex and problem solving more difficult.

When a consultant's competency is judged, clients value factors such as:

- impact,
- professional ability and
- relationship ability.

5.4 Ethics

One of the requirements for a sustainable profession is ethical standards. Critics of the industry have also attacked the lack of ethics and, more importantly, the lack of punishment for lapses in the management consulting industry. A code of ethics has an educational effect and decreases the area of doubts for consultants while serving as a visible, impersonal standard to be followed. Ethical codes for consultants have common factors:

- integrity,

- objectivity,
- independence,
- confidentiality,
- professional competence,
- planning,
- supervision,
- due care,
- reporting results and
- fee structure standards.

5.5 The South African experience

The Institute of Management Consultants (IMC) is the professional body of consultants in South Africa. The institute has strict rules and requirements governing entry into certification. The downfall, however, is that certification is not compulsory. Benefits for members include recognition, networking opportunities, client referral services and professional development. The institute differentiates between associates, members, fellows, and certified management consultants. The South African IMC has its own professional code of ethics and transgressions by members are punished. (See appendix 1)

6. CONCLUSIONS

Based on the literature, various conclusions can be made regarding the management consulting industry and the practitioners thereof. The following conclusions are relevant to the topic under discussion:

6.1. In general

- The scope and size of the consulting industry is difficult to determine accurately due to the variety of advice and implementations offered by consultants.

- Management consulting is becoming more specialised, with new specialties constantly being added to avoid obsolescence.
- While small firms concentrate on one or two specialties, big consulting firms tend to attempt the one-stop approach, where a client can satisfy all his consulting needs with one firm.
- The work of management consultants is becoming increasingly important in assisting line management to handle the problems of innovation and change.
- The massive growth and attractive pay packages / fee structures have made consulting the career of choice for graduates the world over.
- The accelerating boom of global information technology, globalisation and deregulation will continue to provide consulting opportunities.
- The number of consulting firms has increased in recent years due to corporate downsizing.
- The downsizing trend has increased the demand for consulting firms to carry out activities for which companies no longer have the in-house staff.
- Downsizing has dramatically increased the supply of consultants, as unemployed executives become "consultants" while seeking their next appointment.

6.2 On the RSA-issue

South Africa has unique opportunities for consulting because of post-apartheid and post-sanction issues, and the fact that so many of our best and brightest are emigrating, leaving a skills deficit that needs to be filled in some way. Consulting firms attract some of the brightest MBA graduates – and hope to fill the deficit in this way. Consulting has become a highly competitive profession. This competition is sometimes based on price, but more often revolves around consulting firms recruiting smart new MBAs, developing exciting new management tools (such as Economic Value Added, Time Based Competition) and

presenting themselves as the only true experts in a vital skill. Consulting has seen the emergence of management “gurus” who sell their consulting advice in self-help business books and executive workshops. This in itself has grown to be a lucrative business, attracting many out-of-work executives.

The consulting industry in South Africa currently has no barriers to entry. Anyone can become a consultant, regardless of educational background or training. This increases the perceived lack of professionalism and ethics. Clients pay for experienced consultants but receive the services of young, inexperienced consultants. The consulting firm wins a training ground for its junior consultants at the expense of the client. Some consulting projects are drawn heavily from the ideas and knowledge of the client’s internal staff, and then this information is presented to the client as the consultant’s own work. A lot of time is spent by internal staff ‘educating’ the consultant on the inner workings of the company, thereby adding to the consultant’s intellectual capital. The consultant will apply this newfound knowledge to enrich the next company’s consulting project.

Some of the negativity surrounding the consulting industry is a result of management activities per se (the client wants the consultant to play a role as decision maker, arbitrator of internal management disputes, etc.) There are no set rules that define the required skill-set for management consultants. Although guidelines can be given, there is no clear-cut way to differentiate between the qualified and not-so-qualified consultants. Professional ethics should be one of the most important professional attributes of a consultant. The IMC represents and enhances management consultants in South Africa, and acts as the certifying body for them. It encourages the achievement of required standards through an accreditation process which is internationally recognised.

In South Africa, management is in dire need of expert assistance due to the recent emergence from apartheid sanctions, and the unique South African labour issues.

6.3 Contingency fees

- In the past few years there has been more talk of "contingent" fees, where the consultant shares in the risk of undertaking a project; fees are then tied to measurable results.
- Contingency fees can be positive in the sense that the consultant's commitment and input is directly related to his fee earned.
- Contingency fees can cause consultants to focus more on short-term, quick-wins.
- These quick-wins are not always the best solution for a company's long-term growth and profitability even though it may bring cost reductions in the short-term.

6.4 From the clients

- Among academics and business gurus, new business techniques will continue to be generated and packaged into best-selling books and consulting services.
- Clients will need to become more informed as to the validity of these techniques, differentiating between valuable advice and pure management fads.
- In recent years the perceived lack of individual ethical behaviour has received increasing publicity and scrutiny in the media.
- The public response to this has been an increased level of expectations of higher standards.
- Clients are becoming more informed about how to select their consultants, what to expect, what to demand and which fee structures are reasonable.
- The reason why clients hire consultants cause ethical issues, not owing to the consultant's lack of ethical behaviour, but owing to the 'pseudo' needs the client is trying to get the consultant to fill.

- There must be a responsibility on the client not to succumb to hiring consultants due to these 'pseudo' needs, but also on the consultant to refuse these offers of employment. Not doing so will cause several ethical issues to surface.

6.5 On the profession and ethics

- Management consultants play a variety of roles throughout their careers. The roles they play can be classified into ethical consultant roles and roles that can cause ethical dilemmas.
- The responsibility is on both parties to avoid unethical consultant roles such as decision-maker or arbitrator of internal disputes.
- Management consulting has certain aspects which qualify it as a profession, but it is still found lacking in other areas. Consultants have not yet achieved professional status independently of other professions from which consultants are drawn.
- Consulting is not always based on lofty ideals, as various case studies reveal consultants sacrificing the ideal for monetary gain.
- Regarding the question of service and social interest, it is not always clear whether consultants provide their services altruistically, and whether clients are really enriched and not merely subordinated by their activities.
- The body of knowledge that is part of every profession, is very difficult to define in management consulting, as the field is so diverse.
- Management gurus and self-help business books form part of this body of knowledge, alongside academic works and research.
- Clear language as a requirement for professions is not always adhered to - on the contrary, sometimes consultants use terminology to confuse rather than elucidate.

7. RECOMMENDATIONS

Based on the indicated conclusions and the nature of the topic under investigation, it was possible to draw the following recommendations from the study. For management consulting to increase its social standing and perception of being an ethical profession, the following recommendations should be considered:

- Management consulting is an idea-driven profession.
- Consulting firms boom and fade as tools such as reengineering go in and out of fashion.
- Too many clients fall victim to the desire to experience the latest technique, especially when it promises to "reinvent" their company.
- Clients should apply healthy skepticism to hiring any consulting firm based on a "tool" or "methodology".
- The most important asset of a consulting firm is its people. Over time, consulting firms that do the best work for clients are ones with the best people.
- A client should therefore only settle for the very best, and the decision should be based on the individual consultant best for the particular project, not the consulting firm.
- Pre-packaged consulting solutions should be questioned as to their effectiveness and applicability to a specific company.
- Solutions that have worked elsewhere in the world do not necessarily apply to South African companies.
- Pre-packaged solutions also do not take into account each company's unique requirements.
- A client should pick his consultant as carefully as he would a CEO.

- Because there are no barriers to entry in the management consulting industry, do ensure that the consultant who is being hired has the necessary training and skills.
- Adding the consulting firm of a company to the annual reports alongside auditors and lawyers can go a long way in linking consulting to the true value added to a company.
- If companies in South Africa insist on using consultants who carry the Certified Management Consultant certification, it will increase the ethical standards of the profession as a whole.
- If the certification process obtains the support it deserves, both ethical consultants and clients will benefit from it. Individual consultancies need to become much more vigorous about upholding ethical standards and punishing lapses.
- Clients on their part should encourage these ethical standards by not hiring unethical consultants – providing an incentive for ethical and professional behaviour.
- Academics and outside commentators need to become more inquisitive about the inner workings of consultancies.
- More research and investigation should go into the “advice business”, and businesses should encourage these studies as it ultimately strives for business to reap the rewards of ethical consulting.

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Appendix 1

Table 6: The Institute of Management Consultants Professional Code of Ethics

THE INSTITUTE OF MANAGEMENT CONSULTANTS PROFESSIONAL CODE OF ETHICS

In accordance with the Code of Ethics we shall:

Maintain a professional approach, attitude and behaviour in all our dealings with clients, the general public and fellow members.

Accept assignments only for which we are qualified and where our objectivity, independence or integrity will not be impaired.

Base our client recommendation on impartial observations, responsible opinion, pertinent facts and practical considerations.

Ensure our anticipated benefits are obtainable and realistic. Disclose timeously to clients all financial or other interests in recommended goods or services.

Ensure mutual understanding of all arrangements with clients prior to engagements.

Maintain strict confidentiality of client information and never use privileged information without client permission.

Refrain from inviting or receiving approaches from client's employees for employment which could compromise client confidentiality and confidence.

Accept an engagement only where there is no potential conflict of interest with one of our colleagues or where all parties are made aware in advance of the circumstances.