

## **HONOR ABOVE ALL - BUILDING A SOLID CORE VALUE SYSTEM FOR YOUR PROJECT TEAM**

**“People are like tubes of toothpaste. You see what’s really inside of them when they get squeezed.” --**

**Dan Silverman, Senior Director of Client Services, PWCI**

Ethical business practices receive a great deal of attention in our industry, but it is all too-often with little more than empty promises. Creating a clear "Honor Above All" work ethic requires digging way beyond the obvious, and includes the "Seven Inadvertent Oversights" to establishing and delivering on a "high ethic" core value throughout your organization and project team. This article incorporates lessons learned, taught, and successfully implemented by ethics-based business leaders.

Undoubtedly, one would be hard-pressed to find a manager of any reputable organization to argue with the concept of the importance of adopting an ethical standard for their enterprise. Yet, the unfortunate reality is that this is all too often nothing more than “lip service” when real-world practices are observed. Consequently, firms across virtually every sector of American industry are notorious for the proverbial “say one thing and do the other” when the subject of ethical business conduct is involved.

And the construction industry is no exception-- to say the least.

In this article we take an unbiased look at how ethics-related dynamics play out within our industry as well as from a more global perspective throughout American business as a whole. We also offer some suggestions for the inherently ethical organization to recognize some of their honest oversights when it comes to ensuring that their organization has a solid ethical core. Finally, we will offer some suggestions for the inherently ethical organization to take in order to get to the next level.

### **FACING THE FACTS**

Until the late 1990s, open discussions of business ethics were contained within smaller circles of American society and industry. Of course, there always existed the handful of noble companies that set the standard for corporate conduct. But for the mainstream business entity, these related issues were given minimal executive level attention, and more often than not, were relegated to Human Resources managers with a directive from the top to “keep us out of trouble”. Consequently, an organization’s ethics program was little more than a loosely pieced together amalgam of sexual harassment, discrimination, and other “must-

have” policies, and perhaps a brief inference or two within the company’s mission statement.

Contrarily, throughout this decade, authors, publishers, and booksellers alike have found no shortage of public interest in the topic of ethical business practices. Not so coincidentally, this heightened degree of curiosity was fueled by the media-frenzied coverage of the few dozen high-profile corporate crooks and their easy-to-digest (albeit hard to swallow) tales of despicable patterns and practices that would have made Machiavelli blush.

But not nearly as much has been published and circulated specific to the commercial construction business. Hard research is scarce. Furthermore, there is evidence that a number of attempts by market researchers and trade organizations to survey and quantify industry-specific ethics perceptions and practices (that truly endeavor to dig deeper than the obvious) have received unenthusiastic levels of response from potential participants. Ultimately these studies were either discontinued, or the findings were statistically insignificant due to the small sample size of respondents. Plain and simple, it’s just something that construction folks don’t jump at the chance to talk about. Well, at least not on a completely honest and candid basis.

One study, though, broke this mold, and in fact, did provide some excellent data and valuable insights. It was conducted by FMI, a Raleigh, N.C.-based firm that provides management consulting and investment banking to the construction industry. FMI’s “Survey of Construction Industry Ethical Practices,” study took an in-depth look at ethics in the construction industry. The firm prepared an anonymous online survey and conducted it in conjunction with the Construction Management Association of America, which sent out the questionnaire electronically to its membership, in an effort to gauge ethical practices and concerns in the industry. The American Subcontractors Association did the same, offering its members a link through the organization’s Web site to help solicit feedback.

FMI’s findings--some of which will be incorporated within our own assessment and recommendations presented throughout this report were clear and consistent. For example:

- 69% of respondents believe the construction industry needs to pay more attention to ethical issues
- 21% said ethical issues put the industry “in a bad light”
- 84% of respondents said they had experienced, encountered, or observed construction industry-related acts or transactions that they would consider unethical in the past year
- 34% indicated they had experienced unethical acts “many times”
- 24% admitted they might work with unethical contractors if circumstances dictated

Taking it a step further, FMI’s study found that the “most critical issues” respondents faced at work-- payment games, bid shopping, reverse auctions,

over-billing, change order games, unreliable contractors, and claims games were the most cited unethical behaviors in the survey. I trust that these terms are a familiar vernacular in most (if not virtually all) of the reader's organizations.

### **WHAT WE SAY AND WHAT WE DO**

The FMI survey also found a large discrepancy between the value people place on ethics and what they actually do in practice to support their values. Although the large majority (85%) believes there should be an industry-wide code of ethics, only 30% agreed that adding regulations concerning ethical behaviors is a good idea. On a smaller scale, few companies surveyed reported that they make ethical issues part of their mission statements or strategic plans — at least not to the point of drafting formal ethical codes of conduct. Only 30% indicated that they had formal ethical programs in place. In fact, a total of 11% of respondents admitted to having no ethical program at all.

The fact that 58% of respondents said that the topic of ethics programs never even came up in meetings or negotiations might be a good indication of the root of the problem. In order to minimize the chances of unethical or illegal behavior in the construction industry, respondents agreed that several initiatives should be implemented, including stiffer penalties for those caught in unethical or illegal acts, an industry-wide code of ethics, more emphasis placed on social responsibility in award criteria, and more training.

### **THE SEVEN INADVERTENT OVERSIGHTS**

It must be emphasized here that the purpose of this article is *not* to convince those that have a relatively low level of interest and/or a mere casual intention as to *why* they should instill a strong ethical core as the foundation of their organization. Instead, we are intending to be helpful to the many executives and managers that are clearly committed, yet they need to overcome some of the barriers to putting the wheels in motion.

So often, we've observed that it is not what they are doing that is the roadblock in this regard, but instead it is more deeply rooted in what they *are not* doing. This ethically intended individual can be innocently oblivious to some of the key dynamics that get in their way. And, we therefore provide our list of the Seven Inadvertent Oversights to establishing a high-ethic core within most organizations.

#### **I. The Temptation to Blame the System**

Ah, here is rule number one---chalking it up to the good old "it's just the way this business is" mindset. It's a commonly held belief that business ethics are determined by the marketplace: If smart and successful people are doing it, it's necessary to fight fire with fire, right?

Well, not so fast.

According to Michael Josephson, founder and CEO of the highly regarded Josephson Institute of Ethics, "Ethics is not about the way things are; it's about

the way they ought to be. Conduct doesn't become ethical because it's common. No matter what others do, the moral obligation to be honest, respectful, responsible, fair, caring and a good citizen are personal and perpetual. If you fight fire with fire, all you'll end up with are the ashes of your integrity”.

Nine out of 10 respondents to FMI's survey of construction ethical practices indicated that the industry needs more ethics training. Some of the hot issues were unspoken “industry standards of practice”, such as bid shopping, change order, payments, claims games. Bid shopping, or the practice of divulging solicited bids as leverage to encourage contractors to lower their prices, also proved to be a key issue in this survey, as 94% of respondents characterized the practice as unethical. Additionally, over-billing, another questionable behavior common in the construction industry, was considered unethical by 86% of respondents.

According to a survey of American workers, more than half said they did something unethical or illegal in the previous year because of pressures. If we polled the scores of corporate executives recently convicted of lying or fraud, I'd bet most of them would attribute their ethical lapses to pressures as well.

Pressures are no more than temptations in disguise. The difference is, while we expect people to succumb to pressures, we expect them to overcome temptations.

Lots of people will lie, cheat or steal under stress. But that's an explanation, not a justification. It's part of life. It would help if we had less pressure, but it's more important to have more character.

So, beware of the temptation to play the “everyone else does it and we must also to compete effectively” card. Everyone else doesn't. And even if they did, you need to avoid reaching for that low-hanging fruit to justify unethical practices.

## **II. Choosing the Not-So-Good Eggs**

**"In looking for people to hire, look for three qualities: integrity, intelligence and energy. But if they don't have the first, the other two will kill you." --- Warren Buffett**

We've all heard the phrase used “he (or she) is a ‘good egg’ ”. Admittedly I'm uncertain of its precise roots, yet logic and intuition can provide a fairly clear understanding of its derivation. When selecting an egg, we can only see what the egg presents to us. In the egg's case, this happens to be the least usable and un-valuable component, the shell. So, the goodness and value is found in the part of the egg that lies beneath the surface so to speak.

The same is true with people that we recruit, hire, and retain within our own organizations.

If you were hiring a new manager, what are the most important qualities you'd look for? Surely you'd want a high level of demonstrated competence – knowledge, experience, intelligence, vision, communication and relationship skills and the ability to motivate, manage and solve problems. But what about qualities such as honesty, moral courage, accountability and fairness?

Michael Josephson addressed this subject in one of his recent articles on the subject. “Despite bold rhetoric about the indispensability of good character, many hard-driving organizations are willing to be flexible on character to get an exceptionally competent person”.

Furthermore, Josephson goes on to say, “I used to tell clients that competence and character were two separate aspects of intelligent employment decisions. Now I think it's a mistake to disconnect them. Good character is an essential aspect of competence”.

Since it's easier to train a person of good character to do a job well than it is to develop character in a skilled but unprincipled employee, if you have to choose, hire for character and train for skills.

### **III. The Truth. The Whole Truth. And Nothing But The Truth.**

**“We will not have a fine print relationship with anyone”—Herb Kelleher, CEO Southwest Airlines**

Most anyone who has found themselves in the unfortunate seat as a participant in any serious contract-related dispute has heard the argument for differentiating between “the letter of the law and the spirit of the law”. This is essentially an often times valid attempt to resolve an issue (and preserve a relationship, if possible) based on what each party's genuine understanding of contract terms to be vs. a hard-nosed approach to the legalistic language and detail.

Compliance with the law is important but hardly enough. Clever people can always find loopholes that thwart the regulatory goals of laws. Such gamesmanship strategies may be legal, but ethics is not about what you have a right to do. It is what is right to do. Lots of legal things are still wrong.

Avoid adopting a fine-print mindset for doing business. Don't constantly be looking for the “wiggle room”. Be known for your good as gold handshake.

### **IV. What You Allow, You Encourage**

For those of you that are parents of younger children, you can likely relate to this principal. This rule is every bit as important at work as at home, but it's harder to administer with employees. First, it's more difficult to discipline adults, and second most managers are not under as much of a constantly watchful eye as are the youngsters in our homes.

For years, in executive positions in various business-to-business professional service industries, I have witnessed the ethical devastation caused by what I call

“The 95 % Syndrome”. Basically, it is founded upon the same principal as that low-tech game that we played as kids called “telephone”. The group of a dozen or so kids sat in a circle with each child holding an empty can (that served as the “telephone’s” ear and mouthpiece) with a string connecting the entire network of phones in a primitive version of today’s LAN. Child One sent some verbal message to Child Two who then repeated what he heard to Child Three and so on until the kid at the end of the communications circle was asked to repeat what he heard. We could then all count on the innocent laughter at how the final message ultimately shared little resemblance with the original.

The same holds true, with the setting and enforcing of ethics standards. All too often the CEO begins by championing a clear and precise code for all to honor and live by. But then the number two in command enforces it almost perfectly, say 95%, of the standard. And then the next rung on the org chart insists on 95% of that, and the individually insignificant 5% leeway continues to work its way down the chart to where those on the lower rungs are delivering on an ethic policy that is a mere shell of the original article.

#### **V. After the Ecstasy there is The Laundry**

Show me an organization that has just introduced an ethics policy and I’ll show you one that is on cloud nine. Talk about a feel-good corporate initiative—this one is a no-brainer....after all who would publicly argue with such a noble and just purpose.

Yet, like many other enterprise-wide initiatives the concept is only as good as the execution. And the execution is only as good as its ability to be sustained effectively over the long-run. Push the gilded new ethics policy down on the priority list and see what happens a year or two down the road.

#### **VI. Share Your Commitment**

If you’re firm is genuinely delivering on its ethical standards you should be marketing this commitment to your internal and external stakeholders alike. This is a great asset that your organization has developed and can serve as a competitive advantage in the marketplace. Yet, the only way that anyone will be aware of it, and its mutual benefits, is if they know about it in the first place.

#### **VII. Put Yourself to the Test**

Our firm, PWCI, has developed a brief, but insightful, self-test that provides organizations in our industry with a baseline score for their “ethics quotient”. It is available to any qualified firm that is a member of CMAA or has an affiliation with a CMAA member. This questionnaire will be implemented in our upcoming session, “Honor Above All: Building a Solid Core Value System for Your Project Team” at the May 20-22 CMAA Leadership Conference in Las Vegas. It is also available by request by contacting [dansilverman@pwconstructioninc.com](mailto:dansilverman@pwconstructioninc.com).

#### **GETTING STARTED**

Although there are a number of methods and processes that a firm may take to develop and implement formal ethics standards, we suggest that there are a few that should be on everyone’s list:

- **Develop a code of ethics and code of conduct, and *stand behind them*:** Enron had an extensive, and meaningless, code of ethics. But taken seriously, codes alert employees to moral issues, improve choices and reduce unethical behavior.
- **Recognize that an ethics code in addition to everything else, is just plain smart business:** Companies with an ethics code generate significantly more economic value added (EVA) and market value added (MVA), have less P/E volatility, and in one study showed a 50 percent increase in average return on capital employed.
- **Look for top-tier involvement:** A board-level ethics committee, an ethics management committee of senior executives, an ethics officer, and an ombudsperson. A firm may not need all of them, but they are indicators as to how seriously it treats ethics.
- **Make ethics decisions in groups:** You'll benefit from varied viewpoints, make better decisions and increase buy-in. And people hew more to policies they helped craft.
- **Participate in an outside ethics program:** Effective ethics programs demand expertise, not just gut reactions. The Josephson Institute of Ethics is one organization that offers an outstanding business ethics program of this nature.

Remember, it's easier to make a good company better than a bad company good. And with the right commitment to ethical practices, and some dedicated work, your good company can be heading towards becoming one of the great ones.

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