

Ethics and Executive Coaching: An Agency Theory Approach

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Abstract In recent years executive coaching has become an important management development practice in many organizations. Executive coaching is a partnership between a management level client and a coach hired by an organization to assist the executive in becoming a more effective and successful manager. While executive coaching has become a frequent and important practice in organizations, there has been relatively little serious consideration of the complex ethical issues that arise for persons and organizations. This study proposes that executive coaching involves an agency relation with specific moral duties that go beyond the usual standards of professional ethics. Agency theory, and in particular a focused understanding of the agency relationship, can provide a needed ethical grounding and basis for moral thinking about executive coaching.

Keywords Agency theory · Coaching · Executive coaching · Management consulting · Management development · Organizational ethics

Introduction

In recent years executive coaching has become an important management development practice in many organizations. Executive coaching is a partnership between a

management level client and a coach hired by an organization to assist the executive in becoming a more effective and successful manager. Among the most important goals of executive coaching is to improve professional human functioning and flourishing in organizations. That is, to transform executives and make them more effective in their life and work in the organization. While executive coaching has become a frequent and important practice in organizations, there has been relatively little serious consideration of the complex ethical issues that arise for persons and organizations. Confidentiality questions, potential and actual conflicts of interest, questions about professional standards, success measurement issues, and financial matters arise often.¹ The relatively small number of research studies of ethical problems encountered in executive coaching primarily address specific issues and problems that arise. Yet, for the most part, these studies do not explore the ethical foundations and basis for morality in executive coaching practice. Before addressing these and other ethical issues it is first necessary to better understand the executive coaching activity itself. Executive coaching is above all about relationships—between coaches, clients, and organizations. Drawing on the human relational foundations of this growing organizational practice this study presents a new ethical and theoretical basis for moral thinking and decision making in the area of executive coaching.

The majority of executive coaching arrangements are entered into and based upon contracts. Executive coaching contracts (many are formally written while others are verbal and more informal business agreements) are often

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¹ For helpful descriptive treatments of executive coaching ethics, see Brotman and Liberi (1998), Judge and Cowell (1997), Law (2006), and Sherman and Freas (2004).

arranged between individual coaches and companies for varying time periods—often for 6–12 month periods or longer. In these agreements responsibilities and expectations are usually outlined. While many coaches are hired from outside the company some firms also use internal coaches (usually associated with the Human Resources Department) or a combination of both internal and external coaches.

At present, there is notable confusion about the nature of the obligations and duties executive coaches have to their clients and supporting organizations. Coaches have important duties to both individual clients and organizations and at times these duties can be unclear or even in conflict. This essay seeks to more fully understand the fundamental nature of executive coaching relationships. Then, drawing on this analysis, we present a new way to think about the ethical foundations of executive coaching practice.

An Agency Theory Approach

This study proposes that executive coaching involves an agency relation with specific moral duties that go beyond the usual standards of professional ethics. Agency theory, and in particular a focused understanding of the agency relationship, can provide a needed ethical grounding and basis for moral thinking about executive coaching. We propose that the kind of relationship that an individual executive has with a coach is most accurately understood as an agency relation. An agency relation is based on high levels of trust and also strict confidentiality. The relation between an agent and principal involves the clear duty “to serve the interests of another.” The role of executive coaches is in some ways similar to that of physicians and attorneys in that they share important and privileged relationships with their clients. Confidential and private information is often shared, focus on the interests of the client is expected always, and information asymmetries usually exist as the coach knows more about the coaching process and generally has more power in the relationship. While the role of coaches may be similar in practical terms to that of physicians and attorneys the field of executive coaching itself is much less organized, highly diverse with respect to theoretical and practical approaches, credentialing, monitoring, and assessment. In fact, it draws upon the talents and training from other more established fields such as psychology and psychiatry. Recent efforts to understand executive coaching as drawing on generally defined standards of professional ethics alone are at present inadequate given the uniqueness of the coaching process, the great variety in approach and backgrounds of coaches, and the diverse cultures of organizations that employ the services

of coaches. Coaches have a special relationship with clients and organizations. Ethical thinking and decision making about the practice should reflect this uniqueness.

Understanding executive coaching as an agency relation can in important ways clarify present confusion about moral practices. As executive coaching continues to grow in importance in organizations new and more complex moral questions and problems arise. Understanding the work of executive coaches in the context of agency relationships can serve as an important theoretical grounding for more effective moral thinking about the actual practice of executive coaching.

At the heart of executive coaching is an agency relation on at least two levels—the executive coach in relationship with the individual executive receiving coaching and the particular relation to the organization sponsoring the coaching. In addition, a possible third part of this relationship may also include additional duties to other stakeholders (e.g., the Human Resources Department, the coachee’s direct boss, direct reports of the coachee, and other employees in the organization). This third category is less direct and perhaps may not be considered an agency relationship.

While executive coaches can be seen as agents they are likely not fiduciaries of the individuals and organizations they serve. Rather, executive coaches are in ways similar to contracted employees or consultants yet with responsibilities and attendant duties that are highly significant to individuals and organizations. The relationships shared between coaches and executives are deep, complex, and important, and require strict levels of confidentiality. Trust and openness is essential to the success of executive coaching and these relationships are often potentially transformative for executives.

As agents, coaches must serve the actual interests of the principal in all aspects of their engagements. There is often a significant “clash of cultures” in coaching situations as many coaches come with more therapeutic-based ideas and experiences of their activities.² Further, coaches may often not well understand the complex business environments, market pressures, and ethical environments that their clients work within. Executive coaches have the potential to do great good or much harm. Information asymmetries can often lead to unequal relations between coaches and their clients. Understanding executive coaching relationships as one of agency closely reflects the nature of the relationship and brings needed moral clarity to the ethical problems that arise.

² See Peltier (2010, pp. 358–359).

Agency Theory

In recent years coaches and theorists have raised questions about whether executive coaching is developing into a new profession. If so, then new professional standards may eventually emerge. Yet at present there is notable confusion about professional and ethical standards in executive coaching, and many questions remain over the role of governing bodies, requirements for membership, and credentials for individual coaches. While a number of associations appear to be growing in membership [e.g., International Coach Federation (ICF) and Worldwide Association of Business Coaches (WABC)] professional standards are still for the most part varied and often unclear. Peltier has suggested that if executive coaching is actually becoming a profession then there will need to be greater consensus about standards.³ In medicine and law, for example, doctors and lawyers are bound by professional standards and codes of ethics that are written, monitored by peers, and usually formally codified in written documents and often by legal requirements. In recent years, there have been varied efforts toward the development of professional codes of ethics for executive coaches. Executive coaches come from many different professional and personal backgrounds. There is presently little standardization or monitoring of coaching activities and professional standards are in many ways lacking and not universally accepted. The recognition that executive coaching involves a fundamental agency relationship can positively guide the important ongoing development of professional standards. That is, at the basis of executive coaching are relationships with serious attendant moral duties because of an agency relation between coach, client, and in some ways with the supporting organization. An agency relation is at the heart of executive coaching practice and this relation can form the theoretical foundation for the development of particular moral standards of coaching practice. The Harvard survey (2009) of experienced executive coaches reported that executive coaching is in its “adolescence” as a profession.⁴ Agency theory and in particular the view that executive coaches are in agency relation (requiring duty and trust) to clients and organizations will positively inform and guide the ongoing development of professional standards.

This essay has proposed so far that an agency relation is essential to executive coaching. Coaches are in relationship to clients, organizations, and also to some extent with other employees of the firm. Reaching a clearer understanding of these relationships will aid moral thinking about problems that arise. That is, executive coaches are in an agency relationship with a person (the client) and also with an

organization (the company supporting the coaching). These two relations are essential to the basic practice. It seems clear that a dual agency relationship exists in most executive coaching engagements and the fundamental agency relation present has a dual character to it.

Most fundamental and primary is the agency relation shared by the coach and the executive client. Critical to this relationship are important duties of trust and confidentiality. The personal commitment of both coach and client are essential to the success of the process and in this practical sense express the “agency” nature of the relation. Executive coaches also have an important relationship with the organization that is supporting and funding the coaching. The relationship between the coach and the organization is usually based on a formal written contract and may also entail verbal and implicit agreements. These agreements guide in practical terms the coaching engagement. Coaches are also in relationships with selected colleagues and subordinates of their executive client. Executive coaching practices and agreements reveal a uniquely distinct kind of agency relation. This is the case in the relationship between the coach and the individual executive and also the relationship between the coach and the organization. An agency relation exists in executive coaching engagements and this relation is at the basis of moral obligations that are present. That is, executive coaching relationships and their associated agreements create a particular kind of relation with attendant duties.⁵

As in all agency relations the agent (coach) has important obligations to serve the interest of the principal (client and secondarily the organization) in all matters of his or her agency. There are two major kinds of agency theory and one in particular can positively assist moral thinking about executive coaching. The first emerges in economic thought and parts of this tradition apply game theory to understand interactions between agents and principals.⁶ This form of agency theory is often part of discussions about theories of the firm, shareholder and management relations, and studies of corporate organization. The second form of agency theory (that which we draw on in this essay) is more based in legal tradition. The legal view of agency theory emphasizes the role of agents in negotiating on behalf of principals and/or serving their interests.⁷ This second form of agency theory is broader and may often involve contracted agreements. The view of agency that we present here in an effort to better understand executive coaching draws upon the law of agency in the legal tradition and not on agency theory in economics.⁸ Executive coaches provide an important service

³ See Peltier (2010, p. 354).

⁴ Kaufmann and Coutu (2009).

⁵ For a helpful discussion of agency relations and their associated duties, see Boatright (1999, pp. 40–41).

⁶ See Heath (2009, p. 499).

⁷ See Heath (2009, p. 499).

⁸ For helpful discussion of this distinction in agency theory, see Boatright (1992, p. 189).

on behalf of individual executives and their organizations that they are for the most part unable to provide themselves. At its core, executive coaching involves human interactions based on an agency relation. This fundamental idea is at the basis of how to best think about ethical practices in executive coaching.

Scholars have explored for some time ways in which agency theory might be helpful in specific business ethics questions. Heath has noted there can be “a gain in conceptual clarity afforded by the agency perspective” and we propose here that understanding executive coaching in the context of an agency relation is similarly clarified in both a descriptive and normative sense.⁹ Boatright has suggested that the “agency relation” (as opposed to general agency theory) has an inescapable ethical dimension.¹⁰

Drawing on this insight Boatright presents a careful agency analysis of conflicts of interest and suggests that the agency relation can be helpful in addressing specific ethical problems in business practice.¹¹ Eisenhardt suggests that an agency perspective is useful in “studies of the many problems having a cooperative structure.”¹² When working well executive coaching has a cooperative structure in relations among executives, coaches, and organizations. A deal breaking problem for executive coaches is that if they do not or fail to serve in a complete and trustworthy way the interests of their client a real risk is the complete breakdown of the fundamental relationship. That is, it seems clear that a kind of agency trust in the relation is essential to executive coaching at its core. DeGeorge has explored some important limits in agency theory yet has also noted that “[o]ne of the strengths of agency theory is its recognition of and ability to deal with relations.”¹³ DeGeorge argues that agency and ethical theory can enrich each other yet also suggests that agency theory cannot replace ethical theory as a basis.

To acknowledge that executive coaches are in an agency relation with individual clients and their organizations it is then possible to determine more specific normative moral obligation on this basis. That is, specific and practical moral duties in executive coaching interactions may be grounded and further developed based on these actual relations. An agency perspective can clarify some of the significant present moral uncertainty surrounding executive coaching practice. Drawing on this agency relation it may be possible for business ethicists to further develop more

specific and practical moral norms in executive coaching activities. Boatright has helpfully observed that agency theory itself does not substitute for or replace ethical theory but he notes that “the agency relation can be of use to ethical theory by providing a model for understanding some of the roles that people occupy in business and the duties and rights that attend [to] these roles”.¹⁴ We propose that the executive coaching role in many different kinds of organizations today involves a fundamental agency relation. This insight provides a needed theoretical perspective and helps us better understand the activity itself and the moral duties and obligations involved.

Conclusion

At the heart of executive coaching are human relations. This study proposes that an agency relation is central to executive coaching—a management development activity that has become increasingly important in many organizations. Agency theory as understood in the legal tradition and in particular the agency relation can serve as an important way to understand executive coaching practice and also its ethical dimensions. This agency relation can positively inform descriptive and normative thinking about executive coaching moral practices and provide specific ways to manage conflicts of interest, confidentiality problems, and also other moral problems that may arise.

In the current generally unstable and mistrusted business climate there is growing uncertainty about appropriate ethical practices in executive coaching. The present practice of drawing on diverse and often not agreed upon professional standards to guide executive coaching is lacking and not working well. Executive coaches are exercising greater and increasingly important roles in business today. Recognizing that coaches are in agency relations with their clients and their organizations will bring needed clarity to the practice itself and can positively assist in offering guidance in addressing the varied moral problems that arise.

While agency theory is only a part of ethics its structure and internal logic fit well into providing useful analysis of the ethical problems that arise in executive coaching. Agency analysis clarifies the duties and obligations in executive coaching practice—both from the individual and organizational perspectives. Agency theory can provide needed descriptive clarity, insight, and moral wisdom as coaching continues to expand as a helpful and valued business practice.

⁹ Heath (2009, p. 523).

¹⁰ Boatright (1992, p. 188).

¹¹ Boatright (1992, pp. 188–189). Interestingly, conflicts of interest are one major type of ethical problem that executive coaches frequently encounter.

¹² Eisenhardt (1989, pp. 57–74, esp. p. 57).

¹³ See DeGeorge (1992, p. 59).

¹⁴ Boatright (1992, p. 187).

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