Ethics Considerations for the Project Manager in Professional Services

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Introduction

Project managers are typically judged on how well they complete a project – on time, on budget, and within scope. But when project decisions are driven by those who are judged on different criteria – such as driving sales or hitting a revenue goal – those decisions can be in conflict with a trained project manager's better judgment.

As project management becomes integral to newer and varying industries, project managers can find themselves in situations where ethical issues may not have previously arose. Many professional services companies – like information technology (IT) consulting, interactive agencies, and web development shops – may not be as operationally mature as other consulting firms that have been in business longer. These small to mid-size firms are often very client-relationship-driven, and an account manager or salesperson can be a strong voice in operational decisions. Firms that do not have a strong ethical voice may be more likely to be involved in questionable costing practices. And in firms where project management is weak, the project manager can be pressured to engage in behaviour that is in conflict with ethical standards, and more in line with the various motivations of co-workers. Furthermore, clients may be naïve about what is involved in their projects when new or very specialized services are involved.

Where is the line between unethical project management and "just good business"? When is withholding information unethical? And when is being a good partner a betrayal of trust?

Recently, I concluded a ten year period working in IT professional consulting services and interactive agencies. Reflecting on the aspects of these experiences, I felt compelled to have a discussion on ethical issues in the context of this industry. The goal of this paper is not to explore definitions of ethics, as much has been written on this topic. Rather, this paper discusses what ethical conflicts may present themselves to the project manager in professional services. The appropriate disclosure with regards to costing is explored. This paper also suggests how a project manager can take the higher ethical road and still feel secure in the job. For project managers in a customer role, risk mitigation techniques are recommended that can help avoid conflicts altogether.

Ethical Standards in Project Management

Background

To examine ethical issues in professional services, it is necessary to provide some background on the topic. When the word *ethics* is mentioned, one first tends to think of "traditional" forms of improprieties, such as bribery, falsifying costs, or blatant fraud. However, ethical concerns take other forms, and there are subtleties to many of them. In a climate of high-profile cases like the Enron or WorldCom scandals, ethics continues to be infused into business conversations. The topic of ethics as it relates to project management has been building momentum in this climate. Today, ethics and guidelines are discussed more at meetings and in project management classes.

When ethical issues exist in construction or industries where health and safety is a concern, people could become hurt or even die. In some countries, there are even movements to create additional public accountability by licensing project managers where public safety is involved. The ethical issues that appear in professional services do not deal with life-threatening quality issues – most issues centre on money, information sharing, and taking advantage of a customer's faith or naivety, and that is what will be explored below.

PMI's Approach to Ethics

The Project Management Institute (PMI®) is a professional organization dedicated to the development and promotion of project management. PMI believes it is vital that its members conduct their work in an ethical manner in order to earn and maintain the confidence of team members, colleagues, employees, employers, customers and

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clients, the public, and the global community. PMI believes that people who practice project management should do so with a high level of moral character. PMI also believes that the words *ethics* and *professional* should be synonymous and that ethics should be aspirational and enforceable. One of PMI's visions is to create a sense of accountability for the profession's future. (Bouley, 2007).

PMI Membership Standards of Conduct

In the past, PMI had separate ethics standards for members and for PMI credentialed individuals. Until just recently, PMI had a separate Member Code of Ethics, describing the obligations and expectations associated with PMI membership. And, specific sections spoke to ethical behaviour pertinent to professional services. Under *Professional Obligations – Relationship with Customers, Clients, and Employers*, the code stated: "PMI Members will provide customers, clients, and employers with fair, honest, complete accurate information concerning (a) their qualifications; (b) their professional services; and (c) the preparation of estimates concerning costs, services, and expected results." (PMI, 2007, p. 2)

PMI Credential Standards of Conduct

PMI requires that a Project Management Professional (PMP®) and a Certified Associate of Project Management (CAPM®) agree to a Code of Professional Conduct upon receiving their credential. Certainly, when a PM practitioner obtains a credential there is an even greater feeling of responsibility to uphold professionalism and practice ethically. And, the Code of Professional Conduct naturally spoke to ethics even more strongly than the Member Code, mentioning ethics several times.

PMI's New *Code of Ethics and Professional Conduct*

PMI has recently revised and combined the above mentioned codes into one code, *The Code of Ethics and Professional Conduct*, which applies to all PMI members, non-members who hold a PMI certification, non-members who apply for PMI certification and non-members who serve PMI in a volunteer capacity (PMI). "Stakeholders who contributed input to develop this Code concluded that having multiple codes was undesirable and that everyone should be held to one high standard." (PMI, 2007 p 1)

The Ethics Standards Development Committee (ESDC) facilitated the drafting of the new code based on extensive input from the global project management committee. The ESDC believes "that the actions of an individual practitioner shape the reputation of the entire profession…we wanted to set a high standard that will instill confidence in the public with regards to the project management profession and equip practitioners to make wise decisions under sometimes difficult circumstances." (Bouley, 2007, p 3)

When an Organization's Ethics Conflict with those of the Project Manager

Possible Root Causes of Ethical Issues in Professional Services

Professional services are very often driven by relationships – many team members working very hard to keep their clients happy. Normally, account directors, account managers, and account executives are tasked with maintaining the business relationship, focusing on strategic goals, and seeking out new business opportunities. Project managers can find themselves in a situation where they are working closely with, and pressured into strategically aligning with, co-workers with different objectives – like revenue generation. If you work in a matrix organization that has a power balance, account management and sales may have as much influence if not more than the project manager. In a weak matrix environment where the project manager has reduced power, this can present additional difficulties.

Effect on the Individual and the Profession

Ethical issues within an organization can have a negative effect on any employee's morale and can contribute to general tension. The affect on a project manager will undoubtedly be more pronounced, as the project manager is charged with controlling budget and quality. When project managers behave ethically, it has its own rewards, including allowing the project manager to sleep better at night (Robb, 1996). Ethical issues also affect more than individuals – if a customer feels cheated after a project, it cheapens the profession, making the gain of trust that much harder for the next project manager working with that customer.

Situations Where Ethical Concerns Exist

The Fog of Large Time and Materials Projects

In the world of professional services, once a client relationship has been established, there is a strong desire on behalf of the vendor to move away from many smaller projects, and seek out fewer projects with larger contract values. This is because smaller projects ($5,000 to $100,000) tend to have lower profit margins than larger projects. There is also more administrative work, and larger projects require greater sales efforts. Professional services firms like the idea of a larger project that will keep many people in their office very busy for a longer time. And of course, with larger projects the sales force can *make their numbers* with one large concentrated effort, rather than achieving their goals *25K at a time*. However, it can be argued that larger projects do not control staff as well as smaller projects do. Once that large amount is on the books, and the financial goals for that client are essentially met, there is less discipline than is required for a small project with a tight budget. I have often asked how a client can simply agree to a huge lump some amount. Strangely, some clients with large budgets are comforted by the fact that an expensive first-class agency was hired. In addition, some customers like the idea of one large project and budget. It means less paper work for them, and there is less thought about how to spend that budget for the year.

The murkiness of large time and materials projects is best illustrated with an example. A firm that I had worked for was involved in a project, *Project A*, which went over budget and cost the firm a significant amount of money. Around the same time, the firm sold to the same client a program made up of seven projects, *Program X*. Program X was contracted as a time and materials program with a very generous not-to-exceed amount. Furthermore, one senior level person, one of two architects of the program, strongly resisted allowing the client to know what each individual project costs. Once the overall cost of the program had been agreed to, he wanted complete freedom in how that budget was spent. He was in essence saying trust us to spend your money wisely.

Once it was understood how much money would be lost on Project A, it became a strategic goal to reach the upper end of the Program X budget, and soon that goal became an imperative. This strategy was implemented at an executive level, which influenced the account manager's goals, which trickled down as pressure on the project manager. When it did not look like the account was going to reach the maximum contract amount, I had even heard that a senior level person asked if the terms of the contract were such that the company could bill the client anyway for the full amount. But the challenge to the company should have been – *how can we give this client the most value, and stay under that number?* The ethics issue in this example occurred by allowing one negative project outcome to influence the divulgence of information and budget of another unrelated effort.

Seeking the Most Lucrative Solution (Rather Than the Solution That Makes the Most Sense)

As a project manager, I have always felt that it was my job to spend the customer's money in the most efficient way possible. Continuing with the program example mentioned above, the budget for *Project Y* (under Program X) was determined based on what was needed to help *max out* the program budget. Two approaches helped to achieve that goal. First, the project team recommended building software from scratch rather than buy and customize an existing solution. But an off-the-shelf solution did exist! The vendor did not fulfil on their obligation to discuss all the project approaches with the customer. There are usually many ways to realize a set of business requirements, and the project team must share, and the customer must ask for, all the options.

Secondly, a methodology was chosen that consumed many more hours than needed. An agile project methodology process, which called for a very high level of team member utilization, was imposed upon the team. While an agile methodology works well internally for an organization building its own software, it does not always make sense when a project manager needs to account for every billable hour. In this particular case, the company chose to try a new methodology out, having recently had a bad experience using a waterfall method. The account team felt that their contract allowed them to experiment on the customer's money, as they met their revenue goals. Meanwhile, there was little equality between budget consumed and project value. The ethical issue here is a betrayal of trust –

that is, the customer trusts their vendor to spend their money in the wisest way possible. In the end, the customer overpaid almost 15 times what they should have for a solution that was not the right one. Unfortunately, the project manager in this case had neither the willingness nor the understanding to suggest alternatives.

Never Willing to Kill a Project or Put a Project on Hold

Part of good project management is knowing when to call it quits. Many projects are closed out before they are completed, and for good reason. Basic project management tells us that you should not consider *sunk* costs when determining whether or not to continue a project.

Most vendors will not want to admit that a technology choice or an overall approach was a mistake, and would rather rationalize a poor decision. While this is certainly a difficult conversation to have, you are not doing a customer a service by pretending.

Years ago I was involved on a project that started out with the best of intentions, but ended up being extremely troubled. Our customer commissioned an online system to manage a new sub-business. Deep into the project it became clear that business requirements were being driven by a few client employees with little computer skills, no experience in building software, and little appreciation for the effort involved. It was apparent that there was little chance of a positive outcome for either the customer or the vendor. There was just no way to build a system to satisfy the needs of their employees. I remember encouraging our firm to step back, look at the situation and consider other ways to spend the budget such as training, but it was not considered. It became more important to fulfil on the contract and walk away, then to really discuss all the options.

So how do you know when it is time to cancel a project? Is it when the project is no longer aligned with the strategic goals of the organization? Perhaps changes in business conditions have forced a change in priorities? Or is it when fiscal conditions suggest a problem? Most portfolio management experts agree that it is a combination of financial and strategic considerations that help determine where and how resources should be used. The same criteria should be used when considering the discontinuation of an existing project. The health of a project should be based on accepted criteria for the definition of project health, established via the project charter (or other means) at the beginning of the project. (Cicala)

Exaggerating Your Company's Expertise and Overselling

During the proposal process, vendors may be tempted to embellish their expertise about a competence. For example, let us say a customer is seeking experience with a specific technology platform. The vendor might refer to a past project where that specific technology was used and was successful. However, they may not mention that the people on that project team do not work for the company anymore.

As a customer, you should ask your vendor if the people who worked on these successful projects are still with the company. What are the guarantees that their expertise will be available during the entire project? What were all the lessons learned from that past project – can you share the gritty, project wrap notes as well as the glossy, scrubbed case studies?

Sometimes a vendor will be overly aggressive in sales even when they are the only ones at the table. They may start thinking of Phase Two well before Phase One is even close to completion. A vendor will *strike while the iron is hot* and try to shut out all competitors. And sometimes, a vendor will be more aggressive during times when a customer is making budget decisions for the following year. The vendor knows that if they do not get money allotted to them during that period, that budget will be lost forever or at least until the next year. So the agency tries to sell more than they perhaps normally would. While there is nothing wrong with aggressive sales, in the most extreme cases this *shaking the money tree* can be analogous to unnecessary medical procedures – suggesting projects that the customer does not really need. An ethical issue exists when it is taking advantage of a customer's faith or ignorance.

Blended Billing Rates and Unfair Levels of Profitability

Sometimes a vendor will want to set up a blended billing rate across an entire project or program, and customers may agree to this out of simplicity. Blended rates are supposed to factor in all company rates and role utilization.

But on a fixed budget contract, the customer may not have visibility into who is billing against the project. And so, you have a multi-disciplinary effort with all team members billing against the project at the same rate. While the difference between using a blended rate or not may end up being nominal upon project completion, a situation like this can put unneeded pressure on the project manager. Project managers do not always have visibility into the true cost of a labour resource (human resource departments may not want employees to be able to figure out salaries of other employees). So instead, consumed budget is simply measured in hours. When the hours are used up, the budget is consumed and management may pressure the project manager to complete the project quickly. But if a project manager is allowed to work with true labour costs, he/she will usually have more hours to work with to reach the desired profitability. Of course, if using a blended rate ends up being too much in the favour of the firm, it could be considered an unfair level of profitability.

Certainly every company is entitled to a fair profit. However, there are times where the season or situation will influence the profitability goals for a project. Often sales will just try to get away with what they can. I was once part of a proposal process for a new website where the proposal manager's high costing was rooted in unethical motives. First, the proposal process was so long and difficult, this was his way of making the customer pay on the back end. Secondly, he knew that the customer was desperate to begin work. Third, he described them as a *big New York agency* with deep pockets. And fourth, he anticipated that the customer would request countless changes. On this last point, he turned out to be correct. However, gouging is not a substitute for good change management. The ethical issue here is augmenting rates or estimates simply because a customer can afford it, or is in a bind, or because overruns are anticipated.

Inappropriate Mark-ups on Sub-contractors

Many agencies in professional services rely on sub-contractors as an extension of their workforce. Many firms feel that maintaining a freelance network is an asset in and of itself. Mark-ups for freelance labour are often set lower due to lower overhead costs (such as healthcare benefits), which can translate into customer savings – a lower profit margin on the freelance resource vs. the full time employee.

However, a firm may not necessarily divulge to a customer who on the project team is not a full time employee. The firm may want a customer to believe that a subcontractor is fully integrated into the company, therefore promoting stability and capacity. (The truth is that with a little effort the customer could hire the same person on their own). In addition, firms may bill out a sub-contractor at the same rate as an employee, which could ultimately result in an excessive mark-up on that sub-contractor's billing rate. The agency may call the mark-up a necessary *management charge*, however, the customer is most likely already paying for a project manager and an account manager and therefore, in a way, getting double-dipped on management. On more than one occasion, I have been told by an account representative, 'Client A does not know that John is a subcontractor'. The ethics issue here is a withholding of important information that the customer has a right to know. Is it unethical even if the customer does not ask?

Using Project Management as Sales Force

Some agencies may view their project managers as an extension of their sales force. Since project managers are frequently located on the customer's premises, firms view this as an ideal way to uncover new sales opportunities. However many project managers see this as a conflict of interest, as it takes focus away from delivering customer satisfaction, and towards revenue generation. A project manager suggesting new projects is not necessarily a conflict of interest. If the suggested project will benefit the customer, then it sounds like a win-win. A project manager may very well be in the best position to recognize opportunities to improve the customer's business.

As a Project Manager, What Can You Do?

Question and Present Alternatives

You should, and others should expect you to question customer treatment and improprieties. But it is important to test the waters with discussion, rather than dive head first into whistle-blowing territory. For example, let us say an account manager is comfortable billing out an intern at $175/hour along with other team members. Unless someone speaks out, this will probably go through the accounting system and at that point it is as good as invoiced. By saying, “We’re going to bill out John at a lower rate, aren’t we? After all, he only makes $25 per hour?”, as if it is obvious. In this situation, it will be awkward for the other person to say, “let’s see if we can get away with it.” You might suggest that four of that person’s hours make up one hour of a senior person. So in this situation, you have brought up a concern, but refrained from using the word *ethics* or *ethical* when discussing it. When issues come up that do not sit right with you, do not assume that the co-workers have unethical intentions. As the project manager, you are in the best position to show them the way.

Use the Project Charter to Your Advantage

Normally, it is the project manager’s responsibility to develop a project charter, along with the client. The charter is an excellent tool for keeping everyone grounded in the project goals. Charter reviews should be part of regular project evaluations (see below). The charter should be clear in what value will be achieved within the constraints of the project. The charter should also mention the circumstances under which the project should stop.

Document Everything

Documentation is always a good thing. And the more you document, the harder it becomes for others to hide facts, especially if they know there is a chance of being audited. If you are known to be meticulous in your documentation, this can work to your advantage. Normally, copious documentation is never frowned upon – I have never had a manager that wanted me to document less. Recently I have become an advocate of using a project journal. A project journal is separate from a risk matrix, project notes, issues and action items lists, or meeting minutes. The journal is a way to note all the big and small decisions made during a project. You may choose to keep a journal for your own reference and not part of the project record – this will allow you to write for your own development and serve as handy recall when asked when a specific decision was made. If you want to keep the journal as part of the project record, you may want to make it more formal.

Try to Incorporate Ethics Topics in Your Organization

As a longer term safeguard against individuals with questionable business ethics, strive to have ethics topics fundamental to your organization or even your project management office (PMO). Often, these topics will be incorporated into a company’s values or mission statement (Logue, 2005). As ethical conduct becomes integral to project management, a PMO without ethics discussions may seem inadequate.

Distance Yourself

As a last resort, it may be necessary to distance yourself from a project where the ethics are in question. And if ethics are a systemic problem, you may unfortunately be forced to remove yourself from the organization. In the end, you have your reputation that you take with you. It is important to ultimately protect your own good name rather than be linked to a company known for improprieties.

As a Customer, How Can You Protect Yourself?

As a customer, you need to enter into these business relationships with your eyes wide open. Unfortunately, you cannot completely rely on your vendor to look out for all your interests or to provide you all the information you need to know. The following are ways that you can become fully engaged with your project and help guard against potential ethical issues.

What Do You Have the Right to Know?

I once had a supervisor who would become frustrated with one particular customer, because that customer continually insisted on knowing how project monies were being spent at a detailed level for a fixed price contract. I used to think that my supervisor was right, and that as long as our company met our contractual obligations and requirements, the customer should not make these inquiries of us. I now believe this is incorrect thinking within the world of professional services. As a customer, you have every right to know what each work package costs and, generally, how that money was spent. Why? Because this may help you shift the vendor's focus if it seems out of balance. Also, you may see opportunities for the vendor to spend less in one area, and more in another. For example, let us say you know that a vendor is about to fulfil a work package for writing services. But you realize that some in-house writing resources are available to you. It is fair to make your vendor aware of this and negotiate spending the writing budget in another area of that project, and therefore gain more value for the same capital expense.

However, there is a level of budget detail at which it becomes inappropriate for a customer to ask about for a fixed contract budget. For example, a customer should not question whether a specific task was completed within a reasonable work effort. If it is a fixed contract, the vendor assumes the risk. Note that this level of inquiry is appropriate within a true time and materials contract. In addition, you have a right to know and should be asking about the approach to a project – whether waterfall, agile, etc.

Sub-divide the Engagement (Into as Many Parts as You Need to Guarantee Results)

Sub-dividing a large professional services project into several smaller sequential sub-projects, each with very definite goals, can facilitate more control and lower the chance of budget improprieties. Although you still may have one large budget for your program, sub-dividing the project may help keep your vendor from borrowing from one work package to pay for another. And, having clear documented outcomes that your vendor is contractually bound to may help keep your vendor from veering away from their obligation.

Work with your project manager to develop a plan that speaks to high earned value. Earned value can be a difficult concept in IT. It is difficult to put a monetary value on conversations, meetings, decisions, pieces of art, and lines of code that make up these types of projects. But it is possible. Good IT projects build on themselves, that is, the end product does not just reveal itself during the deployment phase. The project manager and customer should both ask themselves – if I stopped the project at any point, would I walk away with valuable artefacts? Make sure the schedule is based on delivering hard deliverables that have a formal presentation associated with them.

Have Frequent Project Evaluations

As part of general project health, which is tantamount to ethical behaviour, have frequent semi-formal evaluations of progress. These evaluations should be tied to hard benchmarks of achievement. The evaluations should also step back and look at the value being created. Formal evaluations that include upper management from both the client and vendor should occur at least once per quarter.

Hire a Third-Party Project Manager to Review Your Projects

One way to guard against unethical situations is to create a relationship with an independent experienced project manager who can periodically review project plans, charters, and status reports. You may want to consider hiring an independent semi-retired project manager who can view the overall project health through a seasoned, objective lens.

At the beginning of your new engagement, make it understood to the vendor that their materials may be periodically reviewed by an outside source and establish it as a standard practice. If you introduce this mid-project, it could be more awkward especially if you have a friendly rapport with your vendor – it may appear as though you suspect inappropriate behaviour.

Summary

"A company is only as good as it's people and if they are ethical it will come back to the company over the long run" (Cabanis, 1996, p 20). In addition, project managers are in a unique position to be the ethical compass for a company, and even more so for an IT professional services firm, which may be organizationally immature. It is important to remember that these organizations are comprised of groups of individuals who may only be focused on their own personal goals. But when you remain focused on always providing the customer value, everyone wins in the end.

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