

Normalizing White-Collar Wrongdoing in Professional Service Firms

Dr Ilias Krystallis, Lecturer in Enterprise Management, UCL, UK

Prof Giorgio Locatelli, Professor of Complex Projects Business, Politecnico di Milano, Italy

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Introduction

- Wrongdoing is doing a wrong thing and/or failing to do the right thing or any behaviour or act that deviates from both formal design goals and normative standards or expectations (Vaughan 1996).
- Literature, discussion and training about wrongdoing deal with how **top managers** commit wrongdoing to protect their interests or to, maximize their profits, or to draw out of the competition rival firms.
- This presentation deals with “**regular white-collar employees**” such as **engineering consultants**.
 - **Wrongdoing not an exceptional act**
 - **Employees are not ‘bad apples’**
 - **Embedded in everyday practice**
 - **Thus, wrongdoing is normalized**



- **Motivation:** struggle to reconcile what we observed in our case, with the dominant theories attributing poor project performance to **optimism bias, strategic misrepresentation** (Flyvbjerg 2008; Flyvbjerg et al. 2009), or **managerial capabilities** (Morris 1994).
- Performance literature takes a behavioral economics or project management view, our data guided us to take an administrative systems view (March and Simon 1958).
 - Administrative systems view: organizations as structures for coordinating via administrative systems, people engaged in interdependent tasks.
 - Research Question: ***“How do PSFs’ administrative systems normalize the wrongdoing of white-collar employees and why?”***

Administrative systems	Examples of data
Rules and standard operating procedures (Official controls)	Policy statements, memos, project documents, contracts
Division of labor (Official controls)	Organization charts, Project charts
Occupational and professional norms (Unofficial controls)	Organizational or project role
Schemas and scripts (Unofficial controls)	Patterns, past sequential events
Communication channels (Unofficial controls)	Documents, brochures, presentations, the flow of information, limited access to data.
Technology (Unofficial controls)	Computer programs, algorithms, online programs

Empirical setting



The Company

The PSF is the lead engineering consultant, managing the design and the design support of a major project

More than 20,000 employees and organized into various business units focused on different regional market segments with a strong presence in the US, the UK, Europe, Asia and Australia

Annual revenue of over \$5 billion



The Project

Design work (technical documents) for its client (the development contractor).
Development contractor responsible for the physical construction

Initial 5-year contract. Became unsustainable after 2 years and terminated with a settlement figure

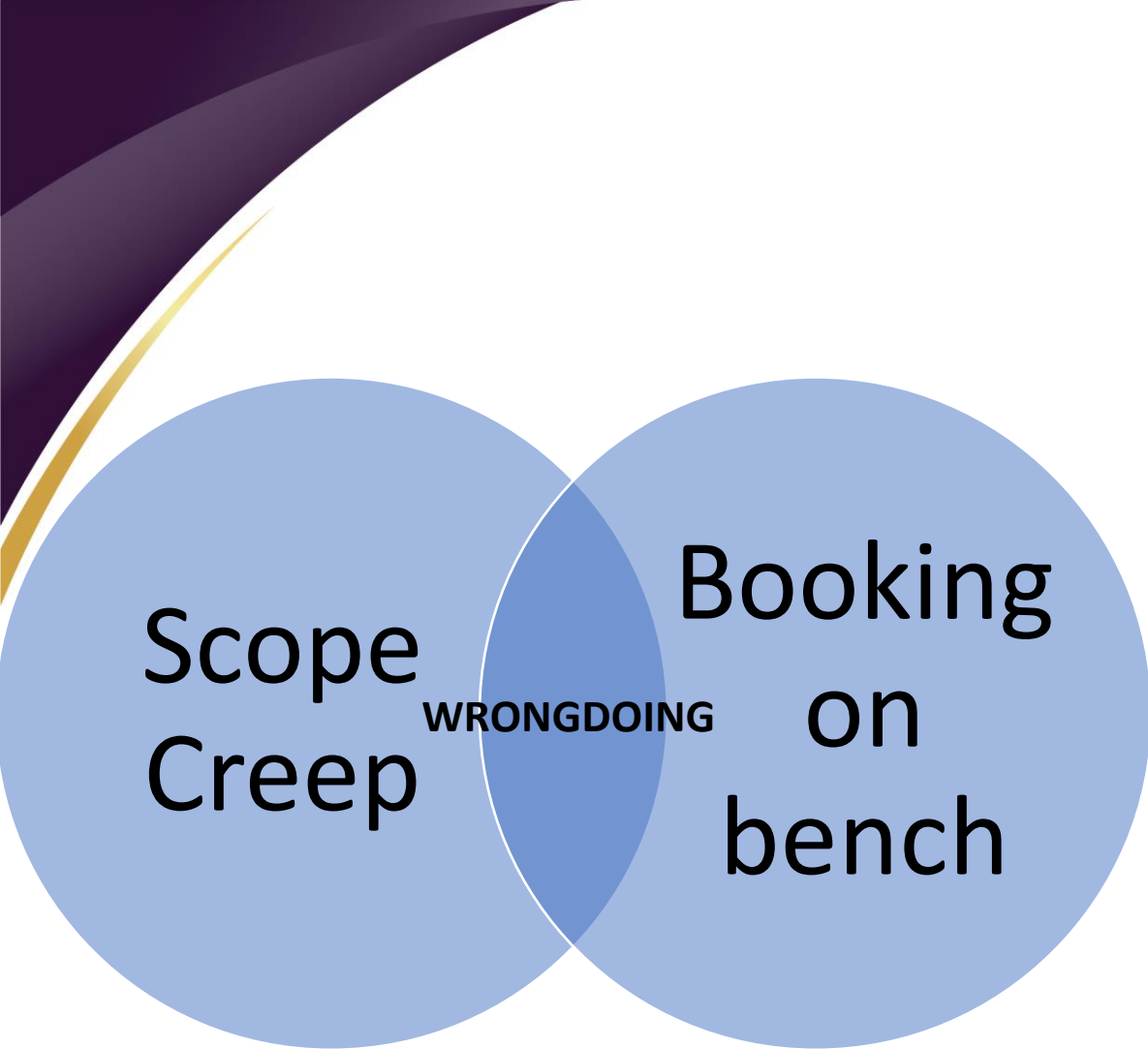
Online contract management system to facilitate the production of works.
Parties can register scope, early warnings, compensation events (CE), payments etc.

328 registered CE. Only 173 CE were approved (52.7%) by the client

The PSF absorbed the costs not covered by the client due to scope creep resulting in significant margin erosion.

Wrongdoing was a key element for this failure and took several forms. A relevant form was the interplay between “scope creep” and “booking on bench”.





Wrongdoing in scope creep and booking on bench

Scope creep occurs when a consultant works on unapproved features of a project, devoting time to unauthorized changes. Changes done within the original time and budget estimates, leaving less time for approved scope features. Thus, approved features of the project cannot be completed → project is delivered over budget and late.

Booking on bench: the consultant books their time to a company code (overhead cost) instead of a project code, which is billable to the client.

A practical and ethical dilemma

When a client repeatedly requests the consultant to work on unapproved features or “tentative” changes, the consultant is confronted with an ethical and practical dilemma, i.e., choosing between:

(A) follow the official controls and “book on bench” until unapproved changes become authorized

Under scenario (A), the consultant will “book on bench”, → if done repeatedly, impacts their career.

(B) follow the unofficial controls informally explained to them

Under (B) scenario, the consultant will do the task, asking for the authorization retrospectively from both the client - that need to pay for it - and the PSF - that need to agree on the number of hours charged.

Under (B), the consultant normalizes wrongdoing by gradually conducting additional tentative unauthorized work, leading to scope creep.

Findings



Governance-level - PSF Performance

The final contract value (**£6,77 million**) following the settlement negotiation deviated significantly from the PSF incurred fee (**£8,32 million**).

As a result, the **PSF incurred overall revenue losses of 19%**, a significant proportion to the overall value of the consultancy project.

PSF services	PSF Margins
solving complex challenges for their clients	50%
systematic and comprehensive approach to complex projects	20-35%
simple routine-type problems	<10%

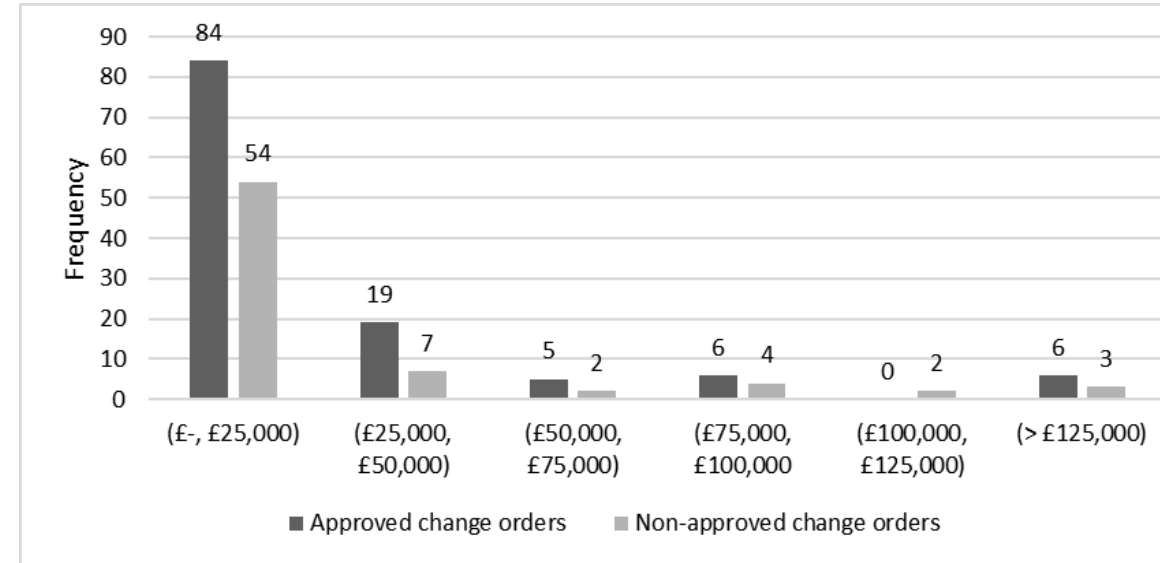
Client view

- Original contract value of the consultancy project: **£2.90 million**.
- Final contract value: £6.80 million
- Cost overrun of **133.80% as a proportion of the original contract value**.
- (Result is in stark contrast with literature - **10-25% deviation** attributed to scope changes in similar type projects)

PSF view

- 328 CE were raised, but only 173 CE approved (**£3.90 million**).
- The PSE fee: **£8.32 million** but received “only” **£6.80 million**.

Therefore, a project originally agreed for **£2.90 million**, ended up at **£6.80 million** leaving both client and PSF dissatisfied.



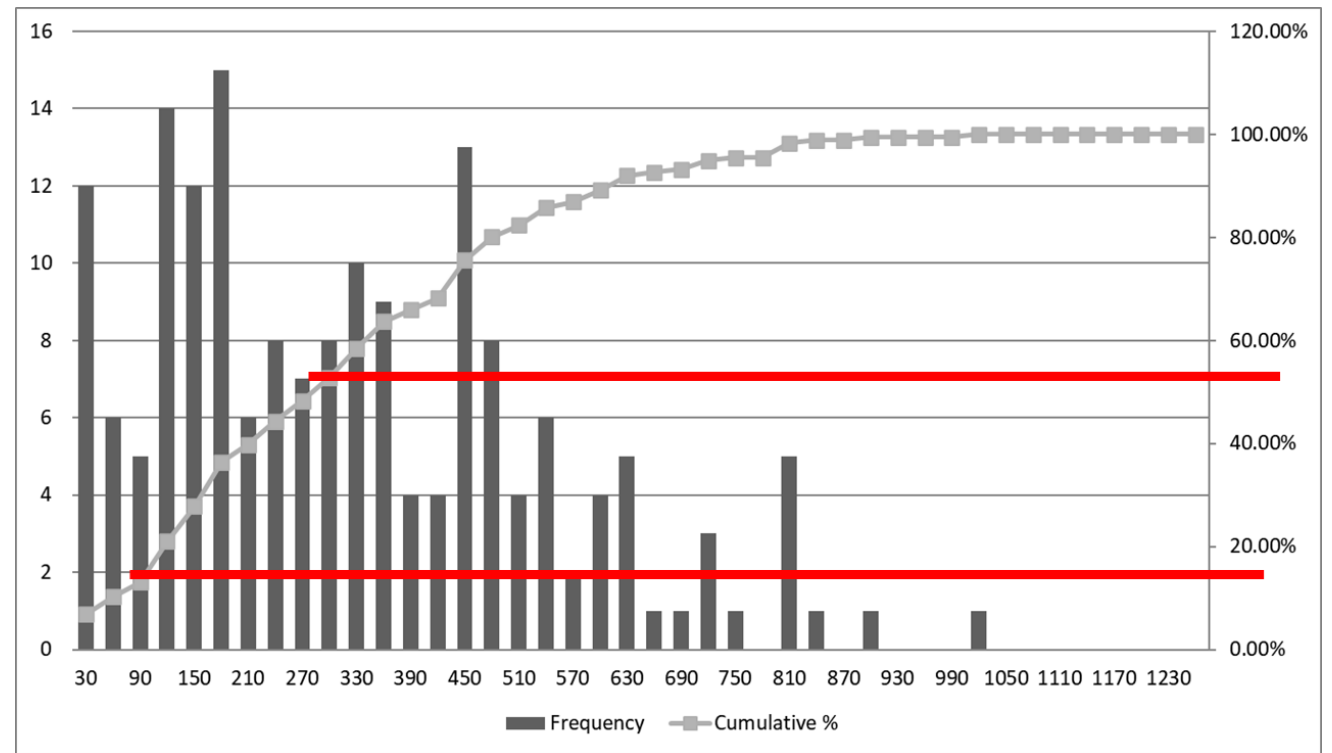
Most change orders are usually “small”, i.e., the majority of cost overrun is not explained by a single compensation event, rather it is distributed in a plethora of “small scope changes” that accumulated to scope creep.

The Project Management team increased their project time to a whopping average of **28%** that was sustained during the life of the project.

(According to literature: project management are circa 10% and specifically 2-15% of the overall budget)

The consultants had to work under risk instead of freezing all ongoing work, and “book on bench” if required, until resolution is reached.

The PSF project consultants caught up in a storm of CE pending approval, and requests for work that were not authorized but were only informally communicated.



Vignette 1

To meet the quarterly targets, the PSF's PM registered as income in the system the work that had been tentatively confirmed but not yet invoiced to the client.

Following the official controls protocols, the PM should not have documented this as registered revenue in the system.

This was categorically against the standard operating procedures of the PSF because, if the client submitted an instruction to descope, this revenue would not exist.

However, the consultant was confident that, similarly to his past experiences (schemas and scripts) delivering projects for other clients, as the scope would increase because the relationships with the client and PSF would be improved.

In an interview, he justified his actions as: "I need to get out [go to the client offices] and win us more work, otherwise people will be made redundant!"

Vignette 2

During project delivery, the PSF consultants found themselves working under severe risk with the possibility of "booking on bench" if a solution is not found soon between the two organizations.

Under the contract, the consultants ought to carry on and meet the project milestones laying ahead. The amount of scope creep created a backlog of work which created further confusion for the consultants. The PSF's project manager took leadership of the situation in a desperate move to keep the project alive, as the PSF's commercial manager informed the client's counterpart:

"As advised previously, the current design program is delayed, and the design duration is being squeezed yet again. To work collaboratively to help [the project] deliver the WP, [PSF's project manager] assessed the current program/activities and advised that the following key activities could be progressed now at RISK [sic] to gain some ground on the program."

PSF Governance: "it's what's [originally] registered on the system that counts"

The revenue stream estimates were derived from the current year's growth target calculated as the performance of the past year plus a percentage (e.g. 10%).

PSF: "As advised previously, the current design program is delayed, and the design duration is being squeezed yet again. **To work collaboratively to help [the project] deliver the WP**, [PSF's project manager] assessed the current program/activities and advised that the following key activities **could be progressed now at RISK [sic] to gain some ground on the program.**"

PM: "Submit the proposal with the suggested fees, and if they [the client] want changes, we'll hit them with CE".

PSF: "As per email request from [client rep] on XX February 2016, additional time was spent preparing and submitting documents for input into the [WP]. This is additional to our [original] scope of works and will incur additional cost."

Ops Director: "It's not their (the PSF consultants) money who is at stake here, if they were spending their money, they would not do the work".

Client: "No **formal** instruction was given to assist with the [WP]. [WP] costs should be attributed to each change (CE), this is a global catch-all assessment and is not a change to the contract. In addition, this is a late assessment of costs that have already been incurred in which were not previously raised."

Have you spotted other examples of normalized wrongdoing in your work? What are some other examples?

What explains these behaviors?



WE SHOWED: How administrative systems led to wrongdoing and ultimately to the failure of this project.

The PSF was full of experienced and highly educated managers who set up those inefficient administrative systems.

THE RESULT: Led to major economic loss and stressful environment for managers and consultants

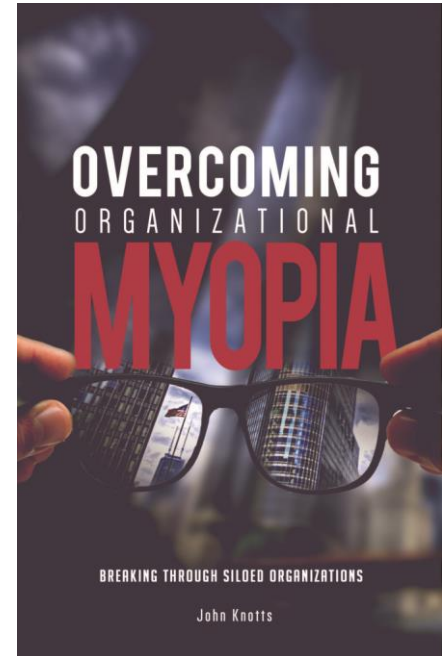
Why organizations full of experienced and educated people behave irrationally?

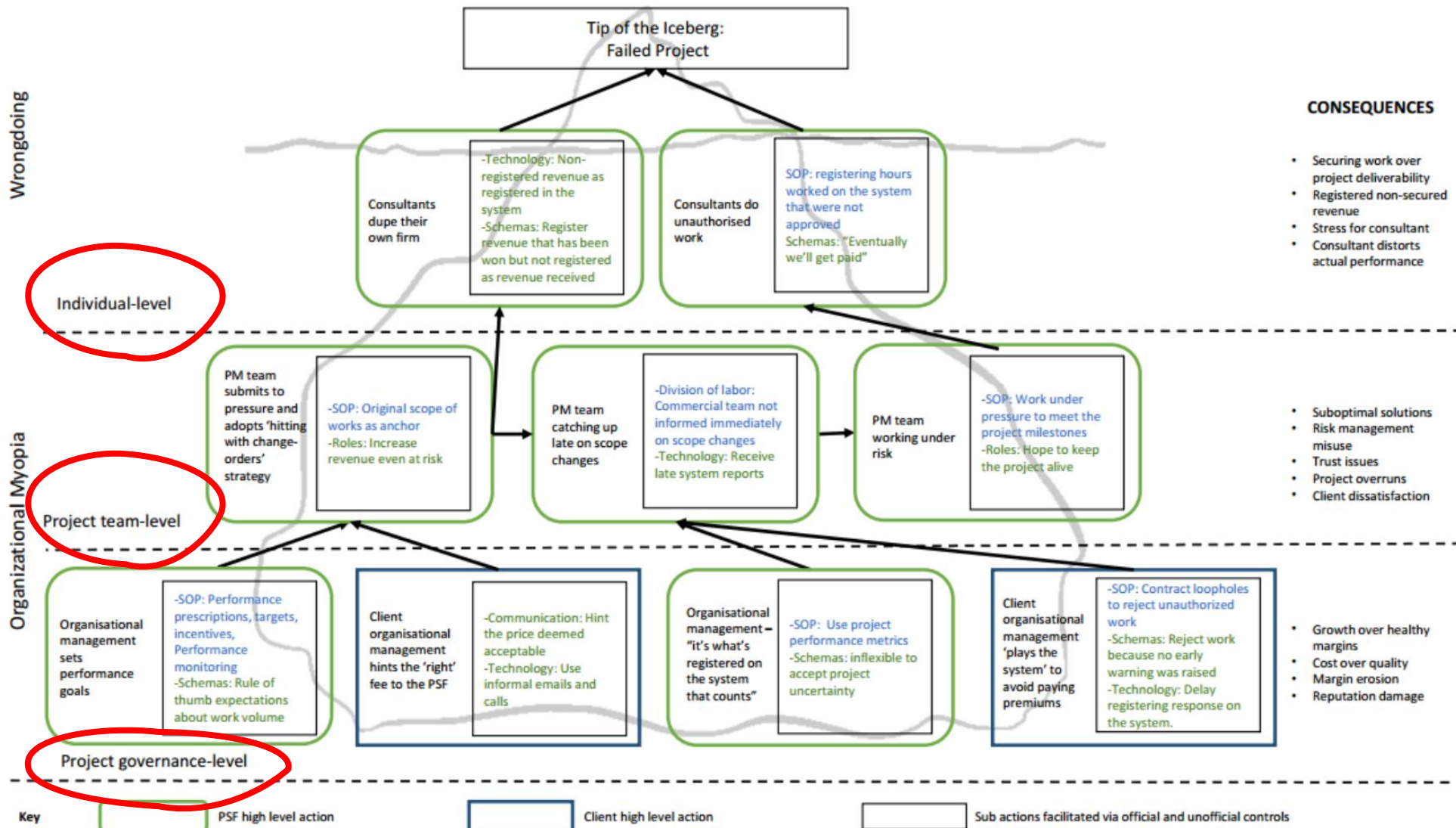
Organizational myopia

is the bounded rationality of the people collectively working in an organization. Organizations develop myopia when the status quo is no longer challenged:

“we do things in this way because this is our way of doing things”.

We found that organizational myopia promotes inefficient administrative systems which normalize wrongdoing.





Conclusion



A common sense-making of our case could follow the narrative that service firms take unprofitable projects to build/keep a portfolio of projects or keep a continuous workflow to retain their staff.

Thus, such undertakings are neither 'wrongdoing' nor 'organizational myopia'. They are simply strategic decisions for higher long-term good.

However, the evidence of our case does not align with this narrative. We show how myopia promotes inefficient admin systems, and how these systems in turn enable white-collar wrongdoing.

Often organizations staffed with intellectual and trained people have inefficient administrative systems. We show how these systems lead to negative consequences for organizations, projects, and employees.

Like an iceberg, where only the tip emerges, the normalized wrongdoing of individuals is not the cause of these issues but the most visible phenomenon of something rooted in organizational myopia.

THANK YOU

E: i.krystallis@ucl.ac.uk

