

OUTBEHAVING THE COMPETITION

BY BEING PROACTIVE AND ESTABLISHING AN EXPECTED QUALITY OF ONGOING BEHAVIOR, COMPANIES CAN ECLIPSE THE COMPETITION BY EARNING A REPUTATION OF HONESTY AND INTEGRITY.

BY SANDRA BOGRAD



BUSINESSES ARE CURRENTLY UNDER A LOT OF PRESSURE. IN A TIME OF ECONOMIC UNCERTAINTY, BUSINESS LEADERS MAY BE TEMPTED TO MAKE MORE ETHICAL COMPROMISES THAN EVER BEFORE. AS PRESIDENT BARACK OBAMA PROCLAIMED IN HIS INAUGURAL ADDRESS, “FOR AS MUCH AS GOVERNMENT CAN DO, AND MUST DO, IT IS ULTIMATELY THE FAITH AND DETERMINATION OF THE AMERICAN PEOPLE UPON WHICH THIS NATION RELIES.” BUT HOW CAN BUSINESS LEADERS RESPOND TO THE CURRENT ECONOMIC CRISIS IN AN EFFECTIVE WAY THAT MEETS THEIR FINANCIAL AND LEGAL REQUIREMENTS WITHOUT COMPROMISING THEIR COMMITMENT TO ETHICAL BEHAVIOR?

A large concern for the U.S. government right now is how the American public perceives its various relationships with businesses around the world. If the government funds unethical behaviors in business, knowingly or not, how can the American people feel comfortable with contributing their hard-earned money to support such behaviors? They cannot. In fact, there is a great deal of cynicism toward companies that are the beneficiaries of bailouts with tax dollars, yet seem to be oblivious to the impact of their actions on the atmosphere of trust in the business community as a whole. Also, at a time where every penny counts, some organizations are still throwing away millions of dollars on unnecessary expenses, publicly displaying that they do not take the situation seriously and will continue to misbehave.

The newest mandatory regulation for government contracts, *Federal Acquisition Regulation (FAR) 3.1002*, is an attempt to further instill ethical behavior into government business relations. Simply put, the regulation requires government contractors to conduct themselves with the highest degree of integrity and honesty. This can be accomplished by implementing a written code of conduct, an employee training pro-

gram, and an internal control system. These programs, if implemented correctly, should facilitate timely discovery and disclosure of improper conduct in connection with government contracts, as well as ensure that corrective measures are promptly instituted and accomplished.

This approach is fundamentally sound. A code of conduct encourages a path for developing an organizational culture that promotes ethical conduct and a commitment to complying with the law. Additionally, a code of conduct exercises due diligence to prevent and reveal criminal conduct. To be effective, a copy of the code should be available to each employee.

An ongoing business ethics awareness and compliance program will help companies communicate and execute on the contractor standards, as well as the code of conduct. By conducting effective training programs and distributing the appropriate information to each employee, the company drives awareness and compliance with the program and the internal control system. The training is made available to all company principals and employees, as well as agents and subcontractors, as

appropriate.

An internal control system helps establish standards and procedures which will streamline and facilitate the discovery of code of conduct breaches. The primary objective is to ensure that periodic reviews of company business practices, procedures, and policies are in compliance. Companies should also be aware of the actions of those responsible for the internal control system, making sure they are at a high level within the company. If due diligence exposes them as having engaged in poor conduct, they should be removed from the process. This regulation is a prominent step toward enforcing behavior that is values-based, principled, and honorable from the beginning.

We currently work in a profession in need of “cleaning up.” We now realize that for years some company executives have been less than open with stakeholders and the general public, leaving the rest of the business community to clean up the cynicism and distrust that those inauthentic behaviors have left on the public’s perception of the business community as a whole. As a nation, we realize that there is, in the public’s opinion, a substantial disconnect between ethical



business behavior and the actual behavior of our country's leading organizations.

As with most regulations and government-imposed rules, companies are scrambling to comply with FAR 3.1002. However, contract managers must shift their thinking as well. If they are able to see the regulation as more than an obligation and as an opportunity instead, then they will develop an environment that goes beyond doing good for the sake of compliance—they will improve relationships and strengthen trust between all parties. The companies that look beyond written rules and begin behaving in ways that are authentic and genuine are the companies that will achieve a long-term, sustainable advantage.

Now more than ever it is important for our nation's business leaders to outperform their competitors by "outbehaving," which is to use principled behavior to instill a deeper sense of trust within their various constituents. How a company approaches its decisions and how it executes them is as important as the decisions and actions themselves. A company's "how" approach is not defined by hiring a customer experience officer or mandating rules of engagement—those strategies are "what" approaches that can be copied or reverse-engineered. Instead, a "how" approach is defined by the extent to which a company pursues its aspirations with authenticity, openness, consistency, and fidelity to its values and principles.

By being proactive and establishing an expected quality of ongoing behavior, companies can eclipse the competition by earning a reputation of honesty and integrity. These qualities are priceless when it comes to customer and partner relations.

The business world's old behavioral habits allowed for the accumulation of power over people through leverage. In today's flat and hyperconnected world, power is increasingly derived **through** people—through relationships, authenticity, transparency, and openness. While government-imposed regulations, such as the new FAR 3.1002, help companies to focus on these important factors, innovators will recognize that the real opportunity lies in "how" companies will move beyond

the regulation and begin to act in an ethical and sustainable way as a means of competitive differentiation.

Unlike previous sources of power and competitive differentiation, behavior is not finite. Behavior is one of our greatest sources of renewable energy, and it is important for companies to realize that poor behavior can continue to weigh on an organization. Values-based behavior will lighten the load of business leaders and employees alike. With strengthened emphasis on authentic bonds and increased trust, employees will stress less over how their actions are perceived. By opening the lines of communication at all levels of the company, relations will improve, which means less time wasted on conflict resolution. Business leaders may still worry about employee performance, but will be elated to see increased company loyalty and overall innovation on the job.

It is imperative that leaders show "tone from the top." By connecting with employees in values-based discussions that are deep and meaningful, business leaders shape structures and systems that will cascade throughout the entire organization and flow into external audiences. Similarly, if employees do not see their C-level executives operating at the expected standards of performance and behavior, companies risk a loss of internal respect for the behavior of others and organizational processes.

Over the past few years, we have seen the actions of some continually affect the perception of many. We witnessed Satyam, and hoped others would learn from their mistake. We also witnessed the American auto bailout, and hoped wealthy executives would be humbled and learn from their mistakes. Collectively, we wait to see if shame and humility will bring these companies back down to earth. Simply put, to overcome these blips on the business ethics radar, the answer lies in improved behavior. Companies must realize that in order to outperform their competition, they must reverse these innate perceptions of "corporate America" through superior behavior. To outperform they must outbehave, and by outbehaving they achieve not just performance, but principled performance, which is

the center of any truly sustainable business.

More important than enforcing a blanket code of conduct and expecting great results, business leaders must fundamentally rethink the meaning of trust and how it impacts their employees and their organizations. This phenomenon is referred to in Dov Seidman's book, *HOW: Why HOW We Do Anything Means Everything...in Business (and in Life)*, and is rendered in an elegant acronym: "T.R.I.P." The notion is that **Trust** engenders **Risk**, which leads to **Innovation** and ultimately, to **Progress**. CEOs must understand and share values with their employees—they must reach an understanding where extending trust yields innovation, outweighing any worry associated with granting increased responsibility down the ranks.

At a time when trust in business is at an all-time low, business leaders can surprise their employees and stakeholders by doing something that some may consider counterintuitive: extend trust, give it away. By extending trust rather than requiring it to be earned, business leaders will see innovation begin to take place again. FAR 3.1002 is a signal to most that corporate America needs to shape up or ship out.

Most experts agree that our current global financial situation will not improve anytime soon. However, leaders who remain calm and focus on the bigger picture of achieving the long-term goals set out for the company, and not just on surviving the economic crunch, will build a sustainable and enduring legacy with loyal partners and employees.

Going above and beyond the expected, and now lawful, behavior detailed in the new regulation will result in both short- and long-term success. There is no time like the present for companies to turn their behavior around. For companies that are just starting out in the game, this is their chance to establish a standard of performance that focuses less on what is produced and more on how it impacts the business and society as a whole.

Again, as President Obama stated in his inaugural address, "For as much as govern-

ment can do, and must do, it is ultimately the faith and determination of the American people upon which this nation relies.” This statement reminds us that we are all citizens of our society first and foremost and business executives second. In hard times, all citizens have a role and an ethical duty to their fellow citizens. When one engages in business activities that harm the common good, they go against the fundamental obligations of a citizen. **CM**

ABOUT THE AUTHOR

SANDRA BOGRAD is a senior knowledge leader at LRN (www.lrn.com). With over 25 years of experience as a writer, professor, prosecutor, television commentator, and chief compliance officer at global organizations such as New York Life, Sandra is uniquely qualified to help companies deploy more effective programs in the areas of legal, compliance, governance, risk, ethical leadership, social responsibility, environmental responsibility, and principled performance in their businesses.

**NOW MORE THAN EVER IT IS
IMPORTANT FOR OUR NATION'S
BUSINESS LEADERS TO OUTPERFORM
THEIR COMPETITORS BY
“OUTBEHAVING.”**



LRN[®] *Inspiring Principled Performance*SM