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The Prospect of Ethical Consulting

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Ethical consulting is a critical professional activity that is very critical to the very survival of the corporate world and is thus likely to boom within the shortest possible time in the future. This predictive statement is based on the consequential effect of the bankruptcy of Enron and WorldCom and its aftermath legislature, Sarbanes-Oxley Act (Lander, 2004). The main issues boarder on how ethics influence organizations' operations and to what extend these influences can be coded and managed to enhance objectivity and minimize fraud. The methodology applied in this paper was an exploratory approach under the qualitative design. It encapsulates a thorough review of literature on the subject matter and draws inferences to address the research objectives. It was found that ethical consulting was possible and consultants venturing into the area need to be strategically diversified to enable them to design and develop customized ethical codes for the heterogeneous clientele with appropriate supporting monitoring and compliance procedures.

Keywords: ethics, compliance, gatekeeper, consultancy

Introduction

Ethics are human-based faculties that guide our decision-making processes and aid us to relate effectively with our neighbors and the society as a whole. It provides us with some guiding principles to deal with both conflict and opportunity in human relationships as well as how our decisions, actions, and inactions affect other people.

Research Problem

Ethics and integrity are important components of a profession. In today's business environment, it is not uncommon for ethically challenging issues to arise in an organization. Several years after Sarbanes-Oxley, companies face ever-increasing regulatory compliance demands and new ethical challenges raised by a more complex and global business environment. In a hypothetical organization chart would include finance, human resource, and operations among others as functional managers. It is, however, not common to see a functional manager or even a sub-manager in charge of ethics, thus, ignoring the root cause of fraud and misbehavior of staff within the organization, as well as how the organization relates with its externalities.

Using a hypothetical organogram as a theoretical framework (see Figure 1), the absence of an ethics consultant or functional manager in the organization exposes the operations and management of the organization to various risks that can generate fatal consequences that are capable of challenging the going concern status of the organization.

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Just as discipline is the key success factor for the development of the individual, so are ethics core to the development of any organization. Irrespective of the strategies, management styles, and the qualities of the human resources, the absence of ethical values is like a man who prophesies faith and hope without love (Holy Bible, I Corinthians 13:1-3, Thomas, 1985). The absence of ethical functionality and its policing in organizations is causing persistent corruptibility and fraudulent acts by well-intended chief executive officers (CEOs) in particular.

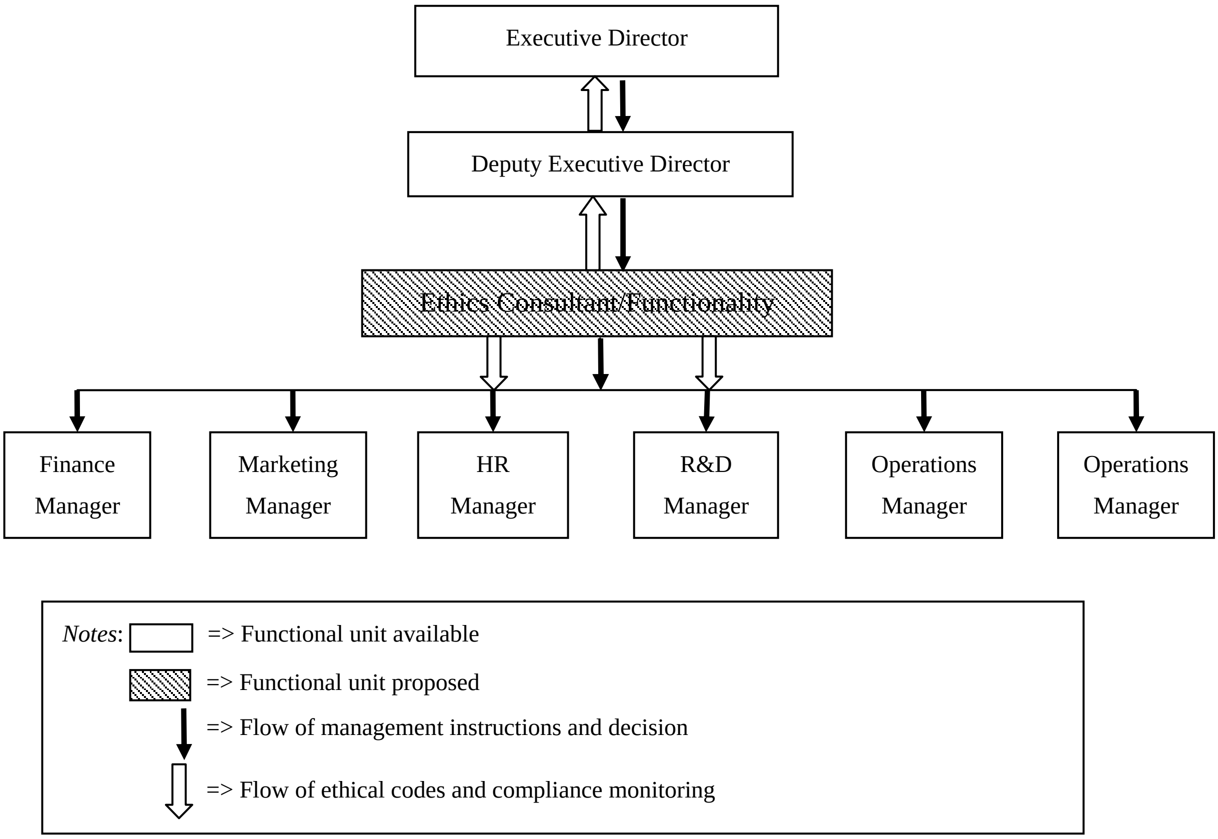

Figure 1. A modified hypothetical organogram.

Research Questions and Objectives

In an attempt to assess the possibility of ethical consulting, this paper addressed the following questions. What is the relevance of ethics in the management of organizations? Can the achievement of organizational goals be significantly influenced by the ethical status of the organization? What ethical issues would consultants be addressing for their clients?

When these questions are effectively discussed, the results therein would address: the relevance of ethics in managing organizations, the influence of ethics on organizational successes, and the ethical issues that consultants may need to address for their clients. The problem tree concept is our adopted logical framework for this study.

The core problem is identified as the lack of ethical functionality in the organization (see Figure 2). This problem is caused by several factors, but the immediate ones include: ignoring ethical standards and values at the strategic plan formulation and/or implementation of the organization, sidelining the relevance of ethics in effective management and therefore omitting it from the organogram, and undermining the influences that ethical standards have on the success of the business by not assigning an officer to police the compliance of the companies' ethical standards.

The effects of these root causes produced the core problem. The problem then yields many effects, the ultimate of which is the company getting into financial distress and possibly folding up or suffering series of failures and bankruptcy. The immediate effects of the problem are that the lack of or weakly enforced ethical standards may yield blind obedience to orders, uncontrolled conflict of interest, and non-commensurate remuneration. These effects severally and jointly generate some other effects and finally corporate failures.

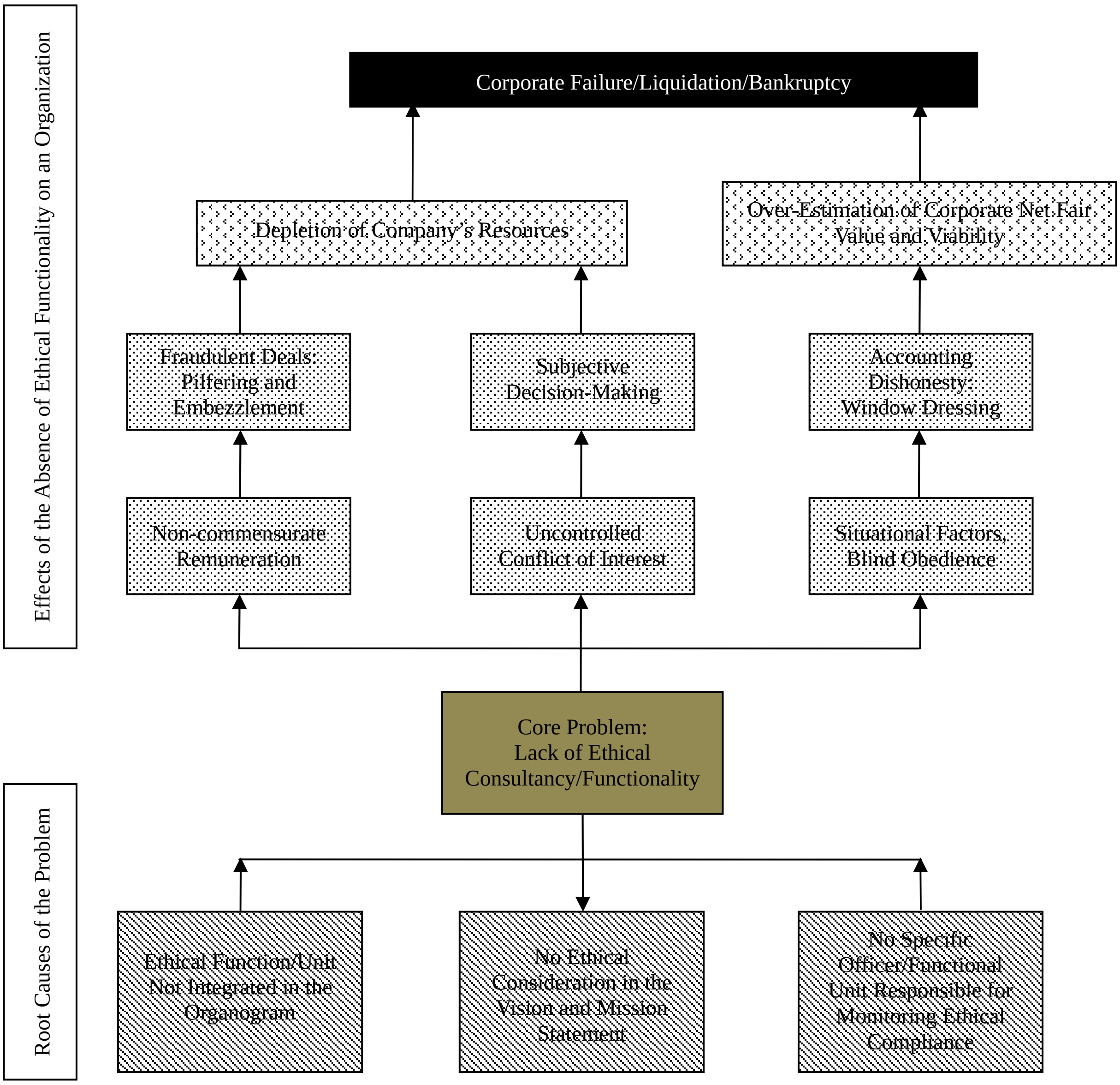

Figure 2. Conceptual framework of the study (problem tree).

Literature Review

To answer the questions and, for that matter, assess the type of nutrients in the soil that is nurturing the roots of this unhealthy tree, this paper centered its discussions on the collapses of Enron and WorldCom and its aftermath legislature, Sarbanes-Oxley.

One would have expected that after about 14 years of the Sarbanes-Oxley behind us, companies would have learnt the lessons they needed to learn (Suchan, 2004). In spite of the details of the work that had to go into compliance under the Sarbanes-Oxley, a lot of companies did, in fact, find that they were not as disciplined as they could be. That is one of the main lessons that finance learned, and it is a message that finance people should be delivering to other functions in the company. Sarbanes-Oxley put finance into the position of having to reach out to all sorts of functions in the organization, because they had to get input from so many people. And this is also what ethics and compliance officers have to do: reach out and collect information from the various departments and businesses within the company to get a clear picture of the ethics and compliance pulse of the organization.

The Relevance of Ethics in Managing Organizations

Management in general is packed with ethical challenges. Each functional unit is periodically confronted with these challenges. Top management in choosing the management styles they wish to exercise in the running of their organizations face the dilemma of being either task-oriented, people-oriented, or function as a combination of both (Cole, 2003). Whatever the style, ethical standards are necessary ingredients for effectiveness. Thompson and Strickland (1998) asserted that the key success factor of implementing a management strategy is the presence of ethical standards and values into the corporate culture of the organization. Values and ethical standards do not necessarily need to be in written documents. Thompson and Strickland (1988) stated that companies steeped in with a rich folklore to draw on rely on word-of-mouth indoctrination and the power of tradition to instill values and enforce ethical conduct. According to Humble, Jackson, and Thompson (1994), the written or coded values and ethical standards explicitly define what the company intends and expects, and they serve as benchmarks for judging both company policies and actions and individual conducts.

The Influence of Ethics on Business Successes

Castleberry (2004, p. 2) quoting Dennis Kozlowski, ex-CEO of Tyco, stated that:

> The most damage in recent cases has been to the reputation of the position of CEO. We’ve been made out to be freewheeling jet setters, playboys reliving our adolescent years. We are offended most by the perception that we would waste the resources of a company that is a major part of our life and livelihood, and that we would be happy with directors who would permit that waste.

There was no slightest doubt in corporate United States of America (USA) that Kozlowski will ever stumble and fall into the pit of his own words.

There are many other ethical challenges that confront all levels of management and thus influence organizations’ success. These include situational factors as in Zimbardo (2007), which confirms his earlier assertion that when the individual is confronted by some situational factors, his/her human values may be suspended, self-concepts are challenged, and finally, the ugliest, most base, and pathological side of human nature surfaced. The next set of ethical challenges border on subordinates working under the instructions of authority. Zimbardo (2004) asserted that only a few are able to resist the command of authority that challenged their ethical standing. Peterson (2001), in citing Milgram (1963; 1974) on the Nuremberg Trial of the Nazi leaders in the period of 1945-1949, concluded that responsible individuals can blindly obey authority and become very unethical in their actions. Interestingly enough, top management also fall prey to this blind obedience when conflict of interest sets in with promising personal benefits.

The Ethical Issues That Consultants May Need to Address for Their Clients

A true understanding of people's actual ethical decision-making goes beyond the ideals on which normative approaches rest. Thus, many of today's attempts to understand real-life ethics discriminate among stages in the ethical decision-making process. These approaches stress that to act ethically, professionals have to proceed through a series of steps (Jones, 1991; Rest, 1986): identify an ethical dilemma, judge what is ethical (a normative dimension), intend to act ethically, and act ethically (Jones, Massey, & Thorne, 2003). Ethical professionals (consultants) would be encountering heterogeneous ethical demands under varying ontologies (worldviews) and axiology (values and aesthetics).

Research Methodology

Qualitative research design was applied for this study. No primary data was collected. Various publications on the subject matter were reviewed and findings are deduced from them and discussed in relation to the objectives of this study.

Findings and Discussions

The Relevance of Ethics in Managing Organizations

In the United States (US), the fall of Enron has been understood primarily as a failure of the gatekeepers, meaning the intermediaries who provide verification and certification services to the investors (e.g., securities analysts and especially the auditors). If these gatekeepers were ethically compliant, the fraudulent acts that generated the collapse of Enron and WorldCom might have not occurred at all. Better still, if the policies and management of these companies were ethically firm, the conflict of interest that degenerated into fraudulent deals would not have come up let alone triggering ethical demands on the gatekeepers.

Any corporate axiology that is not built on strong ethical standards easily gives way to corruptibility, biases, nepotism, and all the unwanted flaws and mishaps. Kozlowski of Tyco, as reported by Castleberry (2004), eventually fell prey to the very criticism he made in 1995 concerning CEOs' corruptibility. He was jailed 25 years for defrauding Tyco some millions of US dollars (Sorkin & Bayot, 2005).

Like Dennis Kozlowski, many CEOs worldwide fell prey to some ethical challenges mostly associated with some conflict of interest and situational factors (Zimbardo, 2007) that led them running down their organizations. According to Castleberry (2004), CEOs portrayed as "sinners" include Ken Lay (Enron), Bernie Ebbers (WorldCom), John Rigas (Adelphia), Richard Grasso (New York Stock Exchange (NYSE)), Dennis Kozlowski (Tyco), Richard Scrushy (HealthSouth), and even the golden boy CEO of the 1990s, Jack Welch (General Electric (GE)).

There is no question that globalization of capital is on the rise. Countries and companies that seek to attract investors will need to attain much higher scores by rating systems, such as Standard and Poor's (S&P), if they are to obtain low cost of financing. Long-term investors will seek markets where their legal rights are known and protected and where those using their money can be held accountable (Dubnick, 2007).

To protect investors' interest as well as attract low cost capital, we need to reduce conflicts of interest in our organizations (Gompers, Ishii, & Metrick, 2003). Thus, we need firm ethical policies to support greater democracy both at the top, i.e., in the accountability of boards and CEOs, and at the bottom in the form of increased ownership and participation by employees. Strict compliance of ethical standards and corporate axiology is a relatively good measure of a reliable corporate accountability.

These are confirming the relevance of an ethical functionality or unit to enhance ethical compliance and objective decision-making for corporate well-being. Where professional ethics and for that matter ethical standards are compromised, either as a result of ignorance or fraudulent pretence, it adversely affects the effective and efficient management of the organization.

The Ghana Stock Exchange (GSE) and the Securities and Exchange Commission, in the light of these, had developed some standards to guide companies seeking to be listed. For instance, public companies limited by shares must at least release not less than 25% of their issued capital to the public before they would be considered for either first- or second-class listing. For a first-class listing, the stated capital must not be less than GH¢1 million and half a million for a company applying for second-class listing (Ghana Securities and Exchange Commission, 1993). Many other regulatory measures are put in place to control possible violations of the ethics by stakeholders of the industry. These confirm the relevance of ethics in management.

The Influence of Ethics on Organizational Successes

Organizational successes can be looked at from the perspective of the corporate objective of the organization concerned. A typical profit-oriented organization is to maximize the owners' (shareholders) equity interest. In the case of not-for-profit organizations such as companies limited by guarantee and government institutions, their objectives may be to provide services to some class of vulnerable persons or for the general good of the public respectively. To attain the set goals and possibly sustain some defined growth trend and/or operational capacity of the organization, corporate policies must not shy away from the ethical concerns of the corporate world.

A well-defined ethical policy and its accompanying remedies (rewards and punishments) can effectively influence the operational capabilities of an organization in the following ways:

(1) Selfless oriented decision-making process;

(2) People and task orientation;

(3) Transparency and accountability.

Ethics influence selfless oriented decision-making process, people's task orientation management style, and transparency and accountability by injecting discipline into management so that management trades their personal interests for the benefits of the organization and its stakeholders. Under the German labor or stakeholder-oriented model of corporate governance (Hansmann & Kraakman, 2000), the auditor is not only understood as a gatekeeper, assuring the interest of the investing public (the so-called "Kontroll funktion" or "Garantie-funktion"), but also acts as an assistant for the supervising board in its internal control of the management. This complementary role does not necessarily trigger different approaches with respect to corporate governance but focuses on the auditor's independence as the key to effective ethical compliance in corporate governance.

Under the United Kingdom (UK) approach, there is the co-coordinating group on audit and accounting issues and a review team being conducted into corporate governance (Derek Higgs and Sir Robert Smith). As a result of the developments initiated both before and after the collapse of Enron, the new system is to regulate the UK accountancy profession. This was established by the Accountancy Foundation setting the agenda for the future regulation of UK audit and corporate governance.

In the Ghanaian context, reforms were undertaken in the public sector with the promulgation of the following acts:

(1) Internal Audit Agency Act 2003 (Act 658);

(2) Financial Administration Act 2003 (Act 654);

(3) Public Procurement Act 2003 (Act 663).

These were geared towards enhancing efficiency, accountability, and transparency in the management of the resources in the public sector. These will only be successful if the implementers are ethically balanced.

It has been revealed by the World Bank that accounting and auditing standards in Ghana suffered from international weaknesses in regulation, compliance, and enforcement which have the tendency to undermine good corporate governance in the country (World Bank, 2008). That is, the timely provision of good quality information, a clear and credible corporate decision-making process, and shareholders giving a proper consideration to the information provided and making considerate judgments.

Ethical Issues That Consultants May Need to Address for Their Clients

From the above discussions, it is clear that ethics is a core element to the success of most management-related issues. Most of the causes of failure of laudable corporate, group, and even individual strategies are challenges associated with ethics. A firm and resolute ethical policy of an individual, a group of persons, and/or corporate bodies is not only necessary but also sufficient to propel any strategic plan to success. The ethical issues that consultants may need to address in their professional careers with respect to ethical issues in organizations include modeling strategic or customized ethical codes and their respective monitoring procedures to ensure their compliance.

Businesses may vary in ontology (corporate culture and worldview) and even axiology (values and esthetics) although they may belong to the same industry and are seen as competing organizations. Because of these variations, ethical codes that consultants may develop for their clients need not to be homogenous or straight jacket. Each set of codes should be tailored to the specific ontology of each client. In likewise manner, the systems of monitoring the compliance of such codes should be in conformity with the organizations' various worldviews, values, and esthetics. Nonetheless, all these heterogeneous ethical codes should focus on sustaining objectivity at work at all levels with zero tolerance of biases or selfish interest of staff and board members.

Talking of monitoring procedures to ensure the compliance of ethical issues, it is worth thinking of a department of ethics and compliance just like the counseling units in our universities or even the very common internal audit departments in most big organizations across the globe. This proposed ethics and compliance department, when given the mandate, will operate as a corporate management gatekeeper. It will ensure that management decision-making processes are free from biases and override conflicts of interest. Management styles and strategies will be balanced to encapsulate the pursuit of high productivity with a human face, thus not departing widely from the functional or action-centered leadership, also known as the functional model of leadership (Cole, 2003). This model addresses the needs of the task, the group, and the individual in the context of a total leadership situation.

Realizing the importance of integrating ethical models to guide management and boards of organizations, it is also realistic that such models should reflect the worldviews of the various organizations without ignoring the worldviews of the external environments.

Conclusion

The UK, US, German, and the Ghanaian corporate governance shares a common platform that the independence of auditors is paramount for the auditor's operation within the system. A supervisory board or audit committee is tasked in dealing with auditors and audit partners within the audit firms have to rotate to allow a "fresh look".

Ethics like auditing is a relevant element in the human faculty that is kept alive to guide him or her in every decision-making. Incorporating it into the organization's policies and functionalities may generate operational objectivity amidst management's conflict of interest and biases.

The consultant on ethical issues faces the challenges of designing customized ethical codes to address the heterogeneous organizational demands. These must be accompanied with specific monitoring and compliance procedures (Chartered Financial Analyst Institute, 2013) to facilitate the effectiveness of the gatekeeper.

It must be noted that in this era of information technology and the domestication of global issues, the investing public needs the intermarriage of the rules and regulations of countries to enhance investors' confidence in corporate governance. Thus, the surplus spenders want to invest in organizations that have ontology and axiology that are in consonance with the external environments where they operate.

Simply said, if you want someone's money, you have to stick to their rules.

In as much as the paper lay emphasis on the need for an ethical function or unit in an organization, we also have in mind the possible collapse due to blind obedience to orders which can easily be triggered by lack of independence, compensation flaws, and the same conflict of interest which is a common human character.

Recommendation

Having effectively deduced from existing research and justified the need for an ethical function or unit in an organization (whether it is being outsourced or integrated in the organogram), we strongly recommend an empirical assessment of this need in the Ghanaian context, to either consolidate or reject the findings in this paper.

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