

Ethical Considerations for a Vendor/Consultant

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Abstract

A discussion of the ethics surrounding consulting services is nothing new; and many trade and journal articles have been written on the subjects of confidential information use, pricing and billing practices, truthfulness, and other topics. In the Information Technology (IT) industry, attention has also been given to the ethics of the consultant-client-vendor relationship, discussing situations in which an independent consultant finds themselves at odds with their vendor partner over how best to serve a client. The relatively recent problems at the Big Six financial consulting firms revealed the potential repercussions of another ethically problematic relationship involving the client and the vendor/consultant. This paper attempts to discuss some of the ethical implications of the vendor/consultant as well as provide some guidelines for how individuals and firms in this dual role can try to ensure that their client's best interests are always the focus of their engagements.

The Vendor/Consultant

In the IT industry, a vendor/consultant is a firm that plays a dual role producing and selling software and performing consulting services. For example, the hardware and software vendor, IBM also operates IBM Business Consulting Services, the world's largest consulting service's organization, offering strategic business consulting for customer relationship management, supply chain, financial transaction management, and other essential business functions (IBM, 2005). IBM is not alone; many of the top IT consulting firms are owned and operated by the same companies that make the products they recommend (Freedman, 2004, p. 20).

The dual role is also not exclusive to the IT industry, for instance, BankAmerica Corporation has been a long-time technology client of Ernst & Young, which has also been its auditor (Marshall, 1991, p. 24). Anderson Consulting and Arthur Anderson & Company shared many of the same clients, providing both financial planning and auditing services (Marshall, 1991, p. 66). The International Risk Management Institute president, Jack Gibson, has also written about the concern over insurance brokers acting as risk management consultants (Gibson, 2001, p.1).

As defined in Meriam-Webster's online dictionary, a consultant is "*one who gives professional advice or services: EXPERT*". The same dictionary also defines vendors as those who vend or dispose of something by sale. (Meriam-Webster, 2005). The key point is that consultants provide services, and vendors provide products. Ostensibly, the goal of a consultant is to maximize revenue through provision of services, while the goal of a vendor is to maximize revenue through sales. For the vendor/consultant, one could envision the opportunity to provide a client with advice that generates more sales. In this manner, the vendor/consultant can collect revenues for services that lead to even more revenues in products.

Ethical Issues for the Vendor/Consultant

While this dual role may not necessarily be a dilemma itself, there are several ethical issues that arise because of the dual role of the vendor as consultant. How firms act in these roles and balance their client's rights, needs and expectations with their own, truly defines their ethical character. (White, 1988, p. 39).

In his article *The Ethical Challenges of Consulting*, Bill White said that "Situational Ethics is alive and well in the consultant-client arena" (White, 1988, p. 39). Certainly the

interpersonal relationships developed in the consulting practice offer many opportunities in which *the morality of an act is [perhaps] a function of the state of the system at the time it is performed* (Fletcher, 1966). Just as scrupulous judge will recuse himself from a case in which he cannot render impartial justice, an ethical consultant will occasionally need to walk away from an engagement if there are factors that make it impossible or unethical to continue (Freedman, 2000, p. 37). However, coupled with a compulsive need to win in an overly-competitive industry, consultants will often shift their handling of an ethical problem depending upon the circumstances, such as when one side or the other is strapped for cash or when they fear the loss of future business (White, 1988, p. 39). Accordingly, it is prudent to discuss some common situations in which the vendor/consultant ethics are called into question.

The Vendor as Consultant

In the IT field, a variety of service providers exist under the title of ‘consultant’, who provide services ranging from hardware repair, to custom software development, to system configuration and integration. Many of these IT practitioners who call themselves consultants are more aptly titled as product resellers who provide custom development and integration services to help clients use a particular product (Freedman, 2004, p. 19). One of the immediate problems that can be identified with this scenario is when a vendor or reseller is called upon to provide only ‘consulting services’ to a client. For IT consultants, these services would typically include performing needs assessments, providing hardware and software recommendations, or assisting clients with developing a request for proposal for products in a market in which the vendor/consultant also manufactures and sells products. Exactly how impartial would their

recommendations be? Would they suggest a competing vendor's products even if they better suited the client's needs than their own products?

Sometimes these firms are approached by clients who ask for services. While there is nothing questionable about this, clients should understand the level of objectivity they will receive with respect to the advice given by the vendor (Freedman, 2004, p. 20). However, some vendors bill themselves as implementation consultants; and unknowing clients may perceive them as independent IT management consultants. In these cases, clients may not understand the level of objectivity they will receive regarding the strategic selection of hardware and software for their organizations. Will the firm really function as a consultant and focus on the best interests of the client, or will they use the client's business needs as opportunities to sell their preferred solution (Freedman, 2004, p. 20)?

The IT industry could look to the financial sector for ethical standards, but even in the wake of the scandals involving the Big Six accounting firms providing both financial consulting and auditing services to the same clients, the firms still insist that their dual roles don't create an ethical problem (Marshall, 1991, p. 23). Stephen Sprinkle, a partner with Deloitte & Touche exemplifies this belief when he stated, "I haven't perceived a circumstance where we would by consulting, impair or influence the content of an audit" (Marshall, 1991, p. 24). This may not really say much, as one would expect that the firm's audit results would be the function to influence or impair the firm's consulting services, not the converse. What would happen if the firm's audit team severely disagreed with the recommendations made by its consulting team? In writing about bank investment consulting, Evan Cooper, editor of *Bank Investment Consultant*, offered a more realistic view of the issue, by saying most bank consultants should know when they're rationalizing a sale ("if I don't sell to this customer someone else will"), putting their

own interests above the customer (“if I don’t sell this I could get fired or lose my commission”), or simply abdicating their fiduciary responsibility (“yes, there’s a better solution but it’s not remunerative to me”) (Cooper, 2004, p. 2).

Vendor-Vendor Alliances

In the IT industry, many firms align with a specific vendor partner and focus on client situations in which their solutions are appropriate (Freedman, 2004, p. 20). This is true of vendors as well, who align with other vendors for technology provision, such as the relationship between Intel and Microsoft. Many firms work with a subset of vendors simply because of “option shock”. They admit their relationships may sacrifice their objectivity, but the alternative costs of being very knowledgeable in all the different solutions offered by all the various vendors is prohibitively expensive. Accordingly, these firms choose to be experts in a smaller set of solutions (Emmett, 1988, p. 43). By striking up a relationship with a particular set of vendors, these firms gain great depth in a particular set of technology instead of having to invest in research, training, software licenses and maintenance for a wide variety of packages that exist in a constantly evolving marketplace (Freedman, 2004, p. 21).

There is nothing inherently wrong with this partnership. It makes simple economic sense, since even the most reputable consultant or vendor cannot know all the products and technology that comprises them (Emmett, 1988, p. 43). In addition, clients may not necessarily suffer from a less objective consultant. If the consultant can follow through with the project implementation because they have intimate knowledge of a preferred vendor’s solution, clients may get exactly what they need (Emmett, 1988, p. 43).

Nevertheless, the vendor-vendor or vendor-consultant alliance does pose potential problems. When a firm gets the majority of its business as a third-party consultant with a large vendor partner, it sometimes finds itself placed in the position of having to do what is best for the vendor, not the vendor's clients (Baldwin, 2003, p. 1). For example, as a consultant, system selection for clients is a key responsibility that should be done with the client's best interests. However, a consultant will often receive a lead from a vendor, which can lead a dilemma: go with the vendor's system or recommend whichever system best meets the client's needs (Sisco, 2003, p. 1).

The ethics of handling a situation where a consultant is asked to select between a preferred vendor's system and one that better meets a client's needs are tough. Some critics argue that the consultants are dutifully bound to consider the client's needs paramount to all others. They assert that it is the consultant's obligation to always look after the client. However, all consultants know that regardless of why they were invited into the client's office, they won't get any more referrals if they recommend a competing vendor's system.

Other critics contend that consultants have ethical obligations to honor their strategic alliances with vendors that are at least as important as their obligation to provide ethical advice (Sisco, 2003, p. 2). They suggest that consultants facing this problem put themselves in the vendor's place and ask if they would want a vendor whom they referred to a client telling that client that they should use a competing consultant. Unless the vendor's product is a very bad fit for the client, consultants have an ethical obligation to work with their vendor partner and honor the relationship that was established with them (Sisco, 2003, p. 2).

To Build or not to Build, that's the Question

Another category of ethical dilemma for the vendor/consultant is the build or buy question. Because pure consultants are only brokers of advice and knowledge, they never entertain the question of whether to create a product for the client or recommend purchasing one from a vendor. In contrast, vendor/consultants also sell products; and in the IT arena, those products are typically software. So, when the consulting team is evaluating a business problem that can be solved by software that the vendor does not currently offer, the vendor/consultant must decide whether to recommend purchasing software from a competitor, or advise the client that they would be better off paying the vendor/consultant to design and develop a customized solution for them. Obviously there are financial ramifications to both decisions. If the vendor/consultant recommends purchasing a competitor's system, they lose the potential revenue that they could have received had they the software to sell. On the other hand, if the vendor/consultant convinces the client to pay for the development of a customized solution, the vendor/consultant earns revenue from the client for software development services, plus they can repackage and sell the developed software as a product to other clients.

There are reputable consultants who write their own software because they believe that none of the existing vendor solutions are adequate for their client's needs. In some cases, the software is licensed to the client as part of a package of services that includes consulting and software tools. For example, some financial firms also offer software to clients as part of their financial planning services (Emmett, 1988, p. 42). In many cases however, the vendor/consultant markets and sells software independent of the consulting services. A sale of a software product is revenue that has little overhead compared to the professional services involved in consulting, so vendor/consultants may be tempted to recommend their own brand – even if it does not yet exist – to maximize revenue.

Certainly every consultant is thrilled to strike a deal whereby the client will pay for the development of custom software that the vendor/consultant can later productize and market. In some cases, the need to build a solution may be purely defensive. When looking at the possibilities, consultants ask themselves if they want to build their own software solutions and be competitive in the market, or recommend another company's solutions (Freedman, 2004, p. 20). The second option would be easier if it weren't for the fact that very often the 'other company' also has a consulting services line. So, the well intentioned consultant's recommendation becomes an invitation to allow a competitor to work with their client. This could ultimately lead to the client deciding that they'd rather work with the competitor for consulting services, (since the client is using their software).

The Use of Outside Expertise

In many cases, a single vendor/consultant does not have expertise in every vertical market industry in which their services or products could potentially be used. When working with a client who has a particular problem that requires expertise the vendor/consultant does not have, they are faced with the decision of finding a firm to assist them or recommending that the client enlist the services of another consultant with expertise in that area. Obviously the latter option mirrors the build versus buy problem above, as inviting another firm into the mix may lead to the termination of the primary consultant's contract.

Ideally, when the client is a long-term client and the project well funded, firms will simply find and hire individuals with the expertise they lack. For short-term projects however, firms need to partner with another company to help them acquire the domain expertise to

complete the project. How these firms represent their partner company to the client, and what they do with the knowledge they gain from their relationship with the other company, is an issue.

Many firms do not like to admit they lack experience in any areas their client's need. This is particularly evident for firms billing themselves as multidisciplinary consultants. In cases where these firms are addressing a proposal for a project for which they lack all or a portion of the expertise, they may partner with another company; and write the proposal in a way that makes the project team appear to be one organization. While very common, this practice prevents the client from understanding the potential pitfalls involved in working with a multi-company project team. When comparing them to other companies who have in-house expertise, the project teams may appear to be the same, when in reality they are vastly different.

Another ethical predicament a company may face when using outside expertise is how they deal with the knowledge gained from the venture. For the vendor/consultant who is used to developing software to regulate a client's business processes and workflows, there can be a huge temptation to build software to encapsulate the processes and workflows learned by working with their partner -- or even their client. If the vendor/consultant chooses to market the new software as a jointly developed product of both companies, the ethical problem is averted and both companies share in the fruits of their relationship. However, the unscrupulous vendor/consultant will use the knowledge gained by working with their partner and add a new vertical market industry to its list, independently marketing its new software to the partner's current and potential clients.

Guidelines for the Ethical Vendor/Consultant

In light of all the potential ethical problems a vendor/consultant can get into, some may suggest that the simplest solution is to choose to either be a vendor or a consultant. In reality, there are many reasons why vendor/consultant combinations exist and why more consultants are becoming vendor/consultants. In today's 24 hour, Internet-enabled environment, there is an increasing trend towards productizing knowledge and workflow; and many consultants are facing the need to develop products based on their expertise, or lose revenue to those who do.

Unfortunately, many companies also attempt to define ethical codes based solely on the golden rule. This directive falls short because the actions which result from this simple mandate could still be unethical if the needs of the recipient differ from the needs of the initiator (White, 1988, p. 39). For example, under the golden rule, vendor/consultant ABC Co. may decide that it's fair to recommend their partner (XYZ Co.'s) software to a client because ABC Co. would appreciate the same in return. However, if XYZ Co.'s software is not a good solution, the client may ultimately suffer from this seemingly good action.

Becoming a vendor/consultant does not automatically mean that it's impossible to conduct one's business ethically. Many of the same guidelines for ethical consulting apply to the vendor/consultant, with some special circumstances for the particular quandaries of the dual role. The following are some recommendations for how a vendor/consultant should conduct business to minimize the potential for ethical dilemmas.

1. Instead of calling yourself a consultant, it may be more genuine to identify yourself as a value added reseller that sells products and implementation services (Emmett, 1988, p. 43). This is especially true for firms providing products and services based on technology obtained through vendor alliances. In addition, firms having a "business partner"

arrangement with a particular vendor should disclose their “partner” status to ensure clients understand that the firm’s services are oriented towards their “partner’s” technology.

2. Never accept commissions, remuneration or other benefits from a third-party in connection with your recommendations to a client without the client’s prior knowledge and consent (IMC, 2005).
3. Avoid working in situations where your fees are paid by your technology vendor partner. A truly independent firm should not be telling clients that “we are paid by the vendor” or “our consulting is free to you” (Longview, 2004, p. 1). This communicates an obviously biased vendor relationship.
4. Maintain a multi-vendor relationship with as many vendors as realistically feasible; and utilize external non-vendor educational channels for training (Meers, 2002, p. 1). This will ensure your firm is maintaining a broad view of industry trends and possibilities.
5. When aligned with a technology vendor, you should recognize your ethical duty to honor the relationship, even when you may doubt the efficacy of your partner’s solution.
 - a. For example, when faced with the question of whether to go against a vendor partner’s recommendation, you should put yourself in your vendor partner’s shoes and ask whether you would want your vendor partner suggesting that one of your clients use a competing consultant (Cisco, 2003, p. 2).
 - b. Unless the vendor partner’s product is a very bad fit for the client, you have an obligation to work with your partner. However, if the product is truly a bad fit, you may want to re-evaluate your vendor alliance (Cisco, 2003, p. 2).

6. If your firm cannot serve your client with your solution, offer them the choice of working with you and letting you bring in others who have the expertise you need. The act of honestly saying that, “*we can’t do that as well as the other guy*” may generate or solidify trust that ultimately strengthens your relationship with your client. (Freeman, 2004, p. 21).
7. As a vendor/consultant, the most important principle is transparency. Be sure your client knows that you think vendor X has the best solution for the markets that you address and that you’ve made a strategic decision to gain mastery of their technology for solutions that benefit your clients (Freeman, 2004, p. 21). Again, this advice is especially pertinent for firms providing products and services in support of vendor alliances.
8. Be prepared to withdraw from a consulting assignment when you believe your objectivity or integrity may be called into question (IMC, 2005).
9. Acknowledge the contributions of your clients and partners and don’t side-step them to make a quick buck. If you develop software based largely on the expertise of a partner, share the revenue with the partner. Besides, involving them in the sales and marketing of the software will likely lead to more sales than going at it alone in a vertical market that is not your core competency.
10. When ambiguous situations arise, go with the credo that virtually all managers at Merck & Co articulate when asked what to do when policy and precedent don’t apply: *Do the right thing*. The right thing can be determined by asking yourself:
 - a. Does the activity improve the client’s condition or merely my own?
 - b. Is the activity something I feel comfortable explaining to the client?
 - c. Is the activity something I am proud of and would publicize?

- d. Is there harm being done to anyone without their being able to respond?
- e. Is this something that I would willingly subject myself to (Weiss, 2003, p. 333)?
- f. Finally, how can I best serve my client (Emmett, 1988, p. 46)?

Conclusion

In the professional services business, success is ultimately earned through trust. While the dual role of vendor/consultant seems to place firms in the middle of ethical dilemmas that seemingly defy the abilities for a trustworthy client relationship, exceptional IT consultants develop trust with their clients and their partners by honoring their alliances and obligations, maintaining focus on the client's best interests and, above all, ensuring complete honesty and transparency in their advisory engagements (Freedman, 2004, p. 21).

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