

Zero Tolerance

Ethical misconduct adds up to big issue for customers

Editor's Note: In an effort to help employees understand customer perspectives, LM Today spent some time with Steve Shaw, the U.S. Air Force Suspension and Debarment Official, discussing the importance of ethics.



From the outrageous to the insidious, Steve Shaw has seen ethical lapses of every stripe. But they all have one thing in common, says the U.S. Air Force deputy general counsel in charge of suspensions and debarments.

In the long run, ethical issues harm those who committed them in ways far more substantial than any perceived potential advantage.

“The pendulum is swinging strongly in the direction of zero tolerance for unethical behavior,” Shaw says, citing the rise in ethics misconduct cases across the corporate landscape. In the defense industry, he adds, companies should be forewarned that “no contractor is so big or so important that it can’t be

debarred.”

Shaw is not alone in his tough views on ethics violations. The rising tide of outrage over wrongdoing is being strongly expressed across the defense community.

In a recent speech, Daniel Nielsen, deputy director for program acquisition and international contracting in the Pentagon’s main acquisitions office, warned of the consequences of a poor reputation for contractors who are viewed as “basically someone you cannot trust to do business with.”

“Past performance is a very important part of any source selection,” Nielsen says, “and if you have a suspension or debarment or a history of ethical violations, it’s hard to make that look good on a past performance analysis.”

On the other hand, Shaw adds, companies with a demonstrated commitment to ethical behavior and a history of openness in addressing violations are viewed more favorably by the customer community.

A strong past performance on ethics issues can be a tiebreaker in contract competitions, plus Shaw says he’s more likely to work with, rather than to debar, contractors having a history of openness and a solid ethical reputation, as opposed to those with a history of attempting to hide wrongdoing.

Ethics issues can be complex, and even companies with excellent training programs can occasionally have problems with an employee who breaks the rules, Shaw says. But the way a company handles those lapses is telling, he notes.

“I have come to believe that the most important aspect in addressing ethical issues is the need for contractors to trust the customer and to respond with openness and candor when questions arise,” Shaw says.

Too often, he says, contractors’ response to ethical questions is to “circle the wagons” and place total responsibility for the issue in the hands of the company’s lawyers. Shaw says getting sound legal advice is essential but adds that, in many cases he has seen, management has failed to adequately accept responsibility and accountability for unethical behavior within their companies.

Another ethical shortcoming that Shaw has seen at some companies is giving lip service to ethics but failing to follow through with a demonstrated commitment at all levels. For example, he says, one company boasted of spending \$1 million to hire an outside contractor to provide ethical training to its employees.

“That wasn’t something to brag about,” Shaw says. “It’s fine to solicit the expertise of consultants, but if the company’s leadership wasn’t down in the trenches doing the work with front-line managers and giving them the tools and support to do the right thing, then bringing in an ethics contractor wasn’t going to help.”

He also bristles at companies who have two versions of their ethics program — one for the commercial side of the business and one for the government side. The “clear message” to employees, he says, is that rigorous ethics standards have been put in place to satisfy the customer, not because ethical behavior is the right thing to do.

Shaw’s advice to companies who are serious about establishing strong ethical values is to start by “delivering a credible and consistent message to employees that they have a responsibility to do more than just avoid engaging in misconduct themselves.”

Employees need to call attention to questionable behavior and to know that they will have management’s support, regardless of whether their concerns prove to be valid, he says.

Using the analogy of an employee who stops an assembly line because of a safety concern, Shaw says, “You don’t need to be particularly brave to stop the line when you know there’s a danger, but it takes a lot of courage to stop the line when you’re not sure. That’s the kind of employee courage in ethics reporting that companies need to be rewarding and holding up as an example.”

By paying as much attention to questionable situations as full-blown violations, he adds, companies can often avoid bigger issues — the same way that safety programs emphasize investigating “near misses” as a way of identifying the root causes that could lead to actual injuries.

When ethics questions do arise, Shaw is favorably impressed with companies who are proactive in working with his office, above and beyond their contractual obligation, to see them resolved.

“Some contractors will routinely call me and communicate when there’s a question even if there’s no legal obligation in place,” he says. “That shows me that they want to be open with us, they trust us, and they want to do the right thing.”

Ultimately, he says, companies need to give ethics officers a seat at the table when business decisions are being made. A stronger criterion than “is it legal?” should be “is it right?” Shaw contends.

“A lot of companies still don’t have the ethics officer at the table, but that’s where they need to be,” Shaw says. “The first answer to the question of ‘Why are we doing this?’ should always be ‘Because it’s the right thing to do. Period.’”

Companies who adhere to that standard, he says, are the ones who are truly demonstrating their commitment to their customers’ best interests.

Lockheed Martin strongly agrees with Steve Shaw on the importance of conducting business ethically and in maintaining trust with our customers. “We make many important commitments to customers to assure their mission success, but none is more important than our commitment to ethical behavior,” says Bob Stevens, the Corporation’s President & Chief Executive Officer. “It is the foundation of trust. We never want our good performance and our technical accomplishments to be overshadowed by ethical lapses,” he adds. “Nothing is more important than our integrity, and good ethics is good business.”

PHOTO CAPTION

Steve Shaw, the U.S. Air Force Suspension and Debarment Official, believes that ethical issues harm those who commit them in ways far more substantial than any perceived potential advantage.

Ask The Ethics Office

Editor’s Note: In this periodic series, the Corporate Office of Ethics and Business Conduct responds to ethics-related questions from employees. Send your questions to corporate.ethics@lmco.com. Anonymous questions will be accepted.

Q: I noticed that the Ethics Minute is one of your new initiatives. What are your objectives for this program? When can we expect the next series?

A: The Ethics Minute is a supplement to other ethics awareness communications. Our objective is to highlight ethical issues of importance to the Corporation, using an innovative medium. The short video messages are intended to generate interest in “what’s

going to happen next?” The Ethics Minute is not a replacement for annual ethics awareness training, which is still required for all employees. The feedback received from the first series was generally very positive and another series is being developed.

In addition to the Ethics Minute Web site (accessible on the external Lockheed Martin Web site at <http://www.lockheedmartin.com/ethics/eminute.html>), the Series 1 episodes are available on CD and DVD. Ask your local ethics officer for a CD or DVD if you cannot access the Web site, if your Internet connection is slow, or if you are otherwise unable to download the episodes.

Q: What are the most common ethical issues reported to the Ethics Office?

A: Since January 2004, the most common allegation relates to charging practices, primarily labor mischarging and misuse of company-issued credit cards. Over 200 mischarging allegations were received in this period, with about one third of the allegations substantiated. When mischarging is substantiated, corrective actions are taken, including disciplining the employee(s) involved and, as necessary, making an accounting adjustment in the company’s books of account. What some employees may not realize is that labor charges are not only the source of weekly payroll, but may also serve as the basis for invoices to our customers. Other common allegations relate to employees’ conduct, including intimidating behavior, harassment (non-sexual), and interpersonal skills issues.

Q: Can you give an example of an “interpersonal skills” issue?

A: The most common “interpersonal skills” issue relates to one employee treating another employee disrespectfully in words or actions. For example, a manager who uses obscene language, who yells at employees, who doesn’t listen to what others are saying, who doesn’t communicate with employees, could be violating the ethics principles of respect and trust. All employees, and especially members of management, are expected to foster a positive work environment.

Q: What issues do you see as presenting the most risk to the Corporation?

A: Allegations relating to violations of the Foreign Corrupt Practices Act, Insider Trading, Export/Import Issues, and Procurement Integrity present substantial risk to the Corporation. Other high-risk areas involve the protection of sensitive or proprietary information, the hiring of ex-government employees, and issues relating to equal employment opportunity, including discrimination and sexual harassment.

Q: What action has the Corporation taken to address these high-risk areas?

A: A key element in reducing these risks is to ensure that employees are aware of the laws, rules, and regulations pertaining to their job duties. Employees are required to complete compliance training courses in each of the high-risk areas correlating to their job responsibilities. The annual ethics awareness training case scenarios also cover many

of the high-risk areas. Lastly, other ethics communication activities, such as company newspaper articles, posters, the Ethics Minutes, and the Ethics Film Festival help raise employee awareness and sensitivity to key issues.

Q: Various ethical scandals have been in the headlines over the past few years. Any lessons learned?

A: We have seen that it only takes wrongful conduct by one or a small group of employees to cause significant harm to a company. In some cases, the individuals involved were motivated by personal financial interests. In other instances, a misguided sense of loyalty caused an employee to act unethically, sometimes with devastating consequences. From our perspective, ethical lapses at other companies have reinforced the importance of ethics and integrity, and the need for continued vigilance by all Lockheed Martin employees.