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# NAVAL POSTGRADUATE SCHOOL



## THESIS

**A COMPARATIVE STUDY OF DOD AND NON-DOD  
ETHICS POLICIES AND PRACTICES IN INDUSTRY AS  
APPLIED TO THE NATIONAL INDUSTRIAL BASE**

by

Michael B. Murphy

December 1999

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<b>1. AGENCY USE ONLY (Leave blank)</b>		<b>2. REPORT DATE</b> December 1999	<b>3. REPORT TYPE AND DATES COVERED</b> Master's Thesis	
<b>4. TITLE AND SUBTITLE</b> : A Comparative Study of DoD and Non-DoD Ethics Policies and Practices in Industry as Applied to the National Industrial Base			<b>5. FUNDING NUMBERS</b>	
<b>6. AUTHOR(S)</b> Murphy, Michael B.				
<b>7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)</b> Naval Postgraduate School Monterey, CA 93943-5000			<b>8. PERFORMING ORGANIZATION REPORT NUMBER</b>	
<b>9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES)</b> N/A			<b>10. SPONSORING / MONITORING AGENCY REPORT NUMBER</b>	
<b>11. SUPPLEMENTARY NOTES</b> The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.				
<b>12a. DISTRIBUTION / AVAILABILITY STATEMENT</b> Approved for public release; distribution is unlimited.			<b>12b. DISTRIBUTION CODE</b>	
<b>13. ABSTRACT (maximum 200 words)</b> DoD is moving from industrial sectors for defense and commercial products to a common, integrated national industrial base. One of the principal objectives of DoD's acquisition reform is to open the defense market to commercial companies and technology. The purpose of this study is to examine the current ethics culture within industry and the perception of the ethical practices within the companies surveyed as well as in the industry. Specifically, this thesis focuses on the similarities and differences in the ethical environments of the Defense and the non-Defense industries. A survey was utilized to identify trends in the ethical behavior of the industry and a thorough review was conducted of the ethics policies provided by the responding companies. The research identifies significant differences and trends in the ethical environments between these two diverse industries and makes recommendations to the DoD acquisition professional to ensure an ethical environment exists when dealing with businesses not familiar with the ethical standards of DoD acquisition.				
<b>14. SUBJECT TERMS</b> Ethics, Acquisition, Contract Management, National Industrial Base, Defense Industrial Base			<b>15. NUMBER OF PAGES</b> 202	
			<b>16. PRICE CODE</b>	
<b>17. SECURITY CLASSIFICATION OF REPORT</b> Unclassified	<b>18. SECURITY CLASSIFICATION OF THIS PAGE</b> Unclassified	<b>19. SECURITY CLASSIFICATION OF ABSTRACT</b> Unclassified	<b>20. LIMITATION OF ABSTRACT</b> UL	

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)  
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239-18

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**A COMPARATIVE STUDY OF DOD AND NON-DOD ETHICS POLICIES AND PRACTICES IN INDUSTRY AS APPLIED TO THE NATIONAL INDUSTRIAL BASE**

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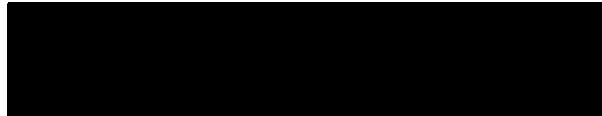
Submitted in partial fulfillment of the requirements for the degree of

**MASTER OF SCIENCE IN MANAGEMENT**


from the


**NAVAL POSTGRADUATE SCHOOL  
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## ABSTRACT

DoD is moving from industrial sectors for defense and commercial products to a common, integrated national industrial base. One of the principal objectives of DoD's acquisition reform is to open the defense market to commercial companies and technology. The purpose of this study is to examine the current ethics culture within industry and the perception of the ethical practices within the companies surveyed as well as in the industry. Specifically, this thesis focuses on the similarities and differences in the ethical environments of the Defense and the non-Defense industries. A survey was utilized to identify trends in the ethical behavior of the industry and a thorough review was conducted of the ethics policies provided by the responding companies. The research identifies significant differences and trends in the ethical environments between these two diverse industries and makes recommendations to the DoD acquisition professional to ensure an ethical environment exists when dealing with businesses not familiar with the ethical standards of DoD acquisition.

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## I. INTRODUCTION

### A. BACKGROUND

Congress has enacted numerous laws and regulations concerning ethical behavior in DoD procurement. The concept of ethical behavior by organizations has been around for centuries, beginning with theories from Aristotle and Plato. Recently, scholars have begun to address the cultural or situational aspects of ethics. Since the 1980s with the Department of Defense ethics scandal "Ill Wind," there has been heightened public demand for demonstrably ethical behavior by those involved in public contracting. Many believe that Government and contractor acquisition officials should be held to a higher standard than the private sector. Many defense contractors have developed and implemented internal guidelines by which employees are expected to conduct business in an ethical manner. These guidelines were developed to maintain a working definition of ethics and to extend the principles and standards of business dealings to the organization's stakeholders. The stakeholders in a company include, the employees, communities, customers, and the environment. Additionally, many of these guidelines are applied to a firm's suppliers.

With acquisition reform, the DoD is moving from industrial sectors for defense and commercial products – "artificially separated by DoD rules and procedures" – to a common, integrated national industrial base. One of the principal objectives of DoD's acquisition reform program is to open the defense market to commercial companies and

technology. In addition, with a procurement budget that has declined more than 60% in real terms since FY85, DoD can no longer afford the luxury of maintaining a totally unique defense industrial base. Many traditionally defense-unique companies are converting to dual-use (commercial and defense) production companies competing with commercial companies for market share. Numerous scholars (Baumol, 1991; Friedman, 1971; Hayek, 1944; Sen, 1992; Solomon, 1992) believe that the competitiveness of the market place and a business's position in the market equally influence a company's ability to act ethically. Other scholars (Baumol, 1991; Sethi, 1994; Sama, 1998) believe that an oligopolistic market such as the defense industry, heavily regulated with one customer (monopsony) and only a few large firms competing with each other, may be more conducive to ethical behavior. On the other hand, the highly competitive unregulated marketplace of the commercial sector may result in unethical behavior amongst competition. [Ref. 16;p. 92]

## **B. OBJECTIVES**

This thesis will present the current ethical environments of both DoD and non-DoD contractors and determine whether additional ethical policies and guidelines are required for acquisition professionals as DoD transitions to a national industrial base. The ethics programs, policies, and practices of the defense industry and the non-defense industry will be examined.



## **C. RESEARCH QUESTIONS**

### **1. Primary**

To what extent will the ethics culture of non-Defense contractors have on Defense procurement in the transition to a national industrial base?

### **2. Secondary**

- a.** What is the current ethics culture in the Defense Industrial Base?
- b.** What is the current ethics culture in the non-Defense industry?
- c.** What are the differences, if any, between the Defense and the non-Defense industries concerning ethical behavior?
- d.** What are the similarities, if any, between the Defense and the non-Defense industries concerning ethical behavior?
- e.** What, if any, additional ethics policies and guidelines will DoD Contracting Officers require during the transition from a defense industrial base to a national industrial base?

## **D. SCOPE, LIMITATIONS AND ASSUMPTIONS**

### **1. Scope**

The main thrust of this study is to assess the internal ethical programs, policies, and practices of the Defense industry and the non-Defense industry and determine if any differences exist that may require additional policies and guidelines for the DoD acquisition community. The focus is on both prime contractors and subcontractors in the defense industry and non-defense companies from various industries throughout the United States. The researcher's objective in looking at both defense industry and non-

defense industry is to determine if DoD should modify its current ethics and acquisition policies.

## **2. Limitations**

The study is limited to the documents and surveys returned to the researcher. Some ethics guidelines may be elaborated in documents not submitted and not covered within the survey, and therefore, are not considered.

## **3. Assumptions**

The researcher will assume that all areas of ethical behavior relevant to the companies contacted are covered in the documents provided as well as the results of the survey. Additionally, the researcher will assume that the reader is familiar with all rules and regulations concerning ethical behavior within the Federal Government.

## **E. METHODOLOGY**

A comprehensive literature review of the national industrial base and ethics policies was conducted. The researcher obtained background information from libraries and the Internet. The primary research objective was to determine the extent, if any, that DoD procurement may encounter a difference in the ethical behavior of companies not associated with DoD procurement regulations and oversights. In addition to the primary objective, the researcher also wanted to evaluate and compare the ethics programs and policies of DoD and non-DoD industries. To facilitate these objectives and to make a comparison of the data, the researcher utilized a survey to assess the ethics programs

within the industries, and requested available ethics policies. The solicited survey comprised of 16 questions with the following objectives:

- To determine the types of companies responding by:
  - Industry
  - Size of Company
  - Minority-owned
- Whether the company had done business with the Department of Defense.
- To determine if the company had an ethics policy.
- To determine the overall effectiveness of the ethics program (as determined by an organization's self-assessment).
- To have the company do a self-assessment of their ethical behavior.
- To have the company give an assessment of ethical behavior of competitors within their industry.

The survey questions were worded so that the respondent had to do one of three things: answer yes or no to applicable questions, rank his/her answers or provide further explanation of a previously answered question. This was done for several reasons. First, the researcher wanted to maximize the response to the survey by limiting the required time spent on the survey. Second, the researcher wanted to make all responses as standardized as possible so that data analysis could be performed efficiently and effectively. The third reason was to enable the researcher to gather data from e-mail and telephone surveys. A cover letter was attached to each survey to provide an overview of

this study. The letter explained the background, purpose and usefulness of the survey results and requested the company's assistance in filling out the survey. A copy of the survey and the cover letter is presented in Appendix A.

The researcher provided the companies the opportunity to respond via mail, telephone or by e-mail. This was done in an attempt to increase the survey response rate by allowing companies to respond using their preferred medium.

The researcher utilized several databases to acquire the addresses and telephone numbers for the survey. The researcher's primary source was Moody's Commercial Data Base. This data base lists over 40,000 companies from various industries. The researcher identified associations and utilized the addresses of member companies listed on their Internet web site. Additionally, the researcher contacted DoD procurement agencies to solicit addresses of companies currently doing business with DoD.

## **F. BENEFITS OF THE THESIS**

The purpose of this study is to determine if there is a difference in the ethical programs of the non-Defense industry and the Defense industry as DoD looks to the commercial marketplace to satisfy requirements that were previously only available in the Defense Industrial Base (DIB). If differences exist, the researcher will attempt to identify those differences and evaluate whether the non-Defense industry's ethical programs should be of any concern to DoD procurement agencies as DoD transitions to a National Industrial Base.

## **G. ORGANIZATION OF THE THESIS**

The remainder of the thesis is organized into four chapters. Chapter II, "Background and Literature Review," presents the reader with background information on the history of acquisition reform, the Defense Industrial Base, and ethics studies.

Chapter III, "Analysis of Ethics Programs," presents the survey data and an in-depth analysis of the survey results for contractors within the Defense Industrial Base as well as companies not currently doing business with the Department of Defense.

Chapter IV, "Summary of Ethics Programs and Policies," provides a comparative analysis between the two groups to determine existing similarities and differences.

Chapter V, "Conclusions and Recommendations," provides the researcher's principal conclusions and recommendations from this study.

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## II. BACKGROUND AND LITERATURE REVIEW

### A. INTRODUCTION

Leading commercial companies have found that cooperative business relationships with suppliers have improved their ability to respond to changing business conditions. Such relationships have led to lower costs and have translated into higher quality, greater productivity, and shorter product design and delivery times. The Department of Defense (DoD) also faces difficult business conditions in that it must find ways to modernize its weaponry more economically. Also, DoD has recently stated a need to modernize weapons at a faster pace. DoD has an opportunity to incorporate best supplier practices into the process it uses to acquire weapon systems. In doing so, DoD is turning toward the commercial market to take advantage of its products, technologies, and management practices. Consequently, the DoD is striving to use more commercial products and practices rather than relying solely upon the Defense Industrial Base (DIB) to satisfy many of the military requirements that have commercial applicability. This acquisition strategy is seen as a way to reduce costs and shorten lead times. In addition, the problems associated with a decreasing defense industrial base become less severe if there is a strong and willing commercial base on which to draw.

A defense industrial base capability is a skill, facility, process, or technology needed to design, develop, produce, repair, or maintain products used by the Department of Defense (DoD). DoD is operating in a defense environment that is very different from

the past: the threat has changed. DoD has become a smaller customer with changing needs and DoD is looking increasingly to the commercial marketplace to satisfy its requirements. Consequently, DoD has incorporated numerous policy changes to make DoD a more efficient buyer. As DoD looks to the commercial marketplace, the ethical situations maybe different from those accustomed. Numerous studies have been conducted on the ethical environment of the commercial marketplace. Many scholars believe that the commercial marketplace, due to the competitive nature of the markets, tend to promote an environment of unethical behavior. "Based on recent research on market competitiveness and its effect on company ethics, contracting professionals may need to update traditional expectations about acquisition-related ethics" [Ref. 12:pp. 17-20].

"Conventional wisdom and popular folklore hold that competition keeps businesses honest." [Ref. 16;p. 89] Therefore, it should be common place that firms will act more ethically as markets approach the ideal conditions of perfect competition. A counter-intuitive argument can be made to suggest that markets approaching perfect competition create the conditions that are ripe for unethical behavior.

We generally have markets approaching certain characteristics of perfect competition where an infinitely large number of small businesses compete vigorously with each other for customers who hold no loyalty to a particular business and product, and who offer little inducement to the business to work toward gaining their loyalty or repeat business. Under these circumstances, even the minimally imposed legal standards of behavior are likely to be violated by firms operating with razor thin profit margins in highly competitive markets. Further, the anonymity inherent in these markets is an inducement for firms to act deceptively since both interfirm and customer relations are not based on long-term relational



concept of trust and good will. The only exception, is when ethical behavior in excess of minimum requirements contributes to profits. [Ref.16:p. 90]

Companies in regulated and highly stable or mature environments (i.e., Defense Industry) are likely to act more ethically where their unethical behavior is difficult to conceal and the affected parties have market or political power to retaliate and are willing to exercise that power. Given the high level of public scrutiny and regulatory oversight, these companies are likely to be risk-averse in that they would be reluctant to experiment with unethical behavior for the purpose of reaping higher profits. [Ref. 16:p. 97] Small businesses typically mirror the ethical conduct of the owner/managers. The owner typically works in an environment where personal fortune is closely tied to the firm's success, there is also the temptation to cut corners and to gain short-term advantage at the expense of the firm, its customers, and other stakeholders. Therefore, it is very likely that ethical behavior for small businesses are likely to cover a wide spectrum from highly ethical to highly unethical.

This chapter begins with an overview of ethics studies in the commercial marketplace. Following the overview, the researcher will review major events in acquisition reform that have allowed DoD to look toward the commercial marketplace, and the effects of a transition to a National Industrial Base. The researcher will discuss the importance of these events to the Defense Industrial Base.

## B. BACKGROUND

Ethics are standards by which one should act based on values. Values are considered as core beliefs such as duty, honor, and integrity that motivate attitudes and actions. Not all values are considered to be ethical values. Ethical values relate to what is right and wrong and thus take precedence over non-ethical values when making ethical decisions.

Ethics are matters of personal perception. Hence, ethics have their roots in the personal moral standards and philosophies of professional people. What is perceived to be a proper standard of conduct requires that a substantial majority of fellow professionals provide their voluntary approval.[Ref. 8:p. 18]

In his *Nicomachean Ethics*, Aristotle clearly stated his view concerning the purpose of studying ethics: "Our present study is not, like other studies, purely speculative in its intention; for the object of our enquiry is not to know the nature of virtue but to become ourselves virtuous, as that is the sole benefit which it conveys."

([Ref. 4]) Webster's Dictionary defines ethics as:

- ethics, *n.pl.*
1. [construed as singular] the study of standards of conduct and moral judgement; moral philosophy.
  2. [construed as singular] a treatise on this study; a book about morals.
  3. the system or code of morals of a particular philosopher, religion, group, profession, etc.

moral, *adj.* [from latin roots meaning pertaining to manners or morals...]

1. relating to, dealing with, or capable of making the distinction between, right and wrong in conduct.
2. relating to, deriving to teach, or in accordance with, the principles of right and wrong.
3. good or right in conduct or character...

Ethical violations and violations of law when together create confusion and often times creates a “gray area” for ethical behavior. Ethics considers beliefs; wherein law concerns behavior, where the two meet is the “gray area.” Figure 1 illustrates the relationship of the two terms.

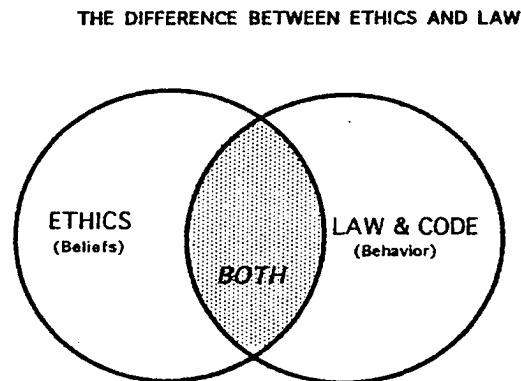


Figure 1 – Difference Between Ethics and Law  
From: Ref. 4.

### 1. Overview of Ethics Studies

Numerous studies have been conducted over the years concerning ethical behavior in industry. Several authors and researchers have attempted to explain the extent and causes of unethical business behaviors.

In 1961, Raymond Baumhart, undertook an early examination of corporate ethics. [Ref. 6] In this survey of over 1,700 business people, he found that nearly 80 percent felt that unethical practices occurred in industry. He found that the two key influences

leading to unethical behavior were the behavior patterns of supervisors and managers, and the ethical climate established in a given industry. In 1976, Brenner and Molander replicated Baumhart's original study and found that 67 percent of the 1,227 business executives surveyed felt that unethical practices occurred in industry. [Ref. 6] The researchers determined from the survey that pressures imposed by "superiors," and the absence of a specific ethics policy were the two main causes of unethical business behavior.

Carlton Guertler conducted one of the first studies that focused on ethics in purchasing in 1966. [Ref. 9] "His work explored the existence, breadth, and depth of written policies that explained what a company expects of its employees in the area of ethical conduct." [Ref. 9:p. 19] The responses received from Guertler's survey indicated that half of the responding firms had written standards of ethics for purchasing personnel and, of these, 92 percent believed that having such standards of ethics was very beneficial. The study concluded that having written policies was very helpful to purchasing people in shaping their beliefs and in guiding their behaviors.

"A 1975 survey of purchasers in Ohio, West Virginia, western Pennsylvania, and northern Kentucky, directed by Ernst & Whitney (E&W), was one of the first attempts to study in depth the ethics of industrial purchasing practices." [Ref. 9:p. 20] The 192 responses indicated that the vast majority of purchasing personnel adhered to high ethical standards and practices. Many of those individuals, however, indicated that certain practices requiring a close semi-social relationship with supplier representatives appeared

to be essential to effective conduct of a firm's buying activities. The authors of the study concluded that higher ethical practices were more likely to occur when the firm's management promulgated a written ethics policy, enforced it in practices, and periodically audited the behavior patterns of the purchasing personnel.

As a result of the study from 1975, a follow-on study was performed by the Center for the Study of Ethics in the Professions at the Illinois Institute of Technology (IIT). [Ref. 9] The IIT survey was modeled after the E&W study, it yielded 1,184 useable responses from all 50 states. Although 59 percent of the respondents stated that their firms had a written ethics policy, a minority of those surveyed reported ethics problems or purchasing practices that might be considered questionable. For instance, more than 30 percent stated that they were sometimes expected to buy from certain suppliers on the basis of reciprocal purchasing arrangements between the firm and selected suppliers.

William Rudelius and Rogene Buchholz conducted another study, published in 1979. [Ref. 9] The study was conducted using personal conversations and interviews and two mail surveys of purchasing managers in the Minneapolis-St. Paul area. One survey was mailed to senior purchasing managers at 75 area manufacturing firms. The second survey was mailed to a broader cross section of purchasing managers, buyers, and assistant buyers in a variety of manufacturing and non-manufacturing firms. The researchers noted that studying ethical issues could be difficult to isolate, that the mere mention of ethics in the workplace "strikes a sensitive chord" among purchasers. One

purchasing manager responded by stating: "Answering questions on this topic is a no-win situation, like asking when you stopped beating your wife." [Ref. 2:p. 3] To encourage candid responses from the purchasing managers, they asked the purchasing personnel to answer in terms of the purchasing profession in general, not in their own organizations. They then asked the purchasing personnel whether their own organizations had policies addressing the problems and whether they desired such policies. The study revealed that offers of gifts, entertainment, and trips constituted the major ethical concerns of all buying personnel within the organizations, regardless of the size of the firm. Approximately 80 percent of those responding indicated that their organizations had ethics policies that covered these issues. "The authors concluded that written policies dealing with ethical matters are necessary for purchasing personnel." [Ref. 9:p. 20] "Experienced purchasing managers and buyers all say that what they want most from higher levels of management are more stated policies to deal with purchasing practices that have higher ethical overtones." [Ref. 2:p. 2]

In 1981, a study was undertaken in the Midwest by Alan Dubinsky and John Gwin. [Ref. 6] The purpose of the study was to compare the ethical perceptions of people engaged in sales and purchasing work with respect to eleven situations commonly faced in their day-to-day, interactive work experience. The comparison study was conducted for several reasons. First, because of the frequent interactions between the two disciplines, the perceptions of situational ethics laid a foundation for the development of the relationships between the buyer and seller. Second, the perceptual differences

between the two may lay a foundation for managerial policy making, so that the policy implementation better serves the interests of the respective employees and their organizations. Finally, due to the nature of the relationship of sales and purchasing and the interaction between the two disciplines makes the potential for ethically difficult situations to be "relatively high." Albert Z. Carr wrote a controversial article concerning the ethical behavior of businesspeople. He stated:

That most businessmen are not indifferent to ethics in their private lives, everyone will agree. My point is that in their office lives they cease to be private citizens; they become game players who must be guided by a somewhat different set of ethical standards. [Ref. 6:p. 10]

The researchers believed that everyone has two sets of standards: one that is used in their private lives, and one that is used in business. The results of the study concluded that purchasers (at least based on their perceptions) faced more difficult situations than that of the salespeople, and desired more policy guidance in dealing with those situations. It was hypothesized that buyers are more sensitive to the perception of any unethical behavior that may lead to personal gain, and thus want to minimize the possibility through the written policies of the company. Additionally, it may be that current company policies do not deal with potential unethical behaviors in enough detail for different situations to provide a sense of comfort to the buyers. The salespeople, on the other hand, felt less troubled by ethically sensitive issues than purchasing personnel. The study indicated that the firms of the salespeople were more likely to have policies that addressed the situations. It was believed that salespeople were less sensitive to unethical behaviors due to the very nature of the jobs they perform, the competitiveness of their

respective markets required, and thus ethically acceptable to engage in behaviors (even those that may be questionable) that increases the probability of making the sale. Additionally, salespeople may be under the impression that their respective companies have adequate policies covering unethical behaviors.

In 1986, *Purchasing* magazine conducted a survey concerning the acceptance of gifts. [Ref. 9] Sixty-six percent of the survey's respondents reported that their organizations had a formal policy concerning the acceptance of gifts. In many of the organizations, particularly the large ones, the acceptance of gifts was strictly prohibited. Thirty-five percent of the companies participating in the survey indicated that they periodically notify their suppliers of their policy on gifts. Seventy-five percent of the respondents stated that their ethics policies were not audited or formally checked. Only eighteen percent indicated that their policy on the acceptance of gifts had been updated in the last five years.

In 1988, Laura B. Forker and Robert L. Janson conducted a study to determine what are considered ethically acceptable practices and the perceptions of those by actions by the individuals and the companies they represented. [Ref. 9] The survey was performed by utilizing a questionnaire which was composed of six sections that dealt with the following topics: (1) ethical practices, (2) buying experience, (3) acceptance of favors, (4) narrative comments, (5) the organization profile, and (6) personal information of the respondent. [Ref. 9:p. 21] There were 1700 questionnaires mailed, of which 236 usable responses were received. The results of this study found that the great majority of



buyers (97 percent) accept some form of favor from salespeople, only two types of favors were considered acceptable by at least 50 percent of the respondents – advertising novelties, by 72 percent, and lunches, by 68 percent. The researchers concluded that there was a substantial gap between what buyers perceived as being ethically appropriate and how they actually behaved. The results of the study were compared with those conducted by Ernst & Whinney in 1975, and the Illinois Institute of Technology in 1978. [Ref. 9] All three studies were conducted for the same geographical area. It was discovered that over the past twelve years, buyers indicated a greater willingness to accept vendor-supplied gifts, but actually accepted gifts less frequently than they did in 1975. For those gifts accepted in 1987, the average annual value of the gift increased as the individual's position title and salary increased. The average annual value of favors accepted was approximately \$132. The values per favor ranged from \$3 to \$5000. Trips to vendors' plants averaged \$571 for the 27 trips actually accepted. [Ref. 9:p. 21] The researchers concluded,

Four of the previous six surveys on ethical practices in purchasing concluded that a formal company ethics policy is helpful in deterring questionable practices by employees.... Most of the firms participating in the study reported having a written ethics policy, and typically used the same policy for both the purchasing and sales departments.... Unfortunately, management guidance on ethical practices appears to have eroded somewhat over the past twelve years, even though reviews of ethical practices by management have become more frequent. [Ref. 9:p. 24]

In 1995, a study was undertaken by four business school professors. [Ref. 1] The study was based on the "in-basket" tests that are often used in personnel evaluations. The

study was conducted over a period of seven years. The professors had nearly 400 people participate in the study playing the role of a fictitious executive, the professors found that 47 percent of the top executives , 41 percent of the controllers and 76 percent of the graduate-level business students they surveyed were willing to commit fraud by understating write-offs that cut into their companies' profits. The professors had presented the individuals with scenarios in which a person would be confronted with the opportunity to hide a write-off or to improperly inflate sales figures. The professors motivated the individuals by indicating to them that they would be up for the soon-to-be-retired president's position, based on his/her ability to fatten the bottom line. A professor who led the study indicated, "What I found was really disappointing. Before undertaking the research, I believed that people's "individual values" make a big difference in how they behave in the workplace. But now I'm convinced that they don't." [Ref. 1:p. C1] Another professor concluded that if people "are in an environment where there are strong incentives to cheat, most people will." [Ref. 1:p. C1] Beyond the failure to disclose write-offs, fourteen percent of the chief executives and eight percent of the controllers were also inclined to inflate sales figures to meet expectations.

In 1996, a study was conducted by L'Heureux and Sellers, two USAF officers, to develop a profile of the fraudulent contractor. [Ref. 11] The purpose of this study was to develop a profile that might be useful to defense investigative agencies tasked with the responsibility of investigating contract fraud. The researchers obtained corporation names and other information from the DoD Inspector General's Semiannual Reports to

the Congress (October 1, 1989 to April 1, 1995). From these reports, the researchers identified 316 incidents prosecuted by Federal authorities during the period. The researchers wanted to identify those conditions that might be useful for predicting fraudulent contractor behavior. They identified three relevant conditions that might contribute to a propensity to commit fraud: firm size, resource or capital slack, and past financial performance. Their research indicated that a firm's size is an indicator of whether a company would commit fraud. They concluded that larger firms are more likely to commit fraud than are smaller firms. They hypothesized that larger firms tend to have more problems controlling individual behavior.

This lack of oversight may make it easier for individuals engaged in less than desirable corporate behavior to hide their behavior. Further, in larger organizations individual rewards often are closely tied to the financial performance of the projects the individuals supervise. When one combines such reward systems with the inability to closely monitor individual behavior, it is reasonable to assume there will be more cases of fraudulent behavior. [Ref. 11,p. 27]

The researchers conceded that a possible explanation for the relationship between firm size and fraudulent behavior was due to large contractors tend to hold more and larger defense contracts. As a result, the limited resources of the investigative agencies may have tended to focus those limited resources towards contract actions with the highest dollar values. Consequently, they determined, that it was possible that larger firms were prosecuted more often because they tended to be the organizations most closely monitored by investigators. The researchers concluded that slack resources within an organization are an indicator of a firm's propensity to commit fraud. This was

supported by their study results and the results of white-collar crime studies. Their results did not find a significant relationship between poor financial performance and fraudulent behavior. The researchers indicated that their measure for financial stress of a firm may not be indicative of the actual financial environment of the firm.

In 1998, a survey by the Ethics Resource Center and the Society for Human Resource Management, concluded that "overly aggressive financial objectives and other forms of workplace pressure often are what push otherwise honest people over the edge." [Ref. 3:p. E1] Nearly half of the 747 human-resource professionals surveyed indicated that they felt pressured by colleagues or managers to compromise ethical standards to achieve business objectives. Fifty percent stated that financial pressure was the most intense motivator in ethical lapses, while 38 percent said they result from pressure to meet schedules. Others indicated that unethical behavior was motivated by a desire to help the company survive or resist competitive threats. "Unethical behavior persists despite the fact that most companies have codes of ethics or address the issue in some way," said Caryn Beck-Dudley, a Utah State University professor. "It occurs because few firms take policies a step farther to create and perpetuate corporate cultures where ethical behavior can flourish." [Ref. 3:p. E1] A study in the Journal of Business Ethics of Fortune 500 companies found that 98 percent of those polled had some kind of ethics code or policy in place. A professor who conducted the study concluded that while some programs are comprehensive and effective, there is reason to believe that many companies' ethics programs are superficial. He further stated, "When you look at what

they're doing, there's not much follow-up." [Ref. 3:p. E1] Although 137 of the 254 responding firms formally assigned ethics responsibilities to a single ethics officer, more than half said their officers spend ten percent or less of their time on ethics issues.

## **2. Major Events Affecting Acquisition Reform**

The Department of Defense has long recognized the need to find ways to streamline its acquisition system, and reduce the cost of the acquisition process both to DoD directly, by reducing DoD's administrative costs, and indirectly, by reducing the costs of DoD's supplier base and thus the amount of money DoD pays for supplies and services received. For many years, DoD suggested to Congress that congressionally imposed Government unique requirements, terms, and conditions made it impossible for DoD to make any significant headway in streamlining the acquisition system and processes. During 1993, Vice President Gore reviewed the way Government operates and made recommendations for improvement. His report is now known as the National Performance Review (NPR). One chapter of the NPR dealt with problems in the way the Government's acquisition system responds to its internal customers. The report found that DoD acquisition is "a rule laden system which stifles, rather than encourages, risk management." [Ref. 19] Based on the recommendations of the NPR and a panel of representatives of Government, industry, and academia, DoD developed a vision for reforming DoD's acquisition System. The vision was shared with Congress in February 1994, and was entitled *Acquisition Reform- Mandate for Change*. As a result of this vision, Congress enacted acquisition reform legislation to improve access to commercial

technologies, reduce administrative overhead, and reverse the trend toward over regulation. The Federal Acquisition Streamlining Act (FASA) of 1994 and the Federal Acquisition Reform Act (FARA) of 1996 were landmark legislation designed to transform the procurement process into a simplified, more efficient and accessible system. They have and continue to impact how the Government conducts business with industry. The following are highlights of FASA and FARA.

a. *The Federal Acquisition Streamlining Act (FASA)*

President Clinton has characterized FASA as the most significant procurement reform legislation since the Competition in Contracting Act of 1984. Although the statute was passed in October 1994, many of the regulations that implemented FASA were not published in final form until September 1995. These changes affected a host of procurement practices including commercial item acquisition, micro-purchases, Simplified Acquisition Threshold (SAT), small business concerns, Truth in Negotiations Act (TINA) requirements, bid protest procedures and electronic commerce.

- ***Commercial Item Acquisition.*** FASA encourages procurement agencies to buy more commercial-off-the-shelf (COTS) products instead of those designed to DoD unique design specifications. It did this by expanding the definition of a "commercial item." Prior to FASA, qualification as a commercial item was determined by comparing the extent of a contractor's commercial sales to federal Government sales. Under the old definition neither items "offered for sale" (but not actually sold), nor commercial services could qualify as commercial items. Under FASA, a Commercial Item is defined broadly as [Ref. 24]:
- Any item that is of a type customarily used by the general public or by non-Governmental entities for other than Governmental purposes, and that has been

sold, leased, or licensed to the general public; or offered for sale, lease or license to the general public.

- Any item that evolved from commercial items through advances in technology or performance and that is not yet available in the commercial marketplace, but will be in time to satisfy the Government's delivery requirements.
- Modified items, so long as the modifications are of a type customarily available in the commercial marketplace, or are minor modifications made to meet Government requirements.
- Combinations of commercial items so long as the combinations are of a type customarily combined and sold in such combinations to the general public.
- Services purchased by the Government to support commercial items, so long as the services are offered to the general public and the Government under the same or similar conditions and utilize the same workforce.
- Services offered and sold competitively in substantial quantities in the commercial marketplace based on established catalog prices under standard commercial terms and conditions.
- Any item, combination of items, or service referred to above that is transferred between or among separate divisions subsidiaries or affiliates of a contractor.
- A nondevelopmental item (NDI) that is developed exclusively at private expense and is sold in substantial quantities on a competitive basis to multiple state and local Governments.

This definition broadens the scope of goods and services, which may be purchased by the Government using the more relaxed commercial procedures established in FAR Part 12.

- **Micro-purchases.** Micro-purchases allow for purchases of items below \$2,500 to be bought without competitive quotations or compliance with Buy American Act stipulations and certain small business requirements. The use of micro-purchases streamlines the acquisition process and reduces paperwork.

- ***Simplified Acquisition Threshold (SAT).*** FASA raises the threshold for the Government's use of simplified acquisition procedures from \$25,000 to \$100,000. This change is significant in that more than 90% of annual procurement transactions are below \$100,000. [Ref. 25] Simplified acquisition not only lessens the Government's burden, but also reduces the time and resources a contractor must spend ensuring that its product meets Government standards. The use of SAT reduces the amount of staff time on record keeping and subsequently reduces the costs for both the Government and its suppliers.
- ***Small Business Procedures.*** The new law contained several provisions designed to assist various types of small and disadvantaged business and to ensure that Congress' socio-economic objectives were met. It raised from \$25,000 to \$100,000 the dollar value of contracts reserved for small businesses. The statute provided that civilian agencies, as well as the Defense Department, set-aside certain contracts to ensure that five percent of Federal contracts are awarded to small disadvantaged business. The statute also creates a five percent women-owned business contracting goal.
- ***Truth in Negotiations Act (TINA).*** The Truth in Negotiations Act (TINA) requires contractors to certify and submit cost and pricing data on certain negotiated Federal Government procurements. Prior to the enactment of FASA, there were two separate standards that governed the submission of such data. Cost and pricing data were required for negotiated civilian agency contracts, subcontracts and modifications with an expected value in excess of \$100,000. Since 1990, however, DoD, NASA and Coast Guard contracts were subject to a \$500,000 threshold. FASA extended the \$500,000 threshold to civilian agency procurements and repealed the "sunset" provision so that all Federal Government procurements were subject to the \$500,000 threshold. TINA is generally designed to ensure that when the Government buys at a price that has not previously been tested in the competitive marketplace, the Government is placed on equal footing with the contractor. Raising the threshold to \$500,000 for certified cost or pricing data is intended to reduce the risk of inaccurate cost or pricing data submissions and to lessen the contractor's burden of compiling that data.
- ***Protests and Claims.*** FASA addresses issues relating to bid protests and contractor claims. Under certain circumstances, contractors can file formal challenges or bid protests, against unfavorable terms in a Government solicitation or to contest the Government's decision to award a contract to a competitor. The FASA strives to reduce the number of bid protests by requiring that prospective contractors who are not selected for award be given information about the



Government's decision in a more timely fashion. FASA now provides that within five days after the Government receives a request for information, unsuccessful offerors will be debriefed by the Government and told why their offer was not accepted and the basis for the Government's selection decision.

- ***Electronic Commerce/Electronic Data Interchange (EC/EDI).*** The Federal Acquisition Computer Network (FACNET) was established to provide a universal electronic capability that would enable potential contractors to conduct business with the Government by means of electronic commerce. The system is used to inform the public about Federal contracting opportunities and permit the electronic submission of bids and proposals. In 1996, over 80,000 FACNET compliant transactions were occurring each month. The Defense Information Systems Agency (DISA) implemented a much larger infrastructure in December 1996 that would allow 50,000 transactions per day. (Ref.19) This capability allows both larger and more complex contracts to participate in the EC/EDI process. The network provided the opportunity for any business with a personal computer to participate in the Federal Government acquisition process. The system was expected to make it easier for small businesses to do business with the Government, to discover potential opportunities and to respond to Government solicitations for such goods or services.

The Federal Acquisition Streamlining Act legislation revised more than 225 statutory rules, encouraged Federal agencies to buy commercial-off-the-shelf products, and simplified Government procedures for procuring those products. Key provisions included the following: (1) raising from \$25,000 to \$100,000 the threshold for waiving many statutes governing defense procurement; (2) streamlining the bid-protest process to prevent costly delays that could result when contractors protest procurement contract awards; (3) raising to \$500,000 the cap that would allow bidding defense contractors to bypass special accounting systems requirements, and avoiding lengthy cost and pricing data to the Government; (4) raising from \$25,000 to \$100,000 the value of contracts that could be reserved for small business; and (5) creating unified Federal procurement statutes for all executive branch agencies. [Ref. 26]

b. ***Federal Acquisition Reform Act (FARA)***

The Federal Acquisition Reform Act of 1996 was passed during the first session of the 104<sup>th</sup> Congress and builds upon the earlier FASA legislation. It was included in the FY1996 DoD Authorization Act. It simplified procedures to procure commercial products and services, and at the same time preserve the concept of full and open competition. It exempted contracts and subcontracts for commercial items from the application of Cost Accounting Standards (CAS). It reduced barriers to acquiring commercial products by eliminating the requirement for certified cost and pricing data for commercial products. In addition, the so-called "procurement integrity" provision consolidates and clarifies the standards of conduct for Federal officials in the acquisition process, to ensure consistent treatment of such personnel on a Government-wide basis.

[Ref. 26] Other major impacting provisions of FARA included [Ref. 27]:

- ***Section 4101 – Efficient Competition.*** Provides that the FAR shall ensure that the requirement to obtain full and open competition is implemented in a manner that is consistent with the need to fulfill the Government's requirements efficiently.
- ***Section 4103 – Efficient Competitive Range Determinations.*** Provides that a contracting officer may limit the number of proposals in the competitive range if he determines that the number of proposals that would otherwise be included in the competitive range exceeds the number at which an efficient competition can be conducted.
- ***Section 4201 – TINA Exception for Commercial Items.*** Provides an exception for suppliers of commercial items to the Government, whether by contract, subcontract or modification, from the TINA requirement to submit certified cost or pricing data. When such an exception applies, the contracting officer must have the supplier of the commercial item submit data other than certified cost or pricing data to the extent necessary to determine

reasonableness. The commercial item exception has equal standing with other TINA exceptions.

- ***Section 4202 – Simplified Procedures for Certain Commercial Items.*** Permits the use of simplified acquisition procedures for procurements expected to exceed the simplified acquisition threshold (\$100,000), but not to exceed \$5 million, when the contracting officer reasonably expects, based on the nature of the commercial property or services and market research, that offers will include only commercial items.
- ***Section 4203 – Commercially Available Off-the-Shelf Items.*** Provides that the FAR shall include a list of provisions that are inapplicable to contracts for the procurement of commercially available off-the-shelf items.
- ***Section 4204 – Broader Definition of Commercial Services.*** Expands the definition of “commercial services” in the OFPP Act to include services sold based on “market” as well as catalog prices. The new definition reads: “Services offered and sold competitively, in substantial quantities, in the commercial marketplace based on established catalog (or market) prices for the specific tasks performed and under standard commercial terms and conditions.”
- ***Section 4205 – Inapplicability of Cost Accounting Standards (CAS) to Contracts and Subcontracts for Commercial Items.*** Exempts contracts and subcontracts from commercial items from the application of the cost accounting standards.
- ***Section 4302 – Simplified Acquisition and FACNET Capability.*** Amends FASA by eliminating the \$50,000 cap on the use of simplified acquisition procedures until an agency receives interim FACNET certification (i.e., all activities may use simplified acquisition procedures for procurements up to \$100,000). Provides that the threshold will revert back to \$50,000 after 31 DEC 1999, if an agency does not have full FACNET certification.
- ***Section 4304 – Procurement Integrity.*** Significantly overhauls section 27 of the OFPP Policy Act and repeals redundant procurement ethics statutes. Revises the restrictions on obtaining or disclosing contractor bid or proposal information or source selection information. Prohibits, except as provided by law, present or former Federal employees from knowingly obtaining or disclosing such information before the award of a contract to which the information relates. Authorizes criminal penalties for a violation when the

information is exchanged for something of value or for the purpose of allowing anyone to obtain a competitive advantage in the award of a Federal contract.

**c. *Information Technology Management Reform Act***

The Information Technology Management Reform Act (ITMRA) was included in Section E of the FY1996 Defense Authorization Act. The major aspect of ITMRA was the elimination of GSA's role in the oversight of IT acquisitions and the requirement for agencies to get a Delegation of Procurement Authority (DPA) from GSA. The Act also eliminated the General Services Administration Board of Contract Appeals (GSBCA) involvement in the information technology protest arena. Procuring agencies were given direct authority to procure information technology with a focus on capital planning and investment control and performance and results-based management.

The Department of Defense continues to focus its efforts on the implementation of acquisition reform. Through this focus, DoD has initiated several policies that originated from FASA's provision of encouraging the use of commercial items to satisfy military unique requirements. Such initiatives include dual-use technologies, open systems approaches, and a single process initiative. The acquisition reform initiatives of FASA and FARA have been both substantial and positive. These two pieces of legislation have made major inroads in the DoD's ability to go to the private sector for commercial-off-the-shelf items. Numerous areas frequently seen as barriers to the procurement of commercial items have been modified or eliminated. Additionally, DoD was given authority by Congress in the FY1997 Defense

Authorization Act to use "Other Transaction Authority (OTA)" in lieu of contracts when acquiring prototypes related to weapon systems. [Ref. 24] This type of agreement allows the opportunity for commercial companies not previously participating in DoD procurement to become involved in the acquisition process without being subject to the Federal Acquisition Regulation (FAR).

### **3. Defense Industrial Base**

An area undergoing dramatic change is the means and manner by which the United States obtains the capabilities to equip the Military Services. "Beginning with the onset of World War II and continuing through the decades of the Cold War, the U.S. built a formidable industrial and scientific-technical base that was instrumental to achieving victory in both conflicts." [Ref. 15:p. 9] The continuous military-technological competition during the Cold War and the requirement it created for the kind of products which no commercial enterprise could produce, resulted in the development of a unique defense industrial base (DIB).

Those circumstances that created the requirement for a dedicated DIB no longer exist. The end of the Cold War brought a reduction in the size of the military forces and smaller defense budgets. Smaller forces and fewer dollars meant reduced demand for weapon systems and other military equipment. Consequently, this meant that the Cold War DIB, built to provide the means to equip large forces in constant confrontation with a well-armed adversary, was faced with overcapacity. In spite of the fact that the demand from the military for systems embodying the most advanced technology remains high,

current and projected procurement budgets are only capable of supporting a limited number of the new systems.

In response to the changing defense environment, the defense industry responded to the reduced requirement for unique defense products in two ways: first, through consolidation of existing production facilities and capabilities and second, by re-engineering themselves. At the same time DoD has been experiencing declining procurement budgets and the DIB has undergone massive restructuring. In the aerospace sector, for example, some forty different companies, in whole or in part, were consolidated into three: Lockheed Martin, Boeing, and Raytheon. [Ref. 15:p. 9] In addition, these same companies have sought to restructure themselves to be more efficient. This restructuring has involved efforts to reduce overhead through the elimination of excess infrastructure and reductions in workforce. In many cases it has also meant the reorganization of supplier networks and the closer integration of commercial suppliers into the overall logistics chain. Many of the new defense contractors have followed the lessons learned by successful multi-national corporations in their efforts to become world-class competitors and to do business on a global basis.

The consolidation and transformation of the post-Cold War era defense industrial base has progressed much farther and faster than any analyst would have predicted a few years ago.[Ref. 15:p. 10] The objectives and structures of the remaining defense contractors have changed since the time the defense budgets were higher. Critics of the consolidation process warn that the nation is in danger of being unable to meet its

security requirements as a result of the consolidations. Over the decades of the Cold War, the Federal Government imposed standards, specifications, and regulations on defense industries that increased the divergence between the behavior of companies performing defense-related work and those able to employ standard commercial practices. These unique requirements were imposed for the purpose of further supporting what were considered important Government and national interests. Acquisition reform has removed many of the obstacles considered by commercial companies from preventing their participation in defense acquisitions. In the 1990s, many areas of innovation in weapons have broad commercial applications or cutting-edge commercial innovation that drives the process of innovation within weapon systems. Moreover, the commercial industrial base offers the prospect for savings on the procurement of items for defense purposes due to the less restrictive industrial practices and the advantages of economies of scale. As a result of conditions in the marketplace, many companies chose to exit the defense market. Many companies, particularly those such as IBM, GE, and Westinghouse, for whom defense business was a relatively small part of their overall activity could not absorb the costs associated with maintaining a competitive position in the defense sector.[Ref. 15:p. 15]

#### **4. National Industrial Base**

The post-Cold war defense environment has created what amounts to a redefinition of the character of the industrial base that supports the nation's defense requirements. Increasingly, the nation is moving away from the idea of a unique DIB to a

reliance on a broader national industrial base, some elements which have unique competencies in defense-related activities but the majority of which are large companies with significant, even dominant commercially oriented activities. The commercial sector has begun to play a more prominent role in meeting DoD's needs. In order to be more competitive and meet DoD's demands for performance and affordability, prime contractors have begun to rely more heavily on commercial suppliers and commercial practices. The commercial sector leads in innovations in many of the technical areas most critical to future military capability. "The commercial industrial base with its unparalleled agility, flexibility, and responsiveness to change will play an increasing, someday perhaps dominant, role in meeting DoD's need for advanced weapons systems at the lowest prices." [Ref. 15:p. 17] Former Under Secretary of Defense for Acquisition and Technology, Paul Kaminski, stated at a speech at the Industrial College of the Armed Forces,

The benefits of a better-leveraged industrial base are not only reduced cost, but reduced acquisition cycle times as well. In DoD, we cannot afford a 15-year cycle time when the commercial turnover is every three to four years. In a global market everyone, including our adversaries, has access to the same commercial technology base. The military advantage will go to the nation who has the best cycle time to capture what is available commercially, get it incorporated in weapon systems and get it fielded. [Ref. 28]

##### **5. The Defense Industry Initiative on Business Ethics and Conduct**

During the 1980s, public concern about the defense industry grew as investigations of major defense contractors and reports of procurement irregularities increased. In July 1985, President Reagan asked David Packard, Chairman of the



Hewlett-Packard Corporation and a former Deputy Secretary of Defense, to chair a specially appointed, independent Blue Ribbon Commission on Defense Management, which came to be known as the Packard Commission. The Commission was directed to conduct a broad study of defense management, including the budget process, procurement, organization and operation, and legislative oversight, and to make recommendations for streamlining and improving defense management. In its Interim Report, dated February 28, 1986, the Packard Commission recognized the limits of Federal regulation and suggested that effective self-governance might help to curb industry misconduct. The Interim Report stated:

To assure that their houses are in order, defense contractors must promulgate and vigilantly enforce codes of ethics that address the unique problems and procedures incident to defense procurement. They must also develop and implement internal controls to monitor these codes of ethics and sensitive aspects of contract compliance.[Ref. 29]

A number of companies in the defense industry responded to the Commission's recommendations. In 1986, representatives of 18 defense contractors met and drafted six principles that became known as the Defense Industry Initiative on Business Ethics and Conduct. These principles, which appeared in the Appendix to the Packard Commission's June 1986 final report to the President, "A Quest for Excellence," pledged the signatory companies to promote ethical business conduct through the implementation of policies, procedures, and programs in the following six areas [Ref. 29]:

- Codes of ethics
- Ethics training

- Internal Reporting of alleged misconduct
- Self-governance through the implementation of systems to monitor compliance with federal procurement laws and the adoption of procedures for voluntary disclosure of violations to the appropriate authorities
- Responsibility to the industry through attendance at Best Practices Forums
- Accountability to the public

At the time the Packard Commission's final report appeared in June 1986, there were 24 signatory companies to the Defense Industry Initiative (DII). As of 1998, the number had grown to 50. [Ref. 29] The DII has indicated that the number of signatory companies is smaller than in previous years due to mergers and acquisitions and not from companies withdrawing from DII participation. Furthermore, DII claims that although the number of signatory companies is small compared to the total number of firms conducting business with DoD, the signatory group includes "virtually" all of the top 25 defense contractors. The DII group represents nearly half of the DoD prime contract awards to the top 100 contractors. [Ref. 29] The signatory companies established a Steering Committee of senior executives to be the policy-setting body for the DII and a working group to analyze policy issues and coordinate DII program development activity. The DII signatory codes of conduct address similar specific issues that reflect possible areas of risk of violating laws or acting improperly. The following issues are often discussed [Ref. 30]:

- Business Courtesies
- Kickbacks

- Conflicts of Interest
- Employing and recruiting Current or Former U.S. Government Personnel
- Confidential Information
- Use of Company Resources
- Complete and Accurate Books, Records, and Communications
- Bidding, Negotiation, and Performance of Contracts
- Charges to Government
- Relationships with Suppliers and Representatives
- Violation of Standards by Others
- Inside Information and Investment in Securities
- Antitrust and Restriction of trade
- Workplace Relationships and Proper Conduct
- Corporate Citizenship and Relations with the Community
- Political Contributions
- Product Quality
- Environmental Compliance

#### **6. Federal Sentencing Guidelines**

In November 1987, the Federal Sentencing Guidelines, promulgated by the United States Sentencing Commission under the Sentencing Reform Act of 1984, first became effective. [Ref. 10] In November 1991, Sentencing Guidelines for Organizations

became effective. The guidelines for organizations provide for reductions in fines for corporations convicted of criminal misconduct if the corporation had in place an “effective” compliance program to detect and prevent misconduct. The guidelines list seven factors on which the effectiveness of the program is evaluated. [Ref. 30] Whether or not the company:

- Established compliance policies and procedures for its employees
- Assigned high-ranking individuals to oversee the compliance program
- Took care not to give known wrongdoers positions involving discretion or authority
- Provided training to all employees on its policies and procedures
- Took steps to ensure compliance and detection violations such as monitoring auditing systems as well as to have created a mechanism to which employees feel safe and comfortable reporting procedures
- Consistently responded to detected violations
- Evaluated and modified its program to ensure enhanced prevention and detection of illegality

#### **7. Foreign Corrupt Practices Act**

As a result of SEC investigations in the mid-1970s, over 400 U.S. companies admitted making questionable or illegal payments in excess of \$300 million to Foreign Government officials, politicians, and political parties. The abuses were widespread from bribery of high foreign officials to secure some type of favorable action by a Foreign

Government to so-called facilitating payments (although some payments are not illegal under FCPA) that allegedly were made to ensure that Government functionaries discharged certain oversight or clerical duties. Congress enacted the Foreign Corrupt Practices Act (FCPA) to bring a halt to bribery of foreign officials and to restore public confidence in the integrity of the American business system.

In 1977, Congress passed the FCPA as an amendment to the Securities Exchange Act of 1934. [Ref. 30] The objective of the new act was to curtail U.S. corporate involvement in foreign commercial bribery activities, and more generally to enhance the image of the United States throughout the world. [Ref. 5:p. 716]

The FCPA was intended to have and has had an enormous impact on the way U.S. firms conduct business. Several firms that paid bribes to foreign officials have been the subjects of criminal and civil enforcement actions, resulting in large fines and suspension and debarment from Federal procurement contracting and their employees and officers have gone to jail. To avoid such consequences, many businesses have implemented detailed compliance programs intended to prevent and to detect any improper payments by employees.

The FCPA contains three major sections focusing on: [Ref. 5:p. 716]

1. Antibribery issues.
2. Record-keeping requirements.
3. Penalty provisions.

### C. SUMMARY

The end of the Cold War and its resultant impact on defense spending has created a strong need for reform of the DoD acquisition system. With procurement spending decreasing, DoD is more dependent upon savings from acquisition reform initiatives to help finance future force modernization. Policymakers have realized that DoD should use more commercial products (where applicable) because, in many instances, they cost less and their quality is comparable to products built according to DoD military specifications.

Significant changes have occurred to the DoD acquisition system with the advent of acquisition reform. These changes have occurred in the form of FASA and FARA. These regulations have facilitated the use of commercial items to satisfy military unique requirements. Acquisition reform has also facilitated increased interaction between the defense industry and commercial, non-defense industries. As a result of the declining defense budget, The 102<sup>nd</sup> Congress initiated a defense economic adjustment program which included funding for commercializing military technology. The program was designed to help U.S. defense companies diversify their operations. Under this program firms were encouraged to produce "dual-use" products that could also be sold in the commercial sector. Consequently, these firms would now compete with commercial companies in the marketplace to help offset the reduced defense procurement budget.

Scholars and authors have differing opinions on the effects that a competitive marketplace creates on ethical behavior. Some take economic views that perfect competition creates ethical behavior because they operate in competitive markets, as such

those companies strive for productivity and to allocate efficiently thereby serving the general welfare even when the firm is pursuing its own self-interest. Others argue that efficient markets may prompt firms to not act smartly, and to act unethically, in fact, Mr. Prakash Sethi believes “perfect markets are highly imperfect in their enforcement of business morality.” [Ref. 16;p. 89-90] Despite company actions to establish and demonstrate a code of ethics, many believe that significant ethics related problems still exist.

For Government agencies, erosion of public confidence as stewards of public funds is a much greater issue than a loss of sales or profits for individual firms. The DoD is placing a stronger reliance on the commercial sector to satisfy requirements that were previously fulfilled by the defense industrial base (DIB). In “perfect competition”, firms have no incentive to engage in conduct beyond what the market dictates. Some authors believe that “perfect competition” creates conditions that are ideal for unethical behavior.

Numerous regulations and legislation have occurred over the past two decades to control the business behaviors of corporations and businesses in industry. Despite these actions, studies continue to demonstrate that instances of corporate fraud and unethical business practices are still occurring.

Because of the changes that have occurred over the last couple of decades concerning corporate image in the public eye, it is worthwhile to research the ethical environment of businesses today. This study will attempt to identify the current ethical environment in both commercial and defense industries.

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### III. ANALYSIS OF ETHICS PROGRAMS

#### A. INTRODUCTION

The survey (Appendix B) was sent to a total of 300 businesses. The researcher requested that they conduct the survey and return it within four weeks along with a copy of the business' written ethics policy, if applicable. Of the 300 solicited surveys, 43 were returned within the four-week constraint, comprising a response rate of 14 percent. This is consistent with previous studies concerning ethical behavior researched by this researcher. Two responses were received after the cut off date and were not included in the data analysis. Of the 42 responses, 10 businesses indicated there were company policies in place that prohibited its personnel from responding to surveys. Of those nine responses, six of the companies responded, "It is company policy not to respond to surveys of this nature." The other four companies indicated that it is company policy not to respond to surveys. The remaining 33 responses constituted the survey response base. The survey response base is 11 percent of the total surveys submitted for this research. No follow-up to the initial e-mailing was made.

The respondents were promised that their answers would remain confidential and that their ethics policies would remain non-attributable. The survey did not ask for any personal or company names nor were any records maintained of the persons to whom the surveys were sent. Written explanatory and detailed comments were provided by 19 firms, or 58 percent of the respondents, while 14 (42 percent) answered only the standard questions.

The researcher previously discussed the survey's purpose and methodology as well as the primary and subsidiary research questions. To adequately address each of the research questions, the researcher categorized all of the survey respondents into two similar groups and provided them each with a reference group identification to facilitate analysis. The two groups are: Defense and Non-Defense oriented with the breakdown shown in Table 3.1.

<b>Breakdown of Groups</b>			
<u>Group</u>	<u>Category Description</u>	<u>Freq.</u>	<u>Percent</u>
A	Defense	20	60.6
B	Non-Defense	13	39.4

Source: Developed by Researcher

The Defense Group is comprised of businesses, which have conducted business with DoD. This is the largest group, comprising 60.6 percent of the responses. The researcher requested that the respondents indicate if their business sells to the Department of Defense. Several respondents indicated that DoD business is a relatively small amount compared to overall sales for the company. The researcher did not want to skew the data based on a small number of contracts that may constitute only a small portion of the

company's overall business. These respondents were included within Defense Group. The second group, the Non-Defense Group, represents those firms that do not have business with DoD. This group represented 39.4 percent of the responses. The percentage of explanatory responses was fairly consistent in each group; 12 out of 20 in the Defense Group (60 percent) and six out of 13 in the Non-Defense Group (46 percent). All respondents provided a copy of their firm's ethics program and/or policy to the researcher (Appendix D).

This chapter will provide the overall results of this survey and subsequent analysis. Chapter IV will analyze the ethics policies provided and compares the responses from the survey between the two study groups.

## **B. PROFILE OF RESPONDENTS**

Several questions in the survey asked for specific company information. These questions served the purpose of acquiring demographic information regarding the responding firms. These questions were centered on the firm's type of industry, size of the firm and whether the firm conducts business with DoD.

### **1. Industry Classification**

Question 1 asked the companies to identify the company's associated industry. Of the 33 responding firms, 100 percent provided this information. Table 3.2 shows the industries represented by the responding firms. A total of 21 industries are represented in the survey. To be able to make a valuable comparison between the industries, the

researcher grouped the respondents' industries into five major industrial categories: construction, manufacturing, transportation, retail and services. The resultant comparison is shown in Table 3.3. Eighty-eight percent of the respondents were in the Manufacturing and Services sectors (55 and 33 percent, respectively). The remaining 12 percent were scattered across the other industry sectors.

<b>Primary Product/Service</b>			
<u>Major Industry</u>	<u>Industry Classification</u>	<u>Number of Firms</u>	<u>%</u>
Construction	Special Trade Contractors	1	3.0
Manufacturing	Aerospace	2	6.0
	Household Products	1	3.0
	Textiles-Apparel	1	3.0
	Chemical-Special	2	6.0
	Manufacturing-Special	3	9.0
	Electronic Equipment	2	6.0
	Electronics-Semiconductor	1	3.0
	Automobile	1	3.0
	Electronics-Defense	1	3.0
	Electronics-Special	1	3.0
	Communication Equipment	1	3.0
	Biotech	1	3.0
	Paper	1	3.0
Transportation	Marine	1	3.0
Retail	General Merchandise Stores	1	3.0
	Specialty Merchandise Stores	1	3.0
Services	IT Services	6	18.0
	R&D Services	3	9.0
	Management Services	1	3.0
	Newspaper/Internet	1	3.0
	Rounding Error		<u>1.0</u>
	<b>Total</b>	<b>33</b>	<b>100.0</b>

Source: Developed by Researcher

<b>Table 3.3</b>		
<b>Division of Major Industries</b>		
<u>Industry</u> <u>Grouping</u>	<u>Number</u> <u>of Firms</u>	<u>%</u>
Construction	1	3.0
Manufacturing	18	54.5
Transportation	1	3.0
Retail	2	6.0
Services	<u>11</u>	33.3
Rounding Error		<u>0.2</u>
<b>TOTAL</b>	<b>33</b>	<b>100.0</b>

Source: Developed by Researcher

The largest category for the Defense Group is manufacturing, comprising 55 percent of the responses. This category is so large because the majority of the surveys were sent to manufacturing firms. The largest category for the Non-Defense Group is manufacturing, comprising 54 percent of the responses.

## **2. Company Size**

The researcher also subdivided survey respondents into large and small businesses. To solicit a larger number of responses to the survey, the researcher requested that the respondents indicate whether their firm was considered a small business or not, and whether the firm was minority owned. This researcher's intent was to minimize the number of questions on the survey to maximize the response rate. Therefore, the Standard Industrial Code (SIC), the number of employees and the sales

volume were not requested. The researcher found that 23 (69.7 percent) of the responding companies were large businesses and the remaining 10 (30.3 percent) companies were categorized as small businesses. Of the 10 small businesses, four (40 percent) were minority owned. Table 3.4 shows the breakdown of companies and their corresponding industries. When the respondents were grouped into major industries, each major industry grouping showed that the majority of the companies responding were large businesses. The exception to this was Construction and Transportation because their populations were too small to see a trend.

<u>Major Industry Group</u>	<u>Large Business</u>		<u>Small Business</u>		<u>Minority Owned</u>	
	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	1	3.0	1	3.0
Manufacturing	14	42.4	4	12.1	1	3.0
Transportation	1	3.0	0	0.0	0	0.0
Retail	2	6.0	0	0.0	0	0.0
Services	<u>6</u>	18.2	<u>5</u>	<u>15.2</u>	<u>2</u>	<u>6.0</u>
Rounding Error		<u>0.1</u>				
<b>TOTAL</b>	<b>23</b>	<b>69.7</b>	<b>10</b>	<b>30.3</b>	<b>4</b>	<b>2.0</b>

Source: Developed by Researcher

The Defense Group comprised 14 (61 percent) of the large business firms and six (60 percent) of the firms in the small business category. The non-Defense Group

comprised nine (39 percent) of the large business firms and four (40 percent) in the small business category.

### **3. Company Location**

Seventeen states, plus the District of Columbia were represented in the respondent group. The number of respondents for each state is shown in Table 3.5. The e-mailings were not targeted to any one state, all firms were randomly selected according to various sources. Many of the respondents from the large businesses have branch offices in several states.

## **C. ETHICS SURVEY DATA**

Question 4 asked the company to respond whether their company has an established ethics policy. One-Hundred percent of the responding companies answered this question. Twenty-nine, or 88 percent of the respondents indicated that their firms had an established ethics policy. Four firms, or 12 percent of the respondents, indicated that their company did not have an established ethics policy in place. This is not consistent with recent studies and articles concerning the number of firms that have established ethics policies. "A recent survey of Fortune 1000 firms found that 98 percent of responding firms address ethics or conduct issues in formal documents." [Ref. 18:p. 131] Table 3.6 represents the breakdown of firms indicating an established ethics policy exists within their company.

<b>Table 3.5</b>		
<b>States of Respondents</b>		
<u>State</u>	<u>Freq.</u>	<u>%</u>
Arizona	1	3.0
California	5	15.2
Indiana	1	3.0
Iowa	1	3.0
Idaho	1	3.0
Maine	1	3.0
Maryland	2	6.0
Massachusetts	1	3.0
Missouri	1	3.0
Minnesota	2	6.0
New Mexico	1	3.0
New York	2	6.0
Ohio	1	3.0
Pennsylvania	3	9.1
Texas	1	3.0
Washington	3	9.1
Washington D.C.	1	3.0
Virginia	5	15.2
Rounding Error		<u>0.4</u>
<b>TOTAL</b>	<b>33</b>	<b>100.0</b>

Source: Developed by Researcher

The Defense Group comprised 19 or 66 percent of the firms indicating that their company had an established ethics policy. The non-Defense Group comprised 10 or 34 percent of the firms indicating that their company had an established ethics policy. Ninety-five percent of the respondents from the Defense Group indicated that their firms



have an established ethics policy, while 77 percent of the respondents from the non-Defense Group indicated their firms have an established ethics policy.

<u>Major Industry</u>	<u>Large Business</u>		<u>Small Business</u>	
<u>Group</u>	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	1	3.0
Manufacturing	13	39.4	3	9.1
Transportation	1	3.0	0	0.0
Retail	2	6.0	0	0.0
Services	<u>4</u>	<u>12.1</u>	<u>5</u>	<u>15.2</u>
Rounding Error		0.1		
<b>TOTAL</b>	<b>20</b>	<b>60.6</b>	<b>9</b>	<b>27.3</b>

Source: Developed by Researcher

Question 5 asked the surveyed companies to indicate if their companies had an established ethics policy to indicate whether the policy was written. One-Hundred percent of the respondents answered this question. Twenty-seven, or 82 percent of the responding companies indicated that their ethics policy was in writing. Two of the responding companies that responded positively to having an established ethics policy indicated that their firm did not have a written policy. This comprised 7 percent of the responses for companies with an established ethics policy. This was fairly consistent

with previous studies and articles. Researcher Robert Janson wrote, "Most companies have an ethics policy and it is in writing. Seventy-two percent of the firms had an ethics policy and 58 percent had a written policy." [Ref. 20] Another study indicated that 98 percent of firms address ethics or conduct issues in formal documents. Of those firms, 78 percent have a separate code of ethics, and most distributed these policies widely within their organizations.[Ref. 18:p. 131] This researcher can only hypothesize that the difference in percentages between the two referenced studies is because the first study was conducted in 1988 and the second was in 1998 and thus more firms have developed and implemented written ethics policies over the decade. Table 3.7 represents how the written policies were grouped for the responding companies that indicated their firms had an established ethics policy.

The Defense Group comprised 18, or 67 percent, of the companies that indicated their firms had an established ethics policy and that it was in writing. Within the Defense Group, 18 of the 19, or 95 percent of those firms reporting their firms had an established ethics policy indicated their firms had a written ethics policy. The non-Defense Group comprised nine firms or 33 percent of the companies that had an established ethics policy also reported having a written ethics policy. Within the non-Defense Group, nine of the 10, or 90 percent of the corresponding firms indicated their companies had a written ethics policy.

<b>Table 3.7</b>				
<b>Major Industry with Written Ethics Policies</b>				
<u>Major Industry Group</u>	<u>Large Business</u>		<u>Small Business</u>	
	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	0	0.0
Manufacturing	13	65.0	2	22.2
Transportation	1	5.0	0	0.0
Retail	2	10.0	0	0.0
Services	<u>4</u>	<u>20.0</u>	<u>5</u>	<u>55.6</u>
<b>TOTAL</b>	<b>20</b>	<b>100.0</b>	<b>7</b>	<b>77.8</b>

Source: Developed by Researcher

Question 6 asked the surveying companies to indicate if their ethics policy is generally understood. The purpose of this question was to determine if the firm's ethics program is disseminated to all levels of the organization and is generally understood by all employees. One-hundred percent of the respondents answered this question. Twenty-seven of the 29 companies, or 93 percent, of the firms that indicated their companies had an established ethics policy responded that their policy is generally understood by all employees. Table 3.8 shows the breakdown of company ethics policies generally understood by all employees by major industry.

The researcher found from Question 6 that 100 percent of the respondents classified as large business indicated their ethics policies are generally understood by all employees. Many indicated that all employees must sign a statement that they understand and will abide by the ethics policy of their company.

<u>Major Industry Group</u>	<u>Large Business</u>		<u>Small Business</u>	
	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	0	0.0
Manufacturing	13	44.8	3	10.3
Transportation	1	3.4	0	0.0
Retail	2	6.9	0	0.0
Services	4	13.8	4	13.8
<b>TOTAL</b>	<b>20</b>	<b>68.9</b>	<b>7</b>	<b>24.1</b>

Source: Developed by Researcher

The researcher found that 78 percent of the respondents classified as small businesses indicated their ethics policies are generally understood by all employees. The Defense Group comprised 18 of the 27 responding firms, or 67 percent, indicating having an ethics policy that is generally understood by all employees. Eighteen of the 20, or 90 percent, of the firms in the Defense Group indicated that their ethics policy is generally understood. The non-Defense Group comprised nine of the 27 responding firms, or 33 percent, that reported having a generally understood ethics policy. Nine of the 13 respondents in the non-Defense Group, or 69 percent, indicated they have an ethics policy that is generally understood by all employees. Both the Defense and non-Defense Groups had one firm that indicated their ethics policy is not understood by all employees. If we disregard the number of firms that indicated not having an ethics policy in Question 4,

this corresponds to 94 percent of the Defense Group and 88 percent of the non-Defense Group that indicated a generally understood ethics policy.

Question 7 asked if the surveyed companies had a conflict of interest policy. The purpose of this question was to identify the depth of the company's ethical concerns in their normal business dealings. Of the 33 respondents to the survey, 100 percent answered this question. Twenty-five of the respondents indicated that their firm has a conflict of interest policy. This corresponds to 75.7 percent of the respondents. The remaining 24.3 percent of the responding firms reported not having a conflict of interest policy. Table 3.9 identifies those responding firms that have a conflict of interest policy.

<u>Major Industry Group</u>	<u>Large Business</u>		<u>Small Business</u>	
	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	0	0.0
Manufacturing	11	33.3	2	6.0
Transportation	1	3.0	0	0.0
Retail	2	6.0	0	0.0
Services	<u>4</u>	<u>12.2</u>	<u>5</u>	<u>15.2</u>
<b>TOTAL</b>	<b>18</b>	<b>54.5</b>	<b>7</b>	<b>21.2</b>

Source: Developed by Researcher

The researcher found from Question 7 that 18 of the 23 responding large firms, or 78 percent, have a conflict of interest policy at their company. Seventy percent of the small

businesses have a conflict of interest policy. Transportation and retail comprised the group most likely to have a conflict of interest policy in place with 100 percent of the firms responding, followed by services with an 82 percent likelihood and manufacturing with 72 percent. Seventy-six percent of the respondents reporting having a conflict of interest policy were comprised of members in the Defense Group. This equates to 95 percent of the firms reporting selling to DoD. The non-Defense Group comprised six, or 24 percent of the firms indicating a conflict of interest policy in existence at their firm. Forty-six percent of the firms in the non-Defense Group have a conflict of interest policy.

Question 8 asked the surveyed companies if the ethical standards of their company had been reviewed within the last five years. The purpose of this question was to determine the overall involvement of the firm's management concerning the ethics policy of the company. The period of five years was selected from previous studies concerning ethics program reviews and revisions. All surveyed firms answered the question. Twenty-four of the respondents indicated having their ethics standards reviewed within the last five years. Recall that 29 firms indicated having an established ethics policy from Question 4. Taking this into account, 82.8 percent of the firms with an established ethics policy reported having the standards within those same policies reviewed within the last five years. Table 3.10 shows the firms indicating having their ethics standards reviewed within the last five years.

The researcher discovered from Question 8 that 100 percent of the Manufacturing firms in large business and Services in small business reported having their ethical

standards reviewed recently. Transportation was disregarded because the population is too small to evaluate a trend.

<b>Table 3.10</b>				
<b>Ethics Standards Reviews by Major Industry</b>				
<u>Major Industry Group</u>	<u>Large Business</u>		<u>Small Business</u>	
	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	0	0.0
Manufacturing	13	44.8	1	3.4
Transportation	1	3.4	0	0.0
Retail	1	3.4	0	0.0
Services	<u>3</u>	10.3	<u>5</u>	17.2
Rounding Error		<u>0.2</u>		<u>0.1</u>
<b>TOTAL</b>	<b>18</b>	<b>62.1</b>	<b>6</b>	<b>20.7</b>

Source: Developed by Researcher

The Defense Group comprised 16 of the firms, or 55.2 percent of the respondents, which indicated having an ethics policy at their company. Eighty percent of the firms in the Defense Group reported having a recent review of their ethics standards. This is noteworthy, in that, a review of the Defense Industry Initiative members ethics program materials revealed that of the 48 members present as of 1998, 30 members had ethics materials dated within the last 5 years. This corresponds to 63 percent. Many members listed materials that were dated beyond ten years. The non-Defense Group comprised eight of the firms or 27.6 percent of the respondents reporting having an ethics policy

within their firm. Sixty-two percent of the firms in the non-Defense Group have had a recent review of their ethics standards.

Questions 9 through 13 asked the surveyed companies to evaluate the ethical practices within their company as well as those of competitors within their industry. The purpose of these questions was to evaluate the experiences and attitudes of the ethical behaviors within their industries from the respondent's point of view. Question 9 asked whether the respondent had witnessed any unethical practices within their company. The response to this question was 100 percent. Eighty-two percent of the respondents, or 27 firms, indicated not witnessing any unethical practices within their company. The remaining 18 percent reported various unethical situations within their companies. The following situations were noted:

- Illegal "charge-backs"- a sales person for one firm charged the customer back the amount of agreed to markdowns when the salesperson's sales figures did not meet required figures. The salesperson was terminated when this was discovered.
- Hiring and promotional discrimination – the respondent indicated that promotions within their company are not conducted according to a person's qualifications and merits.
- Fixing bids/Collusion – the respondent indicated that he/she was involved with fixing bids to customers by supplying 3 bids that were essentially the firm's products/prices fed in from their company and two "allies."



- Conflict of interest- a senior company officer conspired to take work and employees to another company that happened to be a subcontractor. The individual resigned and took the employees with him. The officer and the employees were terminated shortly thereafter.
- Soliciting employees from Government- an individual was soliciting technical employees from an agency for employment purposes.
- Gifts to Senior-executives- the respondent reported that senior-executives from potential customer firms receive extensive amounts of entertainment from their company during sales trips.

The Defense Group comprised three of the firms indicating unethical practices within their respective firms. This comprises 15 percent of those firms that sell to DoD that have witnessed unethical practices within their company. The respondents did not indicate whether the unethical practices were directed toward DoD agencies. The non-Defense Group comprised the remaining three companies that indicated witnessing unethical practices within their firm which comprises 23 percent of those firms in the non-Defense Group. Table 3.11 provides the breakdown of ethical practices by industry as reported by responding companies.

Question 10 requested the surveyed companies to indicate whether the respondent had ever experienced an ethical problem caused by pressure on them from within their company. This question was asked because many studies and articles have indicated that a company's ethics program is only as effective as the values and beliefs of management.

<b>Ethical Practices by Major Industry</b>				
<u>Major Industry Group</u>	<u>Large Business</u>		<u>Small Business</u>	
	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	1	3.0
Manufacturing	11	33.3	3	9.1
Transportation	1	3.0	0	0.0
Retail	1	3	0	0.0
Services	<u>6</u>	<u>18.2</u>	<u>4</u>	<u>12.1</u>
<b>TOTAL</b>	<b>19</b>	<b>57.6</b>	<b>8</b>	<b>24.2</b>

Source: Developed by Researcher

“Regardless of level, organizational commitment was predicted most strongly by managerial adherence to organizational standards.” [Ref. 10:p. 289] The researcher wished to evaluate whether the possibility existed wherein the ethical values of the organization or management may be different from those of the employee. All 33 of the companies responding to the survey answered the question. Twenty-eight of the respondents or 84.8 percent of the firms indicated not having any incidences where the individual felt pressured causing an ethical problem. However, five of the firms, comprising 15.2 percent, indicated pressures from management to commit acts which were deemed unethical by the respondents. The respondents provided the following situations:

- The company was sponsoring a “car giveaway.” The winning name that was drawn was from another city that did not have a branch... the management had

the employee draw another name so that the company could get some local press from the drawing. The respondent noted that there were not any rules stating that the winner needed to be present or locally available to win.

- An individual was “encouraged” to agree with others on a panel to deny a qualified person a positional promotion based on non-qualification factors, i.e. rumors about an event from years earlier.
- Management asked a respondent to communicate information known to be incorrect. The individual refused, with no personal consequences.
- Unethical business process. The General Manager asked an individual to “lie” to a customer by falsifying a document and then fax that document to the customer, stating that a process was completed, knowing that the company had not done what the customer asked. The individual refused, with no personal consequences.
- Falsified numerous reports to state that the company’s performance was far better than the actual figures would state.
- General Manager asked the transportation company to falsify their log book so that the General Manager would not be charged for detention time (waiting time to load/unload shipments).
- Individual stated that it was common practice within their company to have sales people “lie” to potential customers about performance, deliveries and procedures.

- An individual was requested to communicate negative information about a competitor to a potential customer. This same individual indicated that it was common practice to provide “large incentives to customers” to maintain good business relationships.

Table 3.12 illustrates the breakdown of respondents that stated experiencing pressures from within their company that they felt created an unethical situation.

<b>Table 3.12</b>				
<b>Unethical Pressures Within Organizations by Major Industry</b>				
<b>Major Industry Group</b>	<b>Large Business</b>		<b>Small Business</b>	
	<b>Freq.</b>	<b>%</b>	<b>Freq.</b>	<b>%</b>
Construction	0	0.0	0	0.0
Manufacturing	3	9.1	0	0.0
Transportation	1	3.0	0	0.0
Retail	1	3.0	0	0.0
Services	0	0.0	0	0.0
Rounding Error		0.1		
<b>TOTAL</b>	<b>5</b>	<b>15.2</b>	<b>0</b>	<b>0.0</b>

Source: Developed by Researcher

The Defense Group comprised 40 percent, or two of the firms indicating internal pressures that created ethical problems. Ten percent of the respondents in the Defense Group reported experiencing pressures from the organization that created an ethical problem. The remaining three companies, or 60 percent that stated pressures from within

the organization that created ethical dilemmas were in the non-Defense Group. Twenty-three percent of the respondents in the non-Defense Group reported experiencing pressure from the company to conduct behaviors that created an ethical problem. Forty percent, or two of the respondents that answered positively to this question indicated not changing their ethical values and refused to conduct the acts with no repercussions. One respondent from each Group indicated not conducting the unethical requests.

Question 11 asked the respondent to indicate whether their companies provide gifts or favors to their customers or suppliers. The purpose of this question was twofold. First, there are regulations in place that prohibit or limit the acceptance of various gifts by Government employees and secondly, the researcher wished to discover whether it was common practice in the commercial marketplace to provide or accept gifts in normal business relations. Fifty-five percent of the respondents indicated that their companies do provide some form of gift or favor to its customers and suppliers. Many of these firms indicated that the gifts/favors were of "nominal" values or were consistent with normal business practices. Forty-five percent of the firms responded that they do not provide any gifts or favors in their normal business practices. Interestingly, several firms that indicated they do not provide gifts, considered promotional type items and sporting events not to be gifts or favors. Additionally, the researcher discovered after a review of the respondents' ethics policies that two of the firms indicating not providing gifts had policies concerning the "offering of gifts." Table 3.13 provides the breakdown of industries providing "gifts" to customers and suppliers in their normal business

interactions. The Defense Group comprised 55 percent, or 10 of the firms indicating giving gifts to customers or suppliers. Furthermore, 50 percent of those surveyed in the Defense Group indicated giving gifts to customers and suppliers in normal business practices. The non-Defense Group comprised the remaining 45 percent of the respondents, or eight firms, that report giving gifts or favors in their business dealings. Roughly 62 percent of the surveyed firms in the non-Defense Group report giving gifts or favors to their customers and suppliers.

<u>Major Industry Group</u>	<u>Large Business</u>		<u>Small Business</u>	
	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	0	0.0
Manufacturing	8	24.2	2	6.1
Transportation	1	3.0	0	0.0
Retail	1	3.0	0	0.0
Services	<u>3</u>	9.1	<u>3</u>	<u>9.1</u>
Rounding Error		<u>0.1</u>		
<b>TOTAL</b>	<b>13</b>	<b>39.4</b>	<b>5</b>	<b>15.2</b>

Source: Developed by Researcher

Question 12 asked if the surveyed companies give preferential treatment to a supplier who is also a good customer. This is known as reciprocity. Reciprocity restricts the ability of the firm to achieve competition among potential suppliers. As a result, this

forces suppliers to frequently purchase its products at higher than market prices than would be the case in open competition. This in turn causes higher prices for products to the ultimate consumer. Thirty percent of the respondents indicated giving preferential treatment to suppliers that are good customers. One of the respondents from a small business indicated that if the situation were to develop, they would be willing to enter into such a relationship. The purpose of this question was to identify potential conflicts that may occur in the buyer-supplier relationship. A 1988 study asked if purchasers gave preferential treatment to suppliers that were good customers. Fourteen percent of the respondents indicated there was such a relationship. To a follow-on question which asked if their firm expected the purchaser to buy from certain suppliers because of their purchases of the firm's products, 24 percent responded "sometimes." Forty-three percent of those same respondents indicated that they had been directed by management to use a specific supplier. [Ref. 20] Table 3.14 identifies those firms reporting a preferential treatment of suppliers that are good customers.

The Defense Group comprised four firms, or 40 percent of the respondents, indicating giving preferential treatment to suppliers that are good customers. Twenty percent of the respondents in the Defense Group indicated having a reciprocal relationship with their suppliers. The non-Defense Group comprised six firms, or 60 percent of the total respondents, answering positively to question 12. This comprises 46 percent of the companies in the non-Defense Group stating that they give preferential treatment to suppliers that are also good customers. "Companies manufacturing, high

volume, highly competitive, standardized products are more susceptible to reciprocal pressure than companies manufacturing highly differentiated products. [Ref. 5:p. 235]

**Table 3.14**  
**Preferential Treatment of Suppliers by Major Industry**

<u>Major Industry Group</u>	<u>Large Business</u>		<u>Small Business</u>	
	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	0	0.0
Manufacturing	4	12.1	2	6.0
Transportation	0	0.0	0	0
Retail	2	6.0	0	0
Services	<u>2</u>	6.0	<u>0</u>	0
Rounding Error		<u>0.1</u>		<u>0.1</u>
<b>TOTAL</b>	<b>8</b>	<b>24.2</b>	<b>2</b>	<b>6.1</b>

Source: Developed by Researcher

Question 13 asked the surveyed companies to indicate whether their company uses different ethical standards when dealing with overseas customers or suppliers. Five companies, or 15 percent of the respondents, indicated that they do use different ethical standards when dealing with overseas businesses. Seven companies, or 21 percent of the respondents, indicated that their companies do not conduct any business overseas. The remaining 21 firms, or 64 percent, answered negatively to this question. The purpose of this question was to determine if the responding firms had a double standard when it came to ethical standards and business practices. When the same question was asked to purchasing agents in a 1988 study, 16 percent of the respondents indicated that they do



use different ethical standards when buying overseas. [Ref. 20] The number of firms using different ethical standards with overseas firms is consistent with number of firms in the 1988 study. The Foreign Corrupt Practices act discussed in Chapter II, makes it a crime for any U.S. firm to offer or to make payments or gifts of *substantial value* to foreign government officials. The Act does not state any standards when dealing with foreign firms. Table 3.15 shows the major industries indicating using different ethical standards for overseas customers and suppliers. The Defense Group comprised two of the firms that indicated having different ethical standards when dealing with overseas customers and suppliers, this equates to six percent of the respondents.

<u>Major Industry Group</u>	<u>Large Business</u>		<u>Small Business</u>	
	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	0	0.0
Manufacturing	2	6.0	0	0.0
Transportation	0	0.0	0	0.0
Retail	2	6.0	0	0.0
Services	<u>1</u>	3.0	<u>0</u>	<u>0.0</u>
Rounding Error		<u>0.2</u>		
<b>TOTAL</b>	<b>5</b>	<b>15.2</b>	<b>0</b>	<b>0.0</b>

Source: Developed by Researcher

Ten percent of the companies in the Defense Group reported having different ethical standards for overseas business. The non-Defense Group comprised the remaining three firms answering positively to the question, this comprises nine percent of the responses. Twenty-three percent of the firms in the non-Defense Group reported having different ethical standards when dealing in international business. One-hundred percent of the firms in the retail industry indicated using different ethical standards. Several of the firms indicating using different ethical standards stated that application of these standards depends upon the culture of the country they are dealing with. One company representative volunteered that different countries (particularly developing ones) operate under different standards, and that it was common practice for their company to make allowances to move the business forward.

Question 14 asked the surveyed companies to indicate whether they had witnessed any unethical practices from competitors within their industry. Forty-two percent of the respondents to the survey, or 14 firms, indicated witnessing some form of unethical practices from competitors. The purpose of this question was to have the individual evaluate the ethical practices of their competitors and provide explanations. All respondents except one that answered affirmatively provided some form of unethical practice they witnessed. The following practices were reported:

- One company indicated that some competitors consistently use substandard materials in their construction process. The individual considered these to be "construction code cover-ups." The company indicated that it was common

practice for these construction companies to use substandard materials in areas that would not be accessible to quality inspectors and that correct materials were used in the inspection accessible areas.

- Recruiting situations. The respondent indicated that it was common practice for competitors to attempt to recruit buyers in order to get the buyer's clientele to follow.
- One company indicated that it was common practice for competitors to utilize political figures to gain access to Government contracts.
- Conflict of Interest. The owner of a company competed with this same company while being an officer of another company. When the owner left the company to start another business he carried with him and used against the former company secure information from the former company.
- A number of instances wherein competitors spread false and negative information about competitors and a tendency to "steal" another company's technology.
- Primarily in subcontractor/contractor relationships. Large firms have teamed with small businesses in partnerships. On more than one occasion the larger firm moved to capture all of the work when given the opportunity (i.e. the first re-compete). Associates of smaller firms that have "niche-area" skills have been the targets of hiring activities by larger firms despite the presence of "non-proselytization" clauses.

- In international business, not all companies abide by the same ethical standards. The individual stated that on several occasions, competitors have violated the Foreign Corrupt Practices Act by providing favors to foreign dignitaries.
- An individual reported that competitors fully paid for events (e.g., golf outings) for Government officials. The individual stated that it was common practice for competitors to recruit Government employees who are near retirement and who have influence on a project currently in competition.

A common theme amongst many of the respondents was the attempts to recruit individuals from competitors and use the information from the former individual's company against that same company. Several respondents indicated that they had not personally witnessed any unethical practices from competitors, but feel that it does occur. This latter comment is interesting in that past studies have indicated that if an individual believes a competitor or rival is being less than truthful, the individual would be more willing to compromise their ethical standards to compete equally. "Negotiations are asserted to be breeding grounds for unethical behavior, with deception positioned as a common bargaining tactic. Furthermore, negotiations contain a competitive element that is also present in many ethical dilemmas." [Ref. 17:p. 330] Table 3.16 provides the breakdown of unethical practices of competitors within major industries. Over half of the manufacturers (57 percent) in large business indicated that competitors within their industry conduct unethical practices.

<u>Major Industry Group</u>	<u>Large Business</u>		<u>Small Business</u>	
	<u>Freq.</u>	<u>%</u>	<u>Freq.</u>	<u>%</u>
Construction	0	0.0	1	3.0
Manufacturing	8	24.2	2	6.0
Transportation	0	0.0	0	0.0
Retail	1	3.0	0	0.0
Services	<u>0</u>	0.0	<u>2</u>	6.0
Rounding Error		<u>0.1</u>		<u>0.1</u>
<b>TOTAL</b>	<b>9</b>	<b>27.3</b>	<b>5</b>	<b>15.1</b>

Source: Developed by Researcher

The Defense Group comprised 43 percent, or six of the firms, that indicated competitors conduct unethical practices. Thirty percent of the firms in the Defense Group reported unethical business practices by competitors within their respective industry. The non-Defense Group comprised 57 percent, or eight of the firms, indicating unethical practices by competitors. Sixty-two percent of the respondents in the non-Defense Group stated that competitors within their industry conduct unethical business practices.

Question 15 asked the respondents to evaluate the ethical practices of their company and to apply to it to one of the evaluation categories. The evaluation categories are: *Poor*, *Fair*, *Good*, or *Excellent*. Sixty-one percent, or 20 firms, rated their company's ethical practices as *Excellent*. Thirty-six percent, or 12 firms, rated their company as *Good*, and one percent rated their company as *Fair*. None of the respondents indicated that their company was *Poor* in ethical practices. The Defense Group comprised 14 of

the companies, or 70 percent, indicating that the ethical practices of their company were rated as *Excellent*. Additionally, 70 percent of the companies in the Defense Group report having *Excellent* ethical practices. The non-Defense Group comprised six of the companies, or 30 percent, indicating having ethical practices rated as *Excellent*. Additionally, 46 percent of the firms in the non-Defense Group gave an *Excellent* rating to their company's ethical practices. The Defense Group comprised six of the companies, or 50 percent, indicating having ethical practices rated as *Good*. Additionally, 30 percent of Defense Group firms indicated a rating of *Good*. The non-Defense Group comprised the remaining 50 percent, or six firms, with a rating of *Good* for ethical practices. Forty-six percent of the companies in the Non-Defense Group gave their companies a rating of *Good*. The remaining three percent, was a firm from the non-Defense Group that gave their company a rating of *Fair*, this comprised approximately eight percent of the respondents in the non-Defense Group. Table 3.17 provides the breakdown of major industries concerning the ethical behavior of their company as well as those of competitors.

Question 16 asked the respondents to categorize the ethical practices of competitors within their industry using the same evaluation criteria stated in Question 15. Fifty-eight percent of the respondents indicated that the ethical practices of competitors were rated lower than their own company. Twenty-one percent rated their competitors as *Excellent*, 49 percent rated their competitors as *Good* and the remaining 30 percent rated their competitors as *Fair* in their ethical practices. None of the respondents rated the ethical

practices of their competitors as *Poor*. The Defense Group comprised 86 percent, or six firms, of all respondents that indicated the ethical practices of their competitors was *Excellent*. Thirty-five percent of the firms in the Defense Group consider their competitors to be *Excellent* in their ethical practices. The non-Defense Group comprised 14 percent, or one firm, that considers their competitors practices to be ethical. Forty-four percent, or seven of those firms rating their competitors as *Good* were comprised of firms in the Defense Group. Thirty-five percent of the firms in the Defense Group consider the ethical behavior of competing firms in their industry to be *Good*. Fifty-six percent, nine companies, of those respondents rating their competitors as *Good* were comprised of firms in the non-Defense Group. Sixty-nine percent of the companies in the non-Defense Group consider their competitors to have *Good* ethical practices. Seventy percent, or seven firms, of the respondents that rated their competitors as *Fair* are in the Defense Group. Thirty-five percent of the companies in the Defense Group consider their competitors as having *Fair* ethical practices. Thirty percent, or three firms, that indicated their competitors had *Fair* ethical practices were comprised of firms in the non-Defense Group. Twenty-three percent of the firms in the non-Defense Group consider their competitors to be *Fair* in their ethical practices.

#### **D. SUMMARY**

In summary, the ethics survey as completed by the respondents indicated that a large percentage of companies in industry have some form of an established ethics policy.

Additionally, by the small percentage of responses, the researcher concludes that not many businesses are willing to talk about the ethical behavior within their company or industry. The response rate was consistent with many surveys and studies conducted over the past decade. The researcher concluded that most firms have a written policy concerning the ethical behavior of its employees and that most employees have a general understanding of that policy and appropriate behavior concerning the business practices. The survey results indicate that few respondents had witnessed ethical problems within their own company, but were more aware of the unethical practices of competitors within their industry. The researcher also noted that there is a noticeable increase in the number of firms adopting a reciprocity policy than in the past.

This chapter presented the data as obtained through a survey conducted by the researcher. The results were quantified where possible and comments summarized. Several areas about ethical perception and behavior that could be relevant to the DoD acquisition professional were evaluated from the survey results. Chapter IV will evaluate those ethics policies presented by the respondents and will analyze the responses from the survey and the ethics policies and relationship between the two. This will be summarized in a comparison between the Defense and non-Defense Groups.



**Table 3.17**

**Company/Competitor Ethical Practices by Major Industry**

<u>Major Industry Group</u>	<u>Company Rating</u>		<u>Competitor Rating</u>	
	<u>Rating</u>	<u>%</u>	<u>Rating</u>	<u>%</u>
Construction	Excellent	0.0	Excellent	0.0
	Good	100.0	Good	100.0
	Fair	0.0	Fair	0.0
	Poor	0.0	Poor	0.0
Manufacturing	Excellent	55.6	Excellent	22.2
	Good	38.9	Good	38.9
	Fair	5.5	Fair	38.9
	Poor	0.0	Poor	0.0
Transportation	Excellent	100.0	Excellent	0.0
	Good	0.0	Good	100.0
	Fair	0.0	Fair	0.0
	Poor	0.0	Poor	0.0
Retail	Excellent	0.0	Excellent	0.0
	Good	100.0	Good	50.0
	Fair	0.0	Fair	50.0
	Poor	0.0	Poor	0.0
Services	Excellent	81.8	Excellent	27.3
	Good	18.2	Good	54.5
	Fair	0.0	Fair	18.2
	Poor	0.0	Poor	0.0

Source: Developed by Researcher

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## **IV. SUMMARY OF ETHICS PROGRAMS AND POLICIES**

### **A. INTRODUCTION**

Chapter III presented the survey results and analysis for all of the respondents of this study's survey. The purpose of this chapter is to evaluate the ethics policies submitted from the survey respondents, identify the key topic areas for each group of respondents and determine if there is a relationship between the answers provided from the survey and the ethics policies provided. The chapter will conclude with a comparison between the Defense and non-Defense Groups, identifying similarities and differences between the two from the survey results as well as key ethics policy topics.

### **B. ETHICS POLICIES**

There were 33 respondents to this study. Twenty-seven respondents, or 82 percent of the firms provided their company's standards of conduct or ethics policies. The remaining 6 firms responded that their firms did not have a written ethics policy. The Defense Group consists of 20 firms and represents 61 percent of the companies that answered positively to selling to DoD in Question 2 of the survey. One-third of the firms that did not have a written ethics policy were from the Defense Group. The non-Defense Group consists of 13 firms and represents the remaining 39 percent of the study respondents. Sixty-seven percent of the firms not having a written ethics policy were members of the non-Defense Group.

## **1. Ethics Policies Identification**

While each respondent provided their version of the standards of conduct and ethics policies, the formats and outlines varied as much as the industries each company represented. Some policies were lengthy and covered in significant detail the requirements of law in various areas. Other policies were more concise and contained general value statements and briefer summaries of corporate standards. Some policies included suggested questions employees should ask themselves to assist in reaching sound ethical decisions when the circumstances do not dictate a clear course of action. Most questions generally related to fairness, corporate policies, corporate culture, and the appearance to the public if the course of action were publicly known. The researcher attempted to identify common themes between the various policies. Each policy was evaluated and then differentiated by the policy topic provided. The researcher included the topic for further evaluation if more than three of the respondents identified that topic within their policies. This equates to at least 10 percent of the respondents identifying the topic as one of concern in their companies' ethical standards. Twenty-seven policy topics were identified among the 27 policies researched. The researcher reviewed each policy and compared the ideologies presented to the common policy topics. When a policy topic was identified, the representative company was marked as identifying the ethical issue. Appendix D gives a summary of the ethics policies and standards of conduct provided to the researcher.

## 2. Policy Topics

As previously stated, 27 policy topics were identified among the 27 policies reviewed. To qualify as a major policy topic at least 10 percent (more than three) of the firms must identify the topic somewhere within their policies. Those major topics identified in the ethics policies and standards of conduct are presented in Table 4.1.

Table 4.1 Major Policy Topics	
<ul style="list-style-type: none"> <li>• Customer/Supplier Confidentiality</li> <li>• Customer/Supplier Relations</li> <li>• Conflict of Interest</li> <li>• Proprietary Information</li> <li>• Accuracy of Invoices/Proper Payments</li> <li>• Accuracy/Correctness of Data, Records, Reports</li> <li>• Quality</li> <li>• Employee Relations</li> <li>• Antitrust</li> <li>• Political Contributions</li> <li>• Business Hospitalities (Acceptance)</li> <li>• Business Hospitalities Commercial (Offering)</li> <li>• Business Hospitalities Government (Offering)</li> <li>• Insider Information &amp; Securities Handling</li> </ul>	<ul style="list-style-type: none"> <li>• Obey the Law (Federal, State, Local)</li> <li>• Reporting/Resolving Violations</li> <li>• Company Resources (Employee &amp; Property)</li> <li>• Competition/Competitor Relations</li> <li>• Safety</li> <li>• Environmental/Social responsibility</li> <li>• International Business Guidelines</li> <li>• Drug and Alcohol</li> <li>• Employment Outside Company</li> <li>• Maintain Technology/Knowledge Proficiency</li> <li>• Classified/Technical/Sensitive Information</li> <li>• Marketing &amp; Selling</li> <li>• Post-Employment for Government Employees</li> </ul>

Source: Developed by Researcher

### 3. Summary of Policy Topics

The researcher will attempt to summarize each major topic in the context presented according to the ethics policies reviewed:

1. **Customer/Supplier Confidentiality:** Provides guidance that data collected on customers and suppliers will remain confidential. Apart from those informational filings or disclosures by law, or to which a customer/supplier has consented in writing, no employee will release this information to anyone outside the company.
2. **Customer/Supplier Relations:** Establishes guidance wherein, the company expresses a commitment to be open and honest with the customer. Establishes guidelines with their suppliers concerning the business relationship conditions. Some policies stated standards that the firm's suppliers would be held to in the performance of their business relationship.
3. **Conflict of Interest:** Defines and provides guidance to all employees to avoid any situation in which personal interests or the appearance that personal interests may be in conflict with the interests of the company.
4. **Proprietary Information:** Provides guidelines wherein, proprietary company information may not be disclosed to anyone without the proper authorization. Establishes security requirements for the handling of proprietary information and communications within the company.

5. **Accuracy of Invoices/Proper Payments:** Emphasized that all disbursements of funds and all receipts must be properly and promptly recorded, and no undisclosed fund may be established for any purpose. Additionally, provided guidance that no employee shall intentionally allocate costs to contracts contrary to accepted accounting practices. Established guidelines that kickbacks and bribery were prohibited.
6. **Accuracy/Correctness of Data, Records, Reports:** Addresses a commitment for complete and accurate books, records, and communications. For example, some provide that all company business documents, including internal or external correspondence, memoranda, or communication of any type, must be prepared as completely, honestly, and accurately as possible.
7. **Quality:** Establishes responsibility with the employee to ensure that the company does not deliver a product or service that does not meet performance and quality expectations of the customer and the quality requirements of law. Maintains that no employee shall knowingly misrepresent in any way the condition or status of products being prepared or offered for inspection, testing, or delivery.
8. **Employee Relations:** Provides guidance that prohibits discrimination against any employee or prospective employee or the making of any disparaging comments or criticisms on the basis of race, color, creed,

gender, national origin, age, handicap, or veteran's status. Many policies explicitly prohibit sexual harassment.

9. **Antitrust:** Addresses commitment to fair and open competition in markets throughout the world. Ensures compliance with antitrust laws of the United States and with competition laws in other countries.
10. **Political Contributions:** Provides guidance on contributions and payments to political parties or candidates. Informs employees of Federal law prohibiting corporations from donating corporate funds, goods, or services directly or indirectly to candidates for federal offices.
11. **Business Hospitalities (Acceptance):** Some companies require employees who are involved in purchasing to refrain completely from accepting any gifts, meals, or other business courtesies from their suppliers. Others identified limited circumstances where the acceptance of such courtesies is permitted.
12. **Business Hospitalities Commercial (Offering):** Establishes guidelines that business gifts and entertainment are courtesies designed to build understanding and goodwill among business partners. Establishes limits to the value of a gift or entertainment to be of a "nominal" or "modest" value or to be within the bounds of acceptable business practices.
13. **Business Hospitalities Government (Offering):** Companies required strict compliance with Federal regulations on giving anything of value to



Federal executive agency employees. Further identifies that, these regulations, in the case of procurement officials, in effect, prohibit such giving, and in the case of other Government officials establishes limits on such gifts.

14. **Insider Information & Securities Handling:** Establishes guidelines that reiterate Federal Law, prohibits employees from buying or selling company stock or other company securities, or from directing someone else to buy or sell on their behalf, if they have knowledge of material inside information. Employees are also prohibited from trading in another company's stock, options, or other securities on the basis of that company's inside information.
15. **Obey the Law (Federal, State, & Local):** Provides guidance that the company will be aware and conduct their business in accordance with all laws and regulations.
16. **Reporting/Resolving Violations:** Provides guidance that strongly encourages employees to report any observed violations of policies to the proper authority in the company. Some policies identified "whistleblower" protection that all reports of violations are kept strictly confidential without fear of repercussions.
17. **Company Resources (Employee & Property):** Provides guidance concerning the improper use of company or customer assets, including

technology and patents, software, computer, communication and copying equipment, or office supplies. Some policies identified the use of employee services for personal gain as being prohibited.

18. **Competition/Competitor Relations:** Provides guidance to avoid any and all actions which are anti-competitive or otherwise contrary to laws governing competitive practices in the marketplace. Establishes guidelines to prevent employees from using improper means of gathering information about competitors.
19. **Safety:** Advises all employees that they are responsible for compliance with environmental and safety laws and regulations. Employees are required to report immediately to the appropriate management any accident or injury sustained on the job or any safety concern the employee may have.
20. **Environmental/Social Responsibility:** Establishes guidance that encourages employees to participate actively in civic public affairs activities and contribute to improvements in the community. Emphasis is placed on preventing conflict-of-interest situations when in a position that may affect the company and to ensure that the individual speaks for themselves and not the company. Provides guidance that all employees will comply with all environmental statutes and regulations so as to prevent harm to public health and the environment.

21. **International Business Guidelines:** Provides guidance for implementing the provisions of the Foreign Corrupt Practices Act by emphasizing that employees not promise, offer, or make any payments in money, products, or services to any foreign official in exchange for or in order to induce favorable business treatment. The policies also prohibit agreements to refuse to deal with potential or actual customers or suppliers because of boycotts or to otherwise engage in any practices that would restrict international trade.
22. **Drug and Alcohol:** Addresses the company policy concerning the use of alcohol and drugs in the workplace. Emphasis is placed on the individual that they owe the company their best efforts and that the workplace requires that all employees exercise responsibility in matters concerning their health and welfare.
23. **Employment Outside Company:** Provides guidance to employees in engaging in outside business activities, provided that there is no actual, apparent, or potential conflict of interest.
24. **Maintain Technology/ Knowledge Proficiency:** Addresses company policy that all employees will strive to maintain proficiency and attain the highest levels of technological competencies to further the requirements of the customer at the same time moving the company to higher levels of technological dominance.

25. **Classified/Technical/Sensitive Information:** Provides guidance on the acceptance, protection, and control of classified documents, restricted acquisition-related information, and proprietary information from suppliers as well as customers. Also restricts information regarding employees or former employees that may be given to outside organizations or individuals.
26. **Marketing & Selling:** Establishes guidance that the company products or services will compete in the marketplace solely on the merits of the product or service. Use of fair and honest marketing activities are utilized and that any comparison with competitor products or services must be taken with care to avoid “disparaging” a competitor through inaccurate statements.
27. **Post-Employment for Government Employees:** Emphasizes policies and restrictions on former Government employees from performing work for organizations who contract with the Government. Also, emphasizes restrictions on future employment discussions with current Government employees.

#### 4. **Quantitative Policy Topic Results**

Table 4.2 displays the frequency with which each major policy topic was presented in the ethics policies and standards of conduct reviewed by this researcher. The results are further broken down by the Defense and non-Defense Groups, presenting the

frequency of appearance of these same topics within each reference group's policies. Table 4.5, presented at the end of this chapter, presents the data as reviewed by each of the respondents. The researcher reviewed and summarized each policy as submitted by the research groups to evaluate the similarities and differences of the policies submitted. There were more differences than similarities in the policies reviewed, which differed with a study conducted in 1992, which indicated opposite results. [Ref. 13:p. 42] The differing results appear to be due to different evaluation criteria and the difference in the evaluation of reference groups. This researcher stated that a similar policy occurred if both research groups had a policy topic that occurred in at least 60 percent of the policies reviewed as well as both having less than 40 percent of the policy topics covered in their respective policies, while the researcher from the 1992 study indicated a similarity if the reference groups had policy topics that occurred in at least 50 percent of the policies reviewed. Finally, the researcher in the 1992 study indicated that although a firm had sold to the "Government," the researcher allowed the company to determine if the sales volume as a percentage of overall sales constituted the company as a "Government Contractor." This researcher indicated that if a company had sold to DoD, their ethics policy results as well as survey results would place that company in the Defense Group and those with no sales to DoD in the non-Defense Group.

**Table 4.2**

**Policy Topics by Defense/Non-Defense Respondents**

<u>Policy Topic</u>	<u>Defense</u> <u>%</u>	<u>Non-Defense</u> <u>%</u>
Customer/Supplier Confidentiality (37%)	39	33
Customer/Supplier Relations (96%)	100	89
Conflict of Interest (89%)	94	78
Proprietary Information (67%)	67	67
Accuracy of Invoices/Proper Payments (59%)	72	33
Accuracy/Correctness of Data, Records, Reports (74%)	83	56
Quality (52%)	61	33
Employee Relations (81%)	83	78
Antitrust (52%)	67	22
Political Contributions (37%)	44	22
Business Hospitalities (Acceptance) (85%)	94	67
Business Hospitalities Commercial (Offering) (74%)	89	44
Business Hospitalities Government (Offering) (37%)	56	0
Insider Information & Securities Handling (48%)	61	22
Obey the Law (Federal, State, & Local) (67%)	78	44
Reporting/Resolving Violations (74%)	83	56
Company Resources (Employee & Property) (48%)	50	44
Competition/Competitor Relations (52%)	56	44
Safety (59%)	67	44
Environmental/Social Responsibility (70%)	72	67
International Business Guidelines (48%)	61	22
Drug and Alcohol (41%)	56	11
Employment Outside Company (19%)	22	11
Maintain Technology/Knowledge Proficiency (15%)	11	22
Classified/Technical/Sensitive Information (63%)	67	56
Marketing & Selling (48%)	56	33
Post-Employment for Government Employees (26%)	39	0

Source: Developed by Researcher

a. *Policy Similarities Between Defense and Non-Defense Contractors*

Table 4.2 displays the results of evaluation by the researcher on policy topics in the 27 policies as reviewed. As stated earlier, some of the policies were lengthy and covered in significant detail the policy topic. While other codes were more concise and contained general value statements and briefer summaries of company policies. However, there were numerous similarities between the two groups noted by this researcher in the policies reviewed. The researcher established that at least 60 percent of the policies address a major topic or less than 40 percent by both reference groups as evaluative criteria in determining the similarities. As such, the researcher identified ten major topics that correlated to the evaluation criteria. The following major topics were identified:

- Customer/Supplier Relations: 100 percent of the respondents in the Defense Group and 89 percent of the respondents in the non-Defense Group addressed the topic within their policies.
- Conflict of Interest: 94 percent of the respondents in the Defense Group and 78 percent of the respondents in the non-Defense Group addressed the topic within their policies.
- Proprietary Information: 67 percent of the respondents in the Defense and non-Defense Groups addressed the topic in their policies.

- Employee Relations: 83 percent of the respondents in the Defense Group and 78 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Business Hospitalities Acceptance: 94 percent of the respondents in the Defense Group and 67 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Environmental/Social Responsibility: 72 percent of the respondents in the Defense Group and 67 percent of the respondents in the non-Defense Group addressed the topic in their policies.

The following topics were addressed by less than 40 percent of the respondents in both groups:

- Customer/Supplier Confidentiality: 39 percent of the respondents in the Defense Group and 33 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Employment Outside Company: 22 percent of the respondents in the Defense Group and 11 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Maintain Technology/Knowledge Proficiency: 11 percent of the respondents in the Defense Group and 22 percent of the respondents in the non-Defense Group addressed the topic in their policies.



- Post-Employment for Government Employees: 39 percent of the respondents in the Defense Group and none of the respondents in the non-Defense Group addressed the topic in their policies.

**b. *Policy Differences Between Defense and Non-Defense Contractors***

The evaluation criteria to determine the differences in the policies reviewed was such that the researcher established that a difference of at least 25 percent in the major topic representation of the policies reviewed would constitute a significant difference. As such, the researcher identified thirteen major topics that correlated with the evaluation criteria. The following major topic areas were identified:

- Accuracy of Invoices/Proper Payments: 72 percent of the respondents in the Defense Group and 33 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Accuracy/Correctness of Data, Records, Reports: 83 percent of the respondents in the Defense Group and 56 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Quality: 61 percent of the respondents in the Defense Group and 33 percent of the respondents in the non-Defense Group addressed the topic in their policies.

- Antitrust: 67 percent of the respondents in the Defense Group and 22 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Business Hospitalities (Acceptance): 94 percent of the respondents in the Defense Group and 67 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Business Hospitalities Commercial (Offering): 89 percent of the respondents in the Defense Group and 44 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Business Hospitalities Government (Offering): 56 percent of the respondents in the Defense Group and none of the respondents in the non-Defense Group addressed the topic in their policies. (Note: The non-Defense Group was not anticipated to address this topic)
- Insider Information & Securities Handling: 61 percent of the respondents in the Defense Group and 22 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Obey the Law (Federal, State, & Local): 78 percent of the respondents in the Defense Group and 44 percent of the respondents in the non-Defense Group addressed the topic in their policies.

- Reporting/Resolving Violations: 83 percent of the respondents in the Defense Group and 56 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- International Business Guidelines: 61 percent of the respondents in the Defense Group and 22 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Drug and Alcohol: 56 percent of the respondents in the Defense Group and 11 percent of the respondents in the non-Defense Group addressed the topic in their policies.
- Post-Employment for Government Employees: 39 percent of the respondents in the Defense Group and none of the respondents in the non-Defense Group addressed the topic in their policies.

Many of the respondent firms had policies concerning *Business Hospitalities*, it was interesting to the researcher, that only a small percentage (39 percent) addressed a dollar figure concerning the offering and acceptance of business hospitalities. Those policies that did identify a maximum allowable amount had a range from \$5 to \$100 per gift. Some of the respondents to the survey indicated that some firms provide gifts that far exceed the dollar limits stated in the policies reviewed (e.g., golf outings and expensive golf clubs). Respondents in the non-Defense Group did not address two of the policy topics, nor were any responses anticipated, those topics were: *Business Hospitalities Government (Offering)* and *Post-Employment for Government*

*Employees*. The respondents in the non-Defense Group indicated in the survey results that they did not conduct business with DoD. The researcher had expected more policies concerning *Post-Employment for Government Employees* from the respondents in the Defense Group, as such, 39 percent addressed this policy. Additionally, the researcher had expected more of the respondents in the non-Defense Group to address a policy on *International Business Guidelines*, only 22 percent of the policies from the non-Defense Group addressed the policy. Fifteen percent of the respondents, or 2 firms from the non-Defense Group indicated that their companies did not conduct any international business, and half of those firms (1 company) established that their company did not have a written ethics policy. Therefore, 67 percent of those firms having a written ethics policy in the non-Defense Group that answered that they did have different ethical standards with overseas customers/ suppliers did not address the topic of *International Business Guidelines* within those policies.

### **C. SURVEY RESPONSES**

There are 33 respondents to this study. The Defense Group consists of 20 firms that conduct business with DoD, comprising 61 percent of the total survey population, while the non-Defense Group consists of 13 firms that reported not conducting business with DoD, comprising the remaining 39 percent of the total survey population. All respondents to the survey completed 100 percent of the survey questions.

## 1. Quantitative Survey Results

Tables 4.3 and 4.4 display the frequency of response to the survey questions as provided by the responding companies; the responses are broken down by the Defense and non-Defense Groups.

<u>Ethics Survey Question</u>	<u>Defense</u> <u>%</u>	<u>Non-Defense</u> <u>%</u>
1. What industry is your company in?	Construction 0	Construction 8
	Manufacturing 55	Manufacturing 54
	Transportation 5	Transportation 0
	Retail 5	Retail 8
	Services 35	Services 30
4. Does your company have an established ethics policy?	Yes 95	Yes 77
	No 5	No 23
5. Is the policy written?	Yes 90	Yes 69
	No 10	No 31
6. Is the ethics policy generally understood?	Yes 90	Yes 69
	No 10	No 31
7. Does your company have a conflict of interest policy?	Yes 90	Yes 46
	No 10	No 54
8. Have the ethical standards of your company been reviewed within the last five (5) years?	Yes 80	Yes 62
	No 20	No 38

Source: Developed by Researcher

**Table 4.4**

**Ethical Practices Response by Defense/Non-Defense Respondents**

9. Have you witnessed any unethical practices in your company?	Yes	15	Yes	23
	No	85	No	77
10. Have you ever experienced an ethical problem caused by pressure on you from within your company?	Yes	10	Yes	23
	No	90	No	77
11. Does your company give gifts or favors to its customers/suppliers?	Yes	50	Yes	62
	No	50	No	38
12. Does your company give preferential treatment to a supplier who is also a good customer?	Yes	20	Yes	46
	No	80	No	54
13. Does your company use different ethical standards when dealing with overseas customers/suppliers?	Yes	10	Yes	23
	No	90	No	77
14. Have you witnessed any unethical practices from competitors in your industry?	Yes	30	Yes	62
	No	70	No	38
15. How would you rate the ethical practices of your company?	Excellent	70	Excellent	46
	Good	30	Good	46
	Fair	0	Fair	8
	Poor	0	Poor	0
16. How would you rate the ethical practices of competitors within your industry?	Excellent	30	Excellent	8
	Good	35	Good	69
	Fair	35	Fair	23
	Poor	0	Poor	0

Source: Developed by Researcher

a. *Survey Similarities Between Defense and Non-Defense Contractors*

Tables 4.3 and 4.4 display the results of the survey as provided by the 33 respondents. The researcher compared the responses and determined that there were many similarities in the responses. As in the evaluation of the ethics policies, the researcher established that if 60 percent or more of the respondents from each group responded positively or negatively to the same question this equated to a similar response. Using this evaluation criteria, the researcher identified seven questions that correlated. The following questions were identified:

- Does your company have an established ethics policy? Ninety-five percent of the respondents in the Defense Group and 77 percent of the respondents in the non-Defense Group answered positively to the question.
- Is the policy written? Ninety percent of the respondents in the Defense Group and 69 percent of the respondents in the non-Defense Group answered positively to the question.
- Is the ethics policy generally understood? Ninety percent of the respondents in the Defense Group and 69 percent of the respondents in the non-Defense Group answered positively to the question.
- Have the ethical standards of your company been reviewed within the last five (5) years? Eighty percent of the respondents in the Defense Group and 62

percent of the respondents in the non-Defense Group answered positively to the question.

- Have you witnessed any unethical practices in your company? Eighty-five percent of the respondents in the Defense Group and 77 percent of the respondents in the non-Defense Group answered negatively to the question.
- Have you experienced an ethical problem caused by pressure on you from within your company? Ninety percent of the respondents in the Defense Group and 77 percent of the respondents in the non-Defense Group answered negatively to the question.
- Does your company use different ethical standards when dealing with overseas customers/suppliers? Ninety percent of the respondents in the Defense Group and 77 percent of the respondents in the non-Defense Group answered negatively to the question.

**b. *Survey Differences Between Defense and Non-Defense Contractors***

The evaluation criteria to determine differences in the survey responses are the same as that to evaluate the major policy topics for the policy section. A difference of at least 25 percent for any one question would constitute a significant difference. Utilizing this evaluation criteria, the researcher identified three questions with significantly different answers. The following questions were identified:



- Does your company have a conflict of interest policy? Ninety percent of the respondents in the Defense Group and 46 percent of the respondents in the non-Defense Group answered positively to the question.
- Does your company give preferential treatment to a supplier who is also a good supplier? Twenty percent of the respondents in the Defense Group and 46 percent of the respondents in the non-Defense Group answered positively to the question.
- Have you witnessed any unethical practices from competitors in your industry? Thirty percent of the respondents in the Defense Group and 62 percent of the respondents in the non-Defense Group answered positively to the question.

From the survey results, it appears that although there are many similarities between the reference groups based upon the evaluation criteria established, there are some noteworthy differences. First, although not brought out within the evaluation criteria established, it was interesting to note that 60 percent of the respondents in the Defense Group and 46 percent of the respondents in the non-Defense Group, stated that the ethical standards of competitors within their respective industries were lower than those within their own company. A review of Chapter III establishes that 90 percent of the respondents in the Defense Group and 84 percent of the respondents in the non-Defense Group were comprised of the *Manufacturing* and the *Services* industries. This is noteworthy, in that 70 percent of the respondents in the Defense Group indicated that

their ethical standards were *Excellent*, wherein only 46 percent of the respondents in the non-Defense Group stated their ethical standards were *Excellent*. Second, the respondents in the non-Defense Group were more than twice as likely to witness unethical practices from competitors within their industry than were the respondents in the Defense Group. Third, the respondents in the non-Defense Group were almost a third less likely to have their ethical standards reviewed periodically than were the respondents in the Defense Group. Fourth, the firms in the non-Defense Group were twice as likely to witness unethical acts within their company as were firms in the Defense Group. Finally, the respondents in the non-Defense Group are more than twice as likely to perform acts of reciprocity than are those respondents in the Defense Group.

#### **D. SUMMARY**

Based upon a review of the ethics policies and the results of the survey, the researcher concludes that although many similarities are present as established by the evaluation criteria, there are a number of differences between the respondents in the Defense and non-Defense Groups. Eighty-two percent of the respondents to the survey indicated having established written ethics policies in effect within their companies. Ninety percent of the respondents in the Defense Group and 69 percent of the respondents in the non-Defense Group stated that all employees generally understand the ethics policy. The ethics policy is intended to give clear direction to employees on ethical concerns in their work. Some of the policies were lengthy and covered in significant detail the requirements of law in various areas, while others were more concise and

contained general value statements and briefer summaries of corporate policies. On average the ethics policies from the Defense Group averaged 17 of the main topic policies addressed within this chapter, while the non-Defense Group averaged 11 of the policy topics. The similarities noted within this chapter can be explained by ethics program establishment procedures. "According to the Center for Applied Ethics, there are a limited number of professionals available as resource experts in the development of ethics programs for corporate entities." [Ref. 28:p. 47] As such, there are few individuals available for the development of ethics programs and those few establish a large number of the corporate policies.

The difference in survey results can be explained by the perceptions of the individual respondent. The ethics policies submitted by respondents in the Defense Group tended to be very pointed and concise, with a variety of examples provided. Those policies submitted by the non-Defense Group respondents tended to be general in nature and subject to interpretation. Another possible reason for the difference in responses, is that those respondents in the Defense Group may be more aware and sensitive to questions of ethical behavior and the oversights established by Federal regulations. Studies on ethics tend to "strike a nerve" in individuals when questions are asked about their ethical behavior.

The researcher noted several points of attention between the two groups of respondents. The intent was to identify areas of concern that were not obvious as a result of the evaluation criteria established within the chapter.

The following and concluding chapter will provide the researcher's principal conclusions and recommendations with respect to this study.



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## V. CONCLUSIONS AND RECOMMENDATIONS

### A. INTRODUCTION

The purpose of this study was to determine if there is a difference in the ethical programs of the non-Defense industry and the Defense Industry as DoD looks to the commercial marketplace to satisfy requirements that were previously only available in the Defense Industrial Base (DIB). Additionally, this study will determine if additional ethical policies and guidelines are required for acquisition professionals as DoD transitions to a national industrial base. The principal conclusions were derived from data accumulated and analyzed from a survey that was distributed among various industries, as well as ethics policies submitted from the respondent companies to the survey. The researcher was able to derive several significant findings and subsequent conclusions from the survey data and submitted policies. The following recommendations are based on these conclusions.

### B. CONCLUSIONS

#1. There is a significantly greater proportion of companies that have a written ethics policy when compared to previous studies. The statistics in this research showed that 88 percent of the respondents had an established ethics policy at their company. Additionally, 93 percent of those respondents indicated that their ethics policy is in writing. This percentage has dramatically increased over a study from 1988, wherein, 72 percent of the respondents in that study indicated having an ethics policy and

58 percent of those had a policy in writing. [Ref. 9] A 1998 survey of Fortune 1000 firms support this researcher's findings in that their survey found that 98 percent of the responding firms addresses an ethics policy and that 78 percent had a written policy. [Ref. 18] One can assume that the implementation of the Federal Sentencing Guidelines described in Chapter II have contributed to the increased number of firms that have implemented ethics policies. The implementation of these guidelines in late 1991, contributed to the development of compliance approaches because fines and sanctions for companies convicted of crimes vary dramatically depending upon management's cooperation and whether the firm has a legal compliance program in place. [Ref. 18:p. 135] However, this assumption should not be the sole purpose of firms implementing ethics policies. Studies have also found that the most successful companies tend to be those that have a strong commitment to ethics.

... So strong is the need for meaning, in fact, that most people will yield a fair degree of latitude or freedom to institutions that give it to them. The excellent companies are marked by very strong cultures, so strong that you either buy into their norms or get out. There's no halfway house for most people in the excellent companies. [Ref. 14:p. 77]

Companies within the non-Defense Group were five times as likely to not have an established ethics policy and three times more likely to not have a written policy than were respondents in the Defense Group.

**#2. The ethics policies in small businesses are less likely to be understood than within large businesses.** The results of this study indicate that small firms are less likely to disseminate their ethics policy to all employees. Seventy-eight percent of the



firms that were classified as small business stated that all employees generally understood their ethics policies. One hundred percent of the firms classified as large business stated that all employees generally understood their policies. No matter how strong their values, employees can not be expected to be familiar with all of the laws and regulations that pertain to their work. Nor can they be expected to be automatically aware of the ethical ambiguities that they might face in a particular industry or position.

The lack of general understanding of the ethics policy within an organization damages the ethics culture within the firm. "Employees perceive their organizations as having particular ethical climates, classified by some researchers as a subunit of organizational culture." [Ref. 10:p. 290] The firm cannot assume that the ethical standards of the firm are identical to that of the individual employee. For an ethical code to be available to the firm's employee for adoption, the firm in its day-to-day routine activities must articulate that code and its implications.

The non-Defense Group was three times as likely to not have the ethics policy generally understood by employees than were respondents in the Defense Group.

**#3. The percentage of firms having their ethical standards reviewed frequently has increased from past studies.** The statistics in the research showed 83 percent of the responding firms indicated having their ethical standards reviewed within the last five years. A 1987 study indicated that 50 percent of their responding firms stated having their standards reviewed within the last five years. Eighty percent of the firms in the Defense Group indicated having their standards reviewed within the last five

years as opposed to the non-Defense Group that indicated 62 percent had their standards reviewed in the same time frame.

**#4. Customer/ Supplier relations were the most important ethical concern for respondents in the Defense Group and the Non-Defense Group.** One hundred percent of the respondents in the Defense Group and 89 percent of the respondents in the non-Defense Group reported Customer/Supplier relations as a major topic of ethical concern within their provided ethics policies.

**#5. The incidence of internal pressures that create unethical problems is more likely to occur in large businesses.** The statistics in the research showed that 22 percent of the respondents classified as large business indicated having pressures placed upon them that created ethical problems. None of the respondents classified as small business reported any such pressures. The percentage of respondents reporting having pressures placed upon them that created ethical problems is slightly lower than the 30 percent reported in a 1975 study. [Ref. 9:p. 20]

Even the most upright people are apt to become dishonest and unmindful of their civic responsibilities when placed in a typical corporate environment....The culprit is not personal value but corporate culture....People's personal values are getting blocked by the needs of the company. [Ref. 7:p. 103]

Respondents in the non-Defense Group were more than twice as likely to experience pressures from within their company that created ethical problems than were respondents in the Defense Group.

#6. The use of reciprocity in business relationships has increased from previous studies. The statistics in the research showed that 30 percent of the respondents to this study indicated giving preferential treatment to suppliers that were good customers. The proportion of firms participating in this business relationship has more than doubled since a 1988 study. [Ref. 20] Respondents in the non-Defense Group are over twice as likely to enter in to reciprocal relationships with suppliers than are respondents in the Defense Group.

#7. The perception of the various industries responding to this research is that the ethical environment in industry is Good. The statistics of this research indicate that 97 percent of the respondents to this survey indicated that the ethical practices of their company were *Good* or better. However, 70 percent of the respondents indicated that the ethical practices of competitors within their industry are *Good* or better. Many of the respondents were from the same industry (i.e., manufacturing and services) that reported their competitor's behaviors were more unethical than the respondent's firm. Although, the respondents reported that the ethical practices of their industries were *Good*, over half of the large business firms in the Manufacturing industry reported having witnessed unethical practices of competitors.

#8. The ethics policies of companies in the Defense Group tended to cover in significant detail the requirements of law in various areas. The ethics policies of companies in the non-Defense Group tended to be more concise and contain briefer summaries of corporate standards. The research statistics indicate that respondent

companies in the Defense Group on average included 17 of the major topics analyzed in Chapter IV. Where as, the respondent companies in the non-Defense Group included on average 11 major topics within their ethics policies. The respondents in the Defense Group were almost twice as likely to report the ethical practices of their companies were *Excellent* than were companies in the non-Defense Group. This could be a result of the more detailed ethics policies present in the Defense Group.

### C. RECOMMENDATIONS

**#1. DoD Acquisition Agencies should ensure that all acquisition professionals are familiar with the ethical standards established within DoD.** Many of the small businesses in this study reported that the ethics policies within their firms were not generally understood. Additionally, just over 75 percent of the small businesses indicated having a written policy, which could be indicative of the low percentage of small firms indicating general knowledge of their ethics policies. The statistics from this study demonstrate that DoD procurement officials should be cautious when dealing with small firms. Many of the responding firms' (small and large) ethics policies provided for ethics training in the early stages of employment with little or no follow-on training provided. For an effective ethics program, purchasing policies must be communicated at periodic intervals to all personnel both inside and outside the organization affected by these policies.

**#2. DoD Acquisition Agencies should ensure that written policies are available to acquisition professionals concerning ethical decision-making.** The central reason for having written policies in an organization is to provide guidelines for decision making and action so that different employees facing generally similar, repetitive situations will handle them in a consistent way to achieve the organization's goals. "Experienced purchasing managers and buyers (in industry) all say that what they want most from higher levels of management are more stated policies to deal with purchasing practices that have ethical overtones." [Ref. 2:p. 2]

**#3. Management at DoD Acquisition Agencies should ensure that companies conducting business with DoD are aware of the DoD's position on reciprocity.** The research data demonstrated that there has been an increase in the number of companies participating in reciprocal business relations. The use of reciprocity restricts competition, thus increasing (in most cases) the ultimate price paid for goods. Approximately half of the respondents in the non-Defense Group reported giving preferential treatment to suppliers that were good customers. Other firms welcomed the opportunity to participate in such a relationship. Many of the firms in the non-Defense Group believe that reciprocity is essential in the development of long-term business relations.

**#4. DoD acquisition professionals should be aware that the establishment of an ethics policy within a company does not guarantee ethical behavior.** The establishment of the Federal Sentencing Guidelines has created the opportunity for

companies to not be held as accountable for corporate "mishandling" if the firm has provided some capability to prevent such actions from occurring. For example, Starbucks Corp. was seen as exploiting cheap foreign labor. Because of pressures to change their practices, Starbucks adopted a new code of conduct. The Council on Economic Priorities awarded Starbucks the "International Human Rights Award" solely for their new code of conduct. However, when the senior vice president was asked of how Starbucks enforced its new code, he responded, "we've done nothing yet." [Ref. 22]

#5. Emphasize more formal ethics training. Although 97 percent of the respondents to this study stated that the ethical practices of their company was *Good* or better. The perception outside may not be in agreement. In a *Wall Street Journal* article, a public relations firm asked 117 business executives to rate their ethical behavior on a one-to-100 scale, the executives gave themselves an 80 and the 93 media representatives gave the executives a 30. Public perception of ethical standards within organizations filters into the operational dealing of employees. Organizations and individuals have a vested interest in maintaining shared ethical standards. The adoption of these standards by an employee is more likely to occur if those standards are easily available for reference in day-to-day business operations. Ideally, those organizations that make its ethical standards visible in everyday business operations through managerial example, corporate enforcement and communications will generate awareness of the corporate values and standards and instill these standards in employees. A 1993 focus study of purchasing officers of large firms asked the respondents to rate the most important

training subjects for the year 2000 and beyond. *Ethical Conduct* was the fourth topic out of 43 topics identified. Ethical conduct continues to be a major concern for business.

[Ref. 21]

**#6 Efforts should be undertaken to increase the access small businesses have to information concerning conducting business with DoD.** Approximately 40 percent of the small businesses responding to this study indicated that they do not conduct business with DoD. This represents a significant number of potential companies to become Defense contractors. Small businesses tend to be more limited in the resources available to seek information about other business ventures. Many businesses seeking sales contracts with DoD, for the first time, are unfamiliar with the ethical policies and regulations characteristic of DoD procurement. Many of the actions deemed appropriate by businesses in the development of business relations may not be appropriate within DoD procurement. This research indicates that small businesses are most likely to enter into situations (e.g., reciprocity) that are deemed as unethical by DoD acquisition ethics policies. It is recommended, although outside the scope of this thesis, that DoD provide for improved communications with small businesses (as well as large businesses) to ensure that businesses are receiving the necessary information concerning procedures to follow when seeking defense business. Pre-solicitation conferences and business fairs would be appropriate avenues to present the intricate details of DoD procurement, as well as, provide for dissemination of appropriate business relations with DoD agencies. With the increasing use of the Internet, this same information can be made available to those

businesses seeking defense contracts by establishing a Web site that is generally available to the public.

#### **D. ANSWERS TO THE RESEARCH QUESTIONS**

The following are the answers to the primary and subsidiary research questions. These answers were derived from the study's findings and conclusions.

**#1. Primary Research Question: To what extent will the ethics culture of non-Defense contractors have on Defense procurement in the transition to a national industrial base?** The researcher found some relationship wherein the ethics culture of non-Defense contractors might have a significant effect on DoD procurement. An area of concern was the preponderance of non-Defense contractors who enter into reciprocal relationships with suppliers. Forty-six percent of the non-Defense respondents reported having such a relationship, while others (small business) indicated a willingness to enter into such a relationship. Additionally, non-Defense contractors were more likely to witness unethical practices within their own company and competitors within their respective industry than were Defense contractors. Ethical conduct continues to remain at the forefront of DoD procurement. This researcher is confident that DoD acquisition officials will continue to follow the policies and guidelines provided to maintain the high standards of ethical conduct. Not every unethical situation can be presented in a written policy, therefore the purchasing professional must be diligent in ensuring that his/her behavior does not cross the line of perceived unethical behavior.



**#2. Subsidiary Research Question: What is the current ethics culture in the Defense Industrial Base?** Ninety-five percent of the survey respondents in the Defense Group indicated that their firm has an established ethics policy. Ninety percent of those same respondents indicated having a written ethics policy at their company. Ninety percent of the survey respondents in the Defense Group stated that their ethics policy is generally understood. Eighty percent of the respondents stated that their ethics policies have been reviewed within the last five years. Fifteen percent of the respondents reported witnessing unethical practices in their company. Seventy percent of the respondents rated the ethical behavior within their firms as *Excellent* and 65 percent of their competitors as *Good* or better. The ethics cultures within the Defense Industry appear to be well established and tend to create an environment for ethical behavior. A number of defense industry firms informed the researcher that it is not industry that necessarily creates the unethical environment, but rather the Government agencies. The researcher attempted to gather further information, but the firms refused to provide further detail.

**#3. Subsidiary Research Question: What is the current ethics culture in the non-Defense industry?** Seventy-seven percent of the survey respondents in the non-Defense Group indicated that their firm has an established ethics policy. Sixty-nine percent of those same respondents indicated having a written ethics policy at their company. Furthermore, sixty-nine percent of the survey respondents in the non-Defense Group stated that their ethics policy is generally understood. Sixty-two percent of the

respondents stated that their ethics policies have been reviewed within the last five years. Twenty-three percent of the respondents reported witnessing unethical practices in their company. Respondents are more than twice as likely to give preferential treatment to suppliers who are also good customers than are respondents in the Defense Group. Additionally, non-Defense firms are more than twice as likely to use different ethical standards when dealing with overseas customers/suppliers. Forty-six percent of the respondents rated their ethical behavior of the company as *Excellent* and 77 percent of their competitors as *Good* or better. The ethical environment does not appear to be as established as was seen in the defense industry. Many of the ethics policies provided were general in nature, without much detail and guidance provided to employees. Additionally, the non-Defense Group was prone to witness more unethical practices within their companies and competitors.

**#4. Subsidiary Research Question: What are the differences, if any, between the Defense and the non-Defense industries concerning ethical behavior?**

Ninety percent of the respondents in the Defense Group state having a Conflict of Interest policy while 46 percent of the non-Defense Group respondents indicated having one. Twenty-percent of the firms in the Defense Group indicated having a reciprocal relationship with suppliers, while 46 percent of the non-Defense Group reported having such a relationship. Thirty percent of the firms in the Defense Group and 62 percent of the respondents in the non-Defense group reported witnessing unethical practices of competitors within their respective industries. Fifty-six percent of the respondents in the

Defense Group covered offering business hospitalities to Government employees and 39 percent covered the topic of post-employment for Government employees in their ethics policies. The non-Defense Group did not cover either topic in their ethics policies. Seventy-two percent of firms in the Defense Group and only 33 percent of the firms in the non-Defense Group cover the topic of accuracy of invoices/proper payments. Overall, there was a substantial difference in the number of firms addressing many of the major topics analyzed from the provided ethics policies. There were differences in 13 of the 27 major topics analyzed.

**#5. Subsidiary Research Question: What are the similarities, if any, between the Defense and the non-Defense industries concerning ethical behavior?** A

majority of both groups stated having an established ethics policy that was written and generally understood. Similarly, a majority of the firms in both groups indicated having those policies reviewed within the last five years. Most of the respondents in both groups reported not experiencing internal pressures that created ethical problems. Additionally, a majority of both groups indicated not using different ethical standards when dealing with overseas suppliers/customers. Both the Defense and the non-Defense Groups identified six major topics in their ethics policies that were covered by a majority of the ethics policies analyzed. Additionally, there were five topic areas that were covered by less than a majority of the firms in both groups.

**#6. Subsidiary Research Question: What, if any, additional ethics policies and guidelines will DoD Contracting Officers require during the transition from a**

**defense industrial base to a national industrial base?** The existing ethics policies and guidelines available to the Contracting Officers are sufficient to prevent unethical situations from occurring during the transition. However, situations continue to be present wherein Government officials may experience a lapse in judgement. The existing ethical materials are sufficient, but DoD is entering into an environment where the parties that will be seeking business transactions are not familiar with the guidelines established for Government employees' ethical behavior. Although, inherently ethical in the performance of the duties they perform as stewards of public funds, some acquisition professionals could be tempted to transgress to unethical practices. A 1998 focus study found that deceitful practices of buyers are minimized when companies communicate ethics policies to suppliers and have an ethics hotline in place. The researchers found that having management "walk the talk" was not a deterrent from unethical behavior. They found that the only practical deterrent appeared to be the fear of getting caught or reported, which would more likely to occur when policies were communicated to suppliers and when the firms had an ethics hotline in place. [Ref. 23]

#### **E. SUGGESTED FURTHER STUDIES**

**#1. What are the ethical ramifications of transitioning to a global industrial base?** As the DoD transitions beyond the national borders and looks to the international market to satisfy technological requirements, what types of ethical cultures might the acquisition professional encounter in the performance of his/her duties.

**#2. What will be the capability of the Defense Industrial Base to meet surge requirements if the need arises?** Many of the traditional defense firms have moved to “dual-use” production in order to maintain production capabilities because of the declining defense budget. A study of the capability of the Defense Industrial Base to transition back to a sole defense industry should the situation arise could be explored.

**#3. Conduct a study of the ethics training that is conducted at the undergraduate institutions as well as graduate level.** Numerous organizations have stated that training is critical in the development of ethical standards within organizations. A study of the degree of ethics training at the undergraduate level and a comparison of programs offered at each institution.

**#4. Conduct a study on the psychological factors that occur in the development of ethical decision-making.** The researcher could develop a model and the thought process of ethical decision-making and the consequence process of those decisions.

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## APPENDIX A. LETTER OF INTRODUCTION

25 September 1999

LCDR Michael B. Murphy  
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Naval Post Graduate School  
Monterey, CA 93943  
Phone: (831) 375-9124  
E-mail: [mbmurphy@nps.navy.mil](mailto:mbmurphy@nps.navy.mil)

Dear Sir or Madam:

This is a letter of introduction and a request for assistance in a Master's Thesis research project on Ethics Practices in Industry.

My Name is LCDR Michael B. Murphy and I am an active duty Naval Officer in the U.S. Navy Supply Corps. I am currently a full time graduate student at the Naval Postgraduate School where I am working on a M.S. in Management, emphasizing contract management.

My Master's Thesis research work is focused on the ethics policies and practices in industry, I am trying to analyze differences, if any, that exist in industry concerning ethical behavior within their industry. My research goal is to determine if different industries project different policies towards ethical practices within that industry.

For this reason, and with your help, I would like to gather information from various industries to subsequently analyze and draw conclusions/recommendations. Could you please take a few minutes of your time to complete the attached survey and return it at your earliest convenience? If you have further information that may be beneficial to my research, please e-mail me at: [mbmurphy@nps.navy.mil](mailto:mbmurphy@nps.navy.mil). All responses will remain strictly confidential. The survey results will be used for academic research analysis on ethics policies and practices in industry.

Thank you in advance for your assistance,

Michael B. Murphy

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## **APPENDIX C. SUMMARY OF SURVEY RESPONSES BY COMPANY**

The responses from the survey instrument are provided for the respective firms in the following spreadsheet. The respondent companies are presented with their respective industries as provided from the survey responses.

Company	#1	#2	#3	#4	#5	#6	#7	#8	#9	#10	#11	#12	#13	#14	#15	#16
Aerospace	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Aerospace	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Textiles-Apparel	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Marine	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Chemical-Spec.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Computer	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Tech./Consulting	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Mfg.-Specialized	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
IT Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Electronic Equipment	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Electronic Equipment	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
IT Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Electronic Semi.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Automobile	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
IT Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Electronic Defense	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
IT Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Services-R&D	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Comm. Equip.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Leisure	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Services-R&D	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Biotech	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Computer	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Tech./Consulting	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Chemical-Spec.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Mfg.-Specialized	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Paper	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Mfg.-Specialized	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Svcs. Mgmt.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Household Products	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Construction	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Retail	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Elec.-Spec.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Services-R&D	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Newspaper/Internet	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

## **APPENDIX D. COMPANY ETHICS POLICIES**

The ethics policies submitted for this study are outlined as provided by the respective firms. In some cases titles of principles were used while in others, phrases or sentences were used to describe the principle section. The outlines provided in this appendix are consistent with the policies submitted. The respective industry provided by the respondents and study group (Defense or non-Defense) are indicated within each outline. Where appropriate, those firms indicating not having an ethics policy are noted within this appendix. The phrasing and grammar is consistent with the submitted policies.

**COMPANY #1:**

Industry: Aerospace

Study Group: Defense

Document Title: Setting the Standard – Code of Ethics and Business Conduct

**Virtues:**

1. Honesty
2. Integrity
3. Respect
4. Trust
5. Responsibility
6. Citizenship

**Code of Ethics and Business Conduct:**

- I. Treat in an Ethical Manner Those to Whom Company has an Obligation:
  - For our Employees
  - For our Customers
  - For the Communities
  - For our Shareholders
  - For our Suppliers
- II. Obey the Law:
  - Conduct business with all applicable laws and regulations.
- III. Promote a Positive Work Environment:
  - Provide a workplace where employees feel respected, satisfied, and appreciated.
- IV. Work Safely: Protect Yourself and Your Fellow Employees:
  - Provide a drug-free, safe, and healthy work environment.
- V. Keep Accurate and Complete Records:

- Transactions between company and outside individuals must be recorded in accordance with generally accepted accounting practices and principles.
- VI. Record Costs Properly:
- Employees and supervisors are responsible for accurately recording costs.
- VII. Strictly Adhere to All Antitrust Laws:
- Employees involved with any dealings with competitors must consult with the Legal Department prior to negotiating with or entering into any arrangement with a competitor.
- VIII. Know and Follow the Law When Involved in International Business:
- Employees involved in international operations must be familiar with the FCPA.
  - Be familiar with Securities and Exchange Commission and Federal Trade Commission terms and conditions.
  - Know and abide by the laws of foreign countries.
- IX. Follow the Rules in Using or Working with Former Government Personnel:
- Prevent conflict of interests for former Government personnel.
- X. Follow the Law and Use Common Sense in Political Contributions and Activities:
- Federal law prohibition of donations (funds or time) to candidates for federal offices.
- XI. Carefully Bid, Negotiate, and Perform Contracts:
- Comply with laws and regulations governing the acquisition of goods and services by customers.
- XII. Avoid Illegal and Questionable Gifts or Favors:
- To Government Personnel: Adhere to laws and regulations concerning gifts to Government personnel. Permissible objects are promotional items of "nominal" value. "Nominal" value is \$10.00 or less.
  - To Non-Government Personnel: Gifts are allowed as long as it doesn't violate the standards of conduct for the recipient's organization. Gifts exceeding \$10.00 must be approved by Ethics Office.
  - To Foreign Government Personnel and Public Officials: Gifts may be provided as long as does not violate FCPA.
  - To Company Personnel: Company personnel are not allowed to accept gifts that have a retail exchange value of \$20 or more.
- XIII. Steer Clear of Conflicts of Interest:

- Avoid any relationship, influence, or activity that might impair ability to be objective in performing your job.
- XIV. Maintain the Integrity of Consultants, Agents, and Representatives:
- Maintain business integrity of company.
- XV. Protect Proprietary Information:
- Keep proprietary information protected and secure.
- XVI. Obtain and Use Company and Customer Assets Wisely:
- Employee responsibility to prevent waste and abuse of resources.
- XVII. Do not Engage in Speculative or Insider Trading:
- Do not use non-public information for personal gain.
  - Do not pass along such information to someone else.



**COMPANY #2:**

Industry: Aerospace

Study Group: Defense

Document Title: Ethics and Business Conduct

**Values:**

1. Leadership
2. Integrity
3. Quality
4. Customer Satisfaction
5. People Working Together
6. A Diverse and Involved Team
7. Good Corporate Citizenship
8. Enhancing Shareholder Value

**Ethics and Business Conduct Program**

- I. Proper Marketing Practices:
  - Provides guidance regarding proper marketing practices and sets forth the responsibilities of those engaged in the marketing of company products or services.
- II. Proper Marketing Practices: Marketing to the U.S. Government:
  - Addresses special issues related to marketing to the U.S. Government
- III. Offering of Business Courtesies:
  - Provides guidelines on offering business courtesies to commercial business clients and to Federal, State, Local, or Foreign Government employees.
- IV. Conflict of Interest:

- Personal interest of employees must not influence or appear to influence company transactions. Provides the requirements for disclosing potential conflicts of interest and the process for obtaining a conflict of interest review.
- V. Acceptance of Business Courtesies:
- Explains the general principles, guidelines, unacceptable actions, and approval requirements for accepting business courtesies.
- VI. Proper Relationship with Suppliers:
- Provides guidance for employees that have contact with suppliers and prospective suppliers.
- VII. Proper Use of Company, Customer, and Supplier Resources:
- Provides guidance on the proper use of company resources and addresses such issues as use of company office equipment for non-company purposes.
- VIII. Former U.S. Government Employees – Conflict of Interest:
- Provides guidance on the laws and regulations applicable to the recruiting, hiring, and work of current or former U.S. Government employees.
- IX. Buying and Selling Securities – Insider Trading:
- Explains the prohibitions, based on Federal securities laws, against “insider trading.”

**COMPANY #3:**

Industry: Textiles-Apparel

Study Group: Defense

Document Title: Our Basic Beliefs

I. Quality:

- Quality applies to products, manufacturing methods, marketing efforts, people, and relationships with each other.

II. People:

- Provides guidance that encourages personal responsibility within the company and the community.

III. Ethics:

- Establishes standards of the company and instills those standards be upheld by each employee in dealing with customers, suppliers, employees, shareholders, and communities of the company.

IV. Growth:

- Expresses a commitment to strong balanced growth that will protect or enhance their consumer market.

V. Independence:

- Expresses a commitment to remain an independent company because of a desire to control their own direction and success.

## COMPANY #4

Industry: Marine

Study Group: Defense

Document Title: Business Ethics

- I. Receipt of Business Courtesies:
  - Establishes guidelines for the acceptance of business courtesies. Limits acceptance to lunches or dinners.
- II. Proper Relationship with Vendors:
  - Provides guidance on the proper business relationships with current and prospective suppliers.
- III. Use of Minority, Women owned and Disadvantaged Businesses:
  - Establishes guidelines that minority, women-owned and disadvantaged business will be utilized to the maximum extent practicable.
- IV. Maintain the Integrity of Suppliers and Customers:
  - Provides guidance on maintaining the confidentiality of customers and suppliers.
- V. Operate in a Socially, Environmentally and Ethical Behavior:
  - Establishes guidelines of proper business conduct.
- VI. Safety of Employees, the public, and the Environment.
  - Establishes guidance on the proper conduct of operations that protect all stakeholders.
- VII. Management Response to all Reported Discrepancies and Recommendations:
  - Sets guidance that management will respond quickly to any discrepancies or recommendations by employees in a timely manner.

VIII. Recognize the Needs and Requirements of the Customer:

- Establishes guidance that the company will be responsive to the needs and requirements of the customer.

IX. Establish and Maintain the Highest Levels of Quality Performance and Service.

- Establishes guidelines for all employees in achieving and maintaining the company's high standards for performance.

**COMPANY #5:**

Industry: Chemical-Specialized

Study Group: Defense

Document Title: None Available

**COMPANY #6:**

Industry: Computer Technology/Consulting

Study Group: Defense

Document Title: Code of Ethical Conduct

- I. Scope of the Code
- II. Business Ethics Committee
- III. Standards of Business Conduct
  - a) Accurate Books and Accounts
  - b) Accurate Reporting of Cost Data
  - c) Accurate Time Reporting
- IV. Standards of Conduct
  - a) Bribes, Gratuities and Kickbacks
  - b) Confidentiality
    - Establishes confidentiality of customers and employees information.
  - c) Copyright Compliance
    - Provides guidance for compliance with copyright laws.
  - d) Drug-Free Workplace
  - e) Equal Opportunity Policy
  - f) E-mail
    - Establishes security procedures for confidential information on e-mail,
  - g) Reporting
    - Provides guidance for reporting violations of ethics policy.

**COMPANY #7:**

Industry: Manufacturing Specialized

Study Group: Defense

Document Title: Business Practices

**Our Commitments:**

1. Commitment to Employees
2. Commitment to Customers
3. Commitment to Quality
4. Commitment to Suppliers
5. Commitment to Environment, Health and Safety

I. Commitment to Employees:

- Establishes guidelines for the company's commitment to providing an environment favorable to the employee.

II. Commitment to Customers:

- Establishes guidance of ensuring an open and honest relationship exists.

III. Commitment to Quality:

- Establishes that employees are responsible for ensuring deliverance of high quality products and services.

IV. Commitment to Suppliers:

- Establishes guidance for employees to ensure fair and courteous treatment of suppliers.

V. Commitment to the Environment, Health and Safety:



- Provides guidance to produce quality products and services in a safe, efficient and environmentally sound manner while maintaining a workplace that protects the health and safety of employees and the community around their facility.

VI. Compliance with Laws and Company Policies:

a) Antitrust:

- Establishes policy to compete on the basis of free competition.

b) Books and Records:

- Establishes company policy that accurate and complete information will be maintained for the efficient and proper management of the business.

c) Communications:

- Provides guidance that all communications will be conducted openly, accurately and honestly to maintain the integrity of the company.

d) Company Assets:

- Establishes guidance on the permissible use of company assets.

e) Company Confidential Information:

- Provides guidelines to ensure the security of the trade secrets and confidential information of the company.

f) Information:

- Establishes procedures for avoiding conflict of interests.

g) Former Government Employees:

- Provides guidance on the prohibition of Federal law to hire former Government employees that were recently involved in the award of a company contract.

h) Gifts and Entertainment:

- Establishes guidelines on the acceptance and offering of business courtesies to both non-Government and Government customers.

- i) Inside Information:
  - Establishes guidance on the prohibition of using “insider information” for personal gain or anyone else who may profit from such information.
- j) International Business:
  - Provides guidance on compliance with all foreign laws when conducting business abroad, including FCPA.
- k) Political Contributions and Activities:
  - Provides guidance for employee interaction in the political process.

**COMPANY #8:**

Industry: IT Services

Study Group: Defense

Document Title: Ethical Business Conduct

**Broad Concepts:**

- I. Obeying the Law
  - Laws of cities, states and countries.
- II. Competition
  - Establishes that company does not engage in unfair or illegal trade practices.
- III. Conflicts of Interest
  - Provides guidance on prevention of conflict of interest.
- IV. Government Contracts
  - Ensures compliance with all laws, rules and regulations.
- V. Payments to Government Personnel
  - Prohibits illegal payments to Government personnel.
- VI. Kickbacks and Gratuities
- VII. Political Contributions
- VIII. Business Gratuities
  - Commercial
  - Government

**COMPANY #9:**

Industry: Electronic Equipment

Study Group: Defense

Document Title: Pathway to Excellence – A guide to Ethical Business Conduct

- I. The Program
  - Describes the parts of the ethics program.
    1. Business Ethics Committee
    2. Reporting and Investigating procedures
    3. Training and Education
- II. How To Report Your Concerns
  - Provides guidance on reporting alleged violations.
- III. Human Resource Policies
  - a) Equal Employment
  - b) Drug Free/Substance Abuse Program
  - c) Sexual Harassment
- IV. Gifts and Unlawful Payments
  - a) Private Sector Gifts Made By or To Employees
    - Establishes guidance on giving and receiving business courtesies.  
Establishes \$25 limit from any one supplier or customer in any year.
  - b) Attempts to Influence Decision Making
    - Prohibits any employee from making any payment in an attempt to influence a third party's decision.
  - c) Bribes, Kickbacks or Other Unlawful Payments

- Prohibits such actions.
- d) Gratuities and Bribes Relating to Government Employees
- Provides guidance on Federal law prohibiting bribes or illegal gratuities to Government employees.
- V. Conflicts of Interest
- Establishes guidelines to prevent conflict of interest situations.
- VI. Protecting Our Environment
- Establishes company policy concerning internal and external environment.
- VII. Safety
- Establishes commitment to providing employees a healthy, safe and productive environment.
- VIII. Antitrust
- Establishes policy of compliance with all Federal and state antitrust laws.
- IX. Confidential Information
- Establishes guidelines to protect and control company confidential information about the private or business affairs of company. Protects trade secrets of former employees.
- X. Reporting Information
- Establishes guidance on keeping/reporting of information and recording such information accurately, honestly and timely. Prohibits falsification of any documents.
- XI. Purchasing Goods and Services
- Provides guidance on the relations of suppliers and potential suppliers and the treatment of information from such parties.

**COMPANY #10:**

Industry: Electronic Equipment

Study Group: Defense

Document Title: Code of Ethics and Business Conduct

**Values:**

1. Integrity
  2. Mutual Respect
  3. Innovation
  4. Communication
  5. Teamwork
  6. Continuous Improvement
  7. Diversity
  8. Performance
- 
- I. Ethics and Compliance
    - Provides guidance and explains company's ethical values and compliance of all employees with code.
  - II. Antitrust – Competition
    - Establishes policy that all employees will comply with antitrust laws throughout the world.
  - III. Child Labor
    - Establishes policy that company does not and will not employ child labor.
  - IV. Conflicts of Interest

- Establishes guidance on the prevention of conflict of interest for employees.
- V. Discrimination and Harassment
- VI. Drug-Free Workplace
- VII. Environment, Health, and Safety
- Establishes company policy to establish and manage a safe and healthy work environment and to manage its business in ways that are sensitive to the environment and conserve resources.
- VIII. Export Control Laws and Regulations
- Provides guidance in complying with export control laws and regulations of all countries in which company does business.
- IX. Forced Labor
- X. Fraud, Theft or Similar Conduct
- XI. Gifts and Gratuities
- Establishes guidelines for employees on offering and acceptance of business courtesies.
  - Establishes limit of \$20 or less, with a calendar maximum value of \$50 for any one Federal Government Employee.
  - Establishes guidance on Government employees outside U.S.
- XII. Government Procurement Laws and Regulations
- Establishes guidance on the business relations with Government agencies.
- XIII. Import Control Laws and Regulations
- XIV. Insider Trading
- Establishes commitment to comply with all securities laws and regulations and provides guidance to prevent occurrence.
- XV. International Boycotts
- Company policy to comply with U.S. antiboycott legislation.
- XVI. Maintain Accurate and Complete Records

- Establishes responsibility to employees to maintain accurate and complete records.

XVII. Non-Retaliation

- Establishes “whistle-blowing” guidance for reporting of violations.

XVIII. Political Contributions

- Establishes policy preventing the contribution of company funds to any candidate for public office.

XIX. Product and Service Safety

XX. Protection of Company Information, Ideas, and Intellectual Property

- Provides guidance to protect company assets.

XXI. Protection of U.S. Government Classified Information

XXII. Safeguarding Company and Customer Assets and Records

- Establishes employee responsibility to safeguard the use of company and customer assets.

XXIII. Truth in Advertising

- Provides guidance to prevent any misstatement or misleading impression in any of its marketing.



**COMPANY #11:**

Industry: IT Services

Study Group: Defense

Document Title: Code of Ethics  
Standards of Conduct

**Corporate Principles:**

1. Our Customers
2. Our Employees
3. Our Suppliers
4. Our Shareholders
5. Our Competitors
6. Our Communities

**Standards of Conduct:**

- I. Customers and Suppliers
  - a) Conflicts of Interests
  - b) Antitrust Compliance
  - c) U.S. Government Procurements
  - d) Product Quality and Safety
  - e) Marketing and Selling
  - f) Consultants Representatives and Agents
  - g) Protection of Proprietary Information

- h) Suppliers, Vendors and Subcontractors
- II. Employees
- III. Shareowners
- IV. Competitors
  - a) Antitrust Law
  - b) Competitive Information
  - c) Marketing, Selling and Advertising

**COMPANY #12:**

Industry: Electronics Semiconductor

Study Group: Defense

Document Title: Ethics Guidelines

- I. Respect for Company Assets
- II. Financial Interests and Insider Information
- III. Tips, Gifts and Entertainment
- IV. Accurate Reporting
- V. Employee Personal Information
- VI. Information About Customers, Prospects, and Suppliers
- VII. Fair Competition
- VIII. Preferential Treatment
  - Provides guidance in preventing preferential treatment of customers.
- IX. Information About Competitors
  - Establishes guidance on improper gathering of competitor information.
- X. Keeping at Arm's Length from Suppliers
  - Provides guidelines for proper supplier relations.
- XI. Reciprocity
  - Provides guidance on exchange of information with suppliers.
- XII. Antitrust Compliance
- XIII. International and State Antitrust Laws

**COMPANY #13:**

Industry: Automobile

Study Group: Defense

Document Title: Statement of Principles  
Ethical Standards

**Statement of Principles:**

1. Obey the Law
2. Be Honest
3. Be Fair
4. Be Concerned
5. Be Proactive
6. Be Responsible
7. Use Good Judgement

**Conduct:**

- I. Customer Satisfaction
- II. Company Products
- III. Terms of Commercial Transactions
- IV. Company Competitors
- V. Supplier Selection/Conflicts of Interest
- VI. Antitrust and Competition Laws
- VII. Government Contracts

- VIII. Import/Export Controls and Boycotts
- IX. Equal Employment Opportunity/Diversity
- X. Treatment of Each Other at Work
- XI. Safe Working Environment
- XII. Drug and Alcohol Policy
- XIII. Company Assets and Time
- XIV. Securities Law Compliance
- XV. Accuracy of Financial Records/Financial Representations
- XVI. Responsible Citizenship
- XVII. Environmental Compliance
- XVIII. Confidential and Proprietary Information
- XIX. Political Contributions

**COMPANY #14**

Industry: IT Services

Study Group: Defense

Document Title: Code of Conduct

**Commitment to Stakeholders:**

1. To our Customers
2. To Our Employees
3. To the Communities
4. To our Suppliers
5. To our Shareholders

**Code of Conduct:**

- I. Conflict of Interest
  - Establishes guidance on prevention of conflict of interest in the performance of responsibilities.
- II. Diversity and Equal Employment Opportunity
  - Establishes commitment to providing an equal opportunity work environment where everyone is treated with fairness, dignity, and respect.
- III. Relationships with Subcontractors and Suppliers
  - Provides guidance to manage subcontractor and supplier relations in a fair and reasonable manner, consistent with all applicable laws and good business practices.
- IV. Environmental Compliance

- Establishes policy to comply with all environmental laws and regulations as they relate to the organization's operations.

V. Quality Products and Services

- Establishes commitment to providing customers with quality products and services.

**COMPANY #15:**

Industry: Electronic Defense

Study Group: Defense

Document Title: Standards of Business Ethics and Conduct

**Ethical Principles:**

1. Integrity
  2. Respect
  3. Teamwork
  4. Quality
  5. Innovation
  6. Citizenship
- 
- I. Compliance with Laws and Regulations
    - a) General
      - Operate within the bounds of all applicable laws.
    - b) Antitrust Laws
      - Commitment to observing all antitrust laws of all nations or organizations.
    - c) Doing Business Internationally
      - FCPA
      - Anti-Boycott Laws
      - Export Controls
    - d) Securities and Insider Trading



- Provides guidance to employees to comply with Federal and State regulations with respect to disclosure of information and to trading in company securities.
- e) General Contracting Issues
- Provides guidance for employees to compete fairly and ethically for all business opportunities.
- f) Government Contracting Issues
- Charging of Labor, Materials and Other Costs
  - Proposals and Cost or Pricing Data
  - Procurement Integrity and Marketing Practices
    1. Gifts and Gratuities to U.S. Government Personnel
      - Limits value of gift to \$10
    2. Hiring Former Government Employees
    3. U.S. Government Source Selection and Proprietary Information
  - Relationships with Suppliers and Higher Tiered Contractors
  - Design, Manufacture and Testing of Products
- g) Intellectual Property
- Establishes guidance for the protection of intellectual property, including copyrights, patents, trademarks, and trade secrets.
- h) Environmental Laws and Regulations
- Establishes commitment to protecting the environment and the health and safety of employees, their families, their communities and the public.
- i) Political Contributions
- Establishes policy on employee interaction in political process.
- II. Business Conduct Policies
- a) Financial Integrity

- Establishes guidance on prohibition of using company assets or funds for any unethical purpose.
- b) Commitment to Quality
- c) Extending Business Courtesies
  1. Purely Commercial Customers
  2. U.S. Government Customers
    - Limits value to \$10 or less.
  3. Business Courtesies in an International Context
    - Foreign Officials
    - Non-Government Officials
- d) Business Courtesies That May Be Received
  1. Relationships with Suppliers
    - Limits value to \$10 or less
  2. Relationships with Customers/Others
- e) Conflict of Interest
  - Provides guidance on preventing conflict of interest situations.
- f) Use of and Respect for Confidential Information
  - Provides guidance on the responsibility to safeguard confidential information.
- g) Gathering Information About Our Competitors
  - Prohibits employees from unlawfully gathering information about competitors.
- h) Use of Company Resources and Property

### III. Company Relationships

- a) Employee Relations
- b) Customer Relations
- c) Supplier Relations
- d) Community Relations

IV. Reporting and Resolving Ethics and Business Conduct Concerns

- Establishes procedures for reporting of violations and provides guidance for compliance of ethics program.

**COMPANY #16:**

Industry: IT Services

Study Group: Defense

Document Title: Ethics Handbook

- I. Reporting Violations
- II. Conflict of Interest
- III. Outside Business Activities
  - Establishes guidance for employment outside of company.
- IV. Former Government Employees
  - Provides guidance for compliance with Federal regulations regarding employment of former Government employees.
- V. Former Company Employees
- VI. False Statements, False Claims, and Conspiracy
- VII. Research Fraud
  - Ensures compliance with company's commitment to performing complete and accurate research.
- VIII. Kickbacks
- IX. Giving Gratuities
- X. Accepting Gratuities
- XI. Foreign Activities
  - Provides guidance for compliance with laws of foreign countries as well as other U.S. laws and the FCPA.
- XII. Recording Financial Transactions
- XIII. Control and Use of Facilities

XIV. Proprietary Information

XV. Employee Privacy

XVI. Community Activities

**COMPANY #17:**

Industry: Services R&D

Study Group: Defense

Document Title: None Available

**COMPANY #18:**

Industry:      Communication Equipment

Study Group: Defense

Document Title:      Values and Ethics

**Values:**

1. Integrity
  2. Innovation
  3. Commitment
- 
- I.      Respect and Value People by....
    - Treating others as we want to be treated.
  - II.     Honesty by....
    - Representing ourselves and our intentions truthfully.
  - III.    Learn and Create by....
    - Understanding that impatience with the status quo drives business and personal growth.
  - IV.     Act Boldly by....
    - Pioneering new business directions and opportunities.
  - V.      Take Responsibility by....
    - Being at our competitive best for the company.
  - VI.     Commit to Win by....
    - Being personally dedicated to making the company a winner.
  - VII.    Employee/Employer Partnership
    - Establishes policy that provides rights for employees.

VIII. Ethics in the Global Market

- Provides guidance for compliance with all laws and regulations of foreign countries and FCPA.



**COMPANY #19:**

Industry: Leisure

Study Group: Defense

Document Title: Code of Conduct

- I. Equal Opportunity
  - Establishes commitment to providing an environment where employees can make meaningful contributions.
- II. Health and Safety
- III. Our Environment
  - Ensure compliance with environmental laws and regulations.
- IV. Sexual Harassment
- V. Substance Abuse
- VI. Conflict of Interest
  - Provides guidance to avoid conflict of interest situations.
  - Establishes limits for offering/acceptance of business gifts to a “nominal” value.
- VII. Fair Competition
  - Establishes guidance for compliance with antitrust laws and all other laws covering competition.
- VIII. Competitive Intelligence
  - Presents guidelines to prevent unlawful gathering of competitor information.
- IX. Customer/Supplier Information
  - Provides guidance on the protection of confidential information of customers and suppliers.

X. Trading on Inside Information

XI. Proprietary Information

- Establishes procedures for the protection and security of proprietary information.

XII. Intellectual Property

- Establishes procedures for protecting discoveries, improvements, ideas, trademarks and inventions.

XIII. Company Funds and Property

**COMPANY #20:**

Industry: Services R&D

Study Group: Defense

Document Title: Code of Business Conduct

- I. Export Matters and International Business Relationships
  1. Export Administration and International Economic Sanctions
  2. Boycotts
  3. International Business Relationships
- II. Antitrust and Competition
- III. Employment and the Workplace
  1. Equal Employment Opportunity
  2. Harassment
- IV. Health, Safety and Environment
  - Establishes commitment to health, safety and the environment as a primary goal.
- V. Ethical Business Practices
  1. Sensitive Transactions
  2. Commercial Bribery
  3. Accounting Controls, Procedures and Records
  4. Use and Disclosure of Inside Information
  5. Confidential or Proprietary Information
  6. Conflicts of Interest
  7. Fraud and Similar Irregularities
  8. Customer and Supplier Relations

VI. Reporting Violations

1. Investigation of Violations
2. Disciplinary Measures

**COMPANY #21:**

Industry: Biotech

Study Group: Non-Defense

Document Title: Standards of Business Conduct

**Values:**

1. Integrity
  2. Employees
  3. Customers
  4. Quality
  5. Technology
  6. Environment
  7. Safety
  8. Profit
- 
- I. Responsibility to Employees
  - II. Employee Responsibility to Company
  - III. Relations with Customers, Distributors, Suppliers
  - IV. Conservation, Environmental and Product Stewardship Practices
  - V. International Business Guidelines
  - VI. Financial Responsibilities

**COMPANY #22:**

Industry: Computer Technology/Consulting

Study Group: Non-Defense

Document Title: Code of Ethics

I. Clients

- Provides for complete client confidentiality

II. Engagements

- Provides guidance that company will only engage in projects qualified for.
- Will notify clients of conflict of interest.

III. Fees

- Ensures clients that fees/expenses are reasonable, legitimate and commensurate with the services provided.

IV. Profession

- Protects clients' intellectual property rights.

**COMPANY #23:**

Industry: Chemical-Specialized

Study Group: Non-Defense

Document Title: Code of Ethics

**Core Values:**

1. We create superior value for our customers.
2. We work to provide shareholder value.
3. Our people are our strength.
4. We share one vision. We are one team.
5. We have only one standard -- excellence.
6. We embrace change and reward innovation.
7. We fulfill our commitments and act with integrity

**Commitment to Company Stakeholders:**

1. To employees
  2. To shareholders
  3. To Customers
  4. To Suppliers
- 
- I. Individual Responsibility for Creating and Sustaining a Pleasant, Secure and Productive Working Environment.
  - II. Maintaining Credibility and Trust in Customer Relations

- III. Dealing Fairly and Honestly with Suppliers
- IV. Gathering Competitive Information
- V. Protecting the Corporations Assets – Including Confidential and Proprietary Information
- VI. Using Copyrighted Materials
- VII. Avoiding Conflict-of-Interest Situations that may arise due to:
  - Outside activities
  - Offers of gifts and entertainment
  - Bribes and Kickbacks
  - Positions or actions of family and friends
- VIII. Ethical Leadership in the Global Community
- IX. Local Communities
- X. Protection and Enhancement of the Environment
- XI. Competition
- XII. Accountability
- XIII. Relationships with Customers
- XIV. Relationships with Suppliers
- XV. Hiring Practices



**COMPANY #24:**

Industry: Manufacturing-Specialized

Study Group: Non-Defense

Document Title: None Available

**COMPANY #25:**

Industry: Paper

Study Group: Non-Defense

Document Title: Corporate Conduct Policy

- I. Obey the Law
- II. Employee Responsibilities
- III. Reporting Violations
- IV. Giving/Accepting Business Gifts
- V. Proprietary Information
- VI. Quality and Safety of Company Products
  - Provides guidance on the establishment of safety guidelines and quality assurance.
- VII. Community Relations
  - Provides for compliance of all environmental regulations and laws.

**COMPANY #26:**

Industry: Manufacturing-Specialized

Study Group: Non-Defense

Document Title: Global Code of Ethics

- I. Company Relationships with Customers, Suppliers, Competitors
  - a) Antitrust
  - b) Gifts
  - c) Meals, Entertainment and Travel
  - d) Inappropriate Entertainment
  - e) Product Safety
- II. Responsibility Toward Company
  - a) Health and Safety
  - b) Internal Communications
  - c) Diversity at Company
  - d) Privacy and Confidentiality
  - e) Privacy in Communications and in the Workplace at the Company
  - f) Conflicts of Interest
  - g) Alcohol/Drugs
- III. Protecting Corporate Assets
  - a) Accurate Accounting
  - b) Security of Property and Information
  - c) Intellectual Properties
  - d) Inside Information
- IV. Responsibilities to the Public and Public Officials

- a) Relations with Public Officials
  - b) Corporate Lobbying
  - c) Election Activities and Contributions
  - d) Company Plant Community
  - e) Environmental Protection
- V. Company as a Global Organization
- a) Respecting Local Law and Customs
  - b) Transfer Pricing (Ensuring fair and reasonable prices across borders)
- VI. Company Resources for Dealing With Illegal, Unethical or Questionable Issues
- a) Reporting Violations or Workplace Misconduct
  - b) Refusing Unethical Requests
  - c) Avoid Compromising Situations

**COMPANY #27:**

Industry: Services-Management

Study Group: Non-Defense

Document Title: None Available

**COMPANY #28:**

Industry: Household Products

Study Group: Non-Defense

Document Title: Statement of Beliefs

- I. Belief that both human beings and nature have inherent worth and deserve respect.
- II. Belief in products that are safe, effective and made of natural ingredients.
- III. Belief that company and products are unique and worthwhile.
- IV. Belief that we have responsibility to cultivate best relationships possible with co-workers, customers, owners, agents, suppliers, and community.
- V. Belief that different people bring different gifts and perspectives to the company.
- VI. Belief in providing employees with safe and fulfilling environment.
- VII. Belief that competence is essential to sustaining company values.
- VIII. Belief that company can be financially stable while behaving in a socially responsible and environmentally sensitive manner.

**COMPANY #29:**

Industry: Construction

Study Group: Non-Defense

Document Title: None Available

**COMPANY #30:**

Industry: Retail

Study Group: Non-Defense

Document Title: Cornerstones of Values  
Twelve Commandments of Management

**Cornerstones of Values:**

- I. Style
- II. Quality
- III. Service
- IV. Integrity

**Twelve Commandments of Management:**

- 1. Always lead by example.
- 2. Treat our associates with respect
- 3. Work together as a team by doing anything that you would ask them to do.
- 4. Greet each customer.
- 5. Develop your associates by continuously training them.
- 6. Be fair and equitable at all times.
- 7. Facilitate a "family" environment.
- 8. Make work fun.
- 9. Communicate and Listen.
- 10. Value Diversity



11. Inspire and Enable creativity and innovation.

12. Be accessible.

**Company Policies on Ethics:**

- I. Acceptance of Gifts
- II. Conflicts of Interest
- III. Confidential Information
  - Customers
  - Suppliers
  - Fellow employees
  - Company
- IV. Sexual Harassment
- V. Reporting Violation

**COMPANY #31:**

Industry: Electrical-Specialized

Study Group: Non-Defense

Document Title: None Available

**COMPANY #32:**

Industry: Services R&D

Study Group: Non-Defense

Document Title: Standards of Corporate Conduct

- I. Compliance with the Law
- II. Confidential Information and Conflicts of Interest
  - 1. Contractual information
  - 2. Plans and Strategies
- III. Conflicts of Interest
  - 1. Financial Interest
  - 2. Positional Interest
  - 3. Competition
- IV. Confidential and Proprietary Information Policy
  - 1. Confidential Information
  - 2. Proprietary Information
  - 3. Authorized Disclosure
  - 4. Employee Responsibilities for Safeguarding
- V. Commitment to Customers
- VI. Commitment to Suppliers
- VII. Commitment to Environment
- VIII. Commitment to Maintaining Technological Proficiency

**COMPANY #33:**

Industry: Newspaper/Internet

Study Group: Non-Defense

Document Title: Ethics Policy

- I. Conflict of Interest
  - Establishes guidance that when a conflict of interest occurs, the company will state the interest in the story.
- II. Fairness
  - Establishes that company will look at all sides of the story.
- III. Checking Accuracy with Sources
- IV. Corrections and Clarifications
  - Company will promptly correct any factual errors or misleading statements.
- V. Anonymous Sources
  - Company will protect sources if the source's job or health will be endangered if the identity were revealed.
- VI. Gifts
  - Establishes guidance that gifts of "significant" value should not be accepted.
- VII. Advertising and Coverage
- VIII. Previously Published Work
  - Establishes company policy if a story has been previously released, the story will state so at the end.

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