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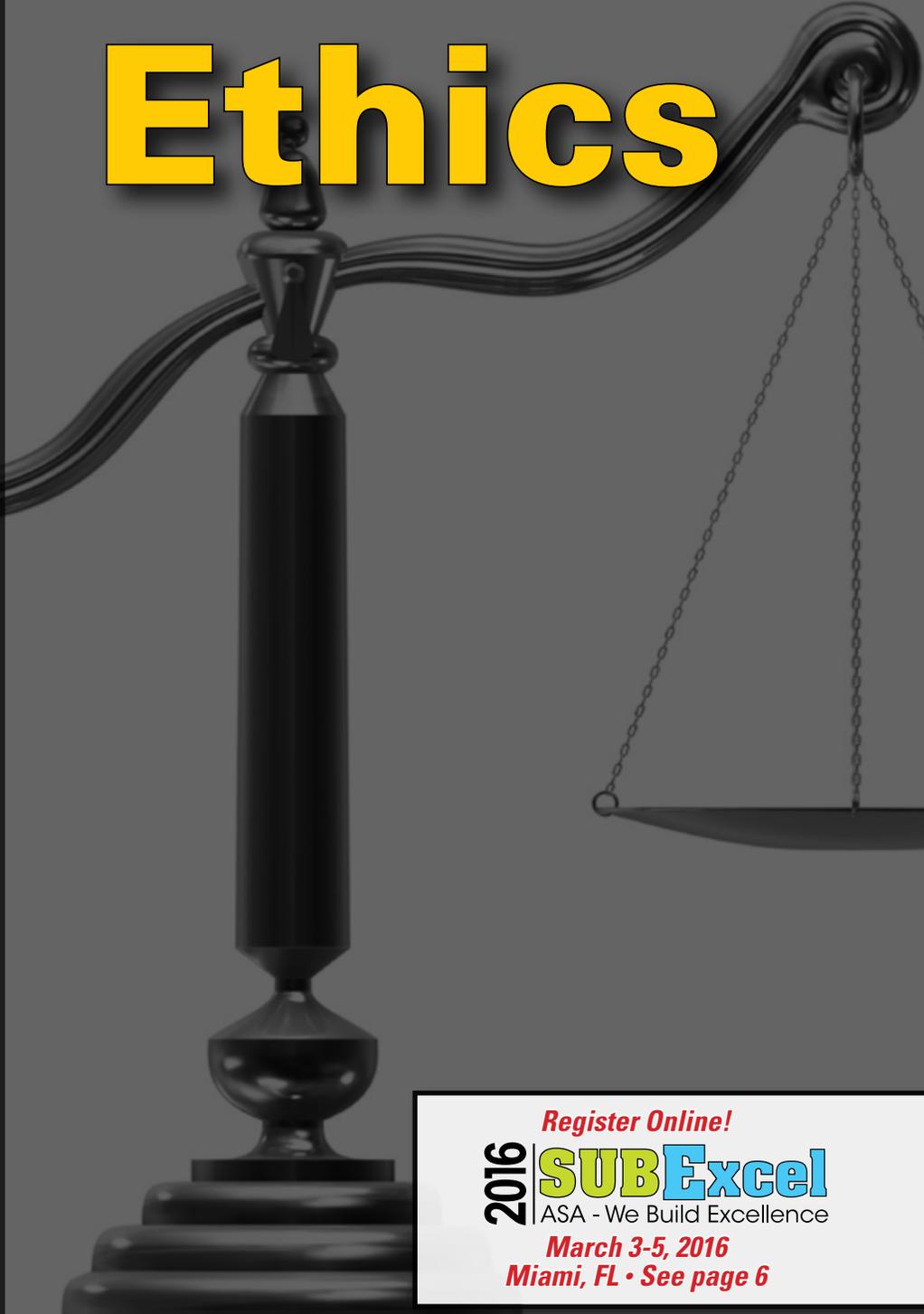
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# Ethics



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## Out of Sight, Out of Mind: Ethical Considerations for Field Leaders

by Christine Rahlf

Collusion, bribery and bid-rigging are the types of ethical violations in construction that make the headlines. What we tend to overlook are the day-to-day ethics challenges faced by our field workers, the employees most removed from the home office and management supervision. We forget that these employees have the most direct contact with our customers and influence how we are perceived in the marketplace. How do we ensure that our field workers act in a manner consistent with our values? What are the ethical challenges faced by field employees and how can we craft and implement an ethics program that reaches the field level?

For a typical self-performing subcontractor, up to 85 percent of annual revenue flows through the company as direct costs including labor, equipment, and material. We rely on our field leaders to request, receive, and manage the resources with minimal oversight. Unfortunately, with control of these resources comes daily temptation to act unethically. Here are a few examples:

- **Vendor gifts.** Most of us are comfortable with our field employees receiving small gifts (lunch, hats, and coolers) from equipment and material vendors. But, are guidelines or measures in place as the value of these gifts increase, to a point which could influence purchasing behavior?
- **Material selection.** Some companies leave the selection of installation material to individual project managers or field leaders and then incentivize them to bring projects in below budgeted cost. By doing this, we've created the temptation to cut costs by

selecting lower grade material that may compromise the quality of the installation.

- **Scrap material.** In some trades, it is considered standard practice for the field to collect and turn in demolished or scrap material for cash, which is then kept by the foreman or distributed among the crew. Unchecked, this practice can encourage deliberate damage or over-ordering of material. If the project is a cost-plus or time and materials project, the actual cost of the project to the owner can be impacted by this practice.
- **Field labor tracking.** Many of our field leaders are responsible for tracking crew time and preparing or reviewing time cards. How do we ensure that the time entered is valid and that work is being accomplished as reported?
- **Out of scope work.** Horse trading, for example. The performance of minor work items for either no cost, in-kind trade, or future consideration is common and sometimes a necessary part of project execution. When does this practice become undesirable and is that answer different for different projects or clients?

While there is no silver bullet that can address and control all possible ethical issues in the field, a company can significantly influence field behavior by intentionally addressing ethics in the recruitment and hiring process, project planning, execution standards and practices, and employee performance management.

### Interviewing for Ethical Behavior

How do you hire an ethical field employee? This is easy. All potential employees are ethical! That is, everyone has his or her own internal ethics and will act in accordance with them. The question is how do you hire employees whose values align with your company's values? Many companies rely on behavior assessments based on personality tests like DiSC and Meyers Briggs to determine if employees are a good fit. While these tools can be useful, the most reliable way to ensure the candidate's internal ethics match your company's is to ask detailed interview questions that identify specific past behavior that confirms the match. Many companies ask hypothetical questions to identify behavioral traits. This is ineffective because the candidate is now guessing at what you want to hear and crafting their response accordingly. Instead, come to the interview prepared with detailed questions and follow-up questions. For example, if you are hiring a field superintendent with purchasing authority, you could use the following series of questions:

- Tell me about a time a vendor or other party was trying to influence your purchasing decision?
  - What was the nature of the purchase?
  - What was your role in the purchase?
  - How did the vendor try to influence you?
  - What action did you take?
  - Who did you notify?
  - What was the final outcome?

By asking for a specific experience and then details, it is much harder for a candidate to fabricate an answer or try to anticipate what the interviewer wants to hear. The best predictor of future behavior is always past experience.

## Standards and Processes

The way to improve a business is to establish standards and processes, consistently apply them, and measure the outcome. These same standards and processes can also be used to encourage ethical behavior on the job site and identify potential problems. Many companies have standards and processes that address office functions, such as accounting and human resources, but lack standardized processes for the field. The following processes specifically relate to areas that present field ethical challenges:

## Installation Material Standards

Who determines what installation materials are used? In some specialty trades, such as mechanical or electrical construction, there is a tremendous material selection available at both the system and component level. Leaving the decision of what to buy to the discretion of individual project managers or field leaders creates the temptation to purchase lower grade material to reduce cost or to buy the brand of material that a favored vendor carries. Incentivizing project teams to cut costs only serves to increase that temptation. By selecting material standards at a company level, rather than a project level, a company can not only negotiate more favorable volume pricing, but they can also standardize tooling and installation processes, improving both quality and productivity. Materials should be

standardized at both the component level (boxes, nuts, supports) and system level (fans, motors, fixtures), understanding that there will be special project exceptions. Solving at the 80 percent level will free field supervisors' time to focus on the exceptions where standard material cannot be used and ensure that it is purchased in an appropriate manner.

## Procurement Process

Many contractors struggle with the issue of whether to centralize the purchasing function. Some have such a decentralized system that any employee (or person claiming to be an employee), can go to a vendor and place an order on the company account. Others have such a tightly centralized system that only one purchasing agent can buy material, creating a bottleneck that impedes productivity. Best-in-class contractors have a purchasing process with appropriate controls, while still providing flexibility to cover unplanned or emergency material orders. Elements of a good purchasing process include:

1. Documented Value Stream Map of the purchasing process (order to pay) that includes a detailed listing of each step and any templates or forms required.
2. Designation of authorized personnel who can buy material and what their purchasing limits are. For a decentralized purchasing system, anyone authorized to buy should be well-trained on both the material procurement process and the material standards of the company.
3. Price verification. A good purchasing system allows companies to quickly compare prices both to items previously purchased and to published pricing information. This market research is essential to determining fair and reasonable pricing.

4. Purchase order generation. Each material order should be confirmed with a unique purchase order number that clearly identifies who made the purchase, the material being purchased, and the project it has been purchased for.
5. Receipt of delivery confirmation. All material delivered to job sites should be accounted for by acknowledging receipt of the material in a purchasing software or sending a copy of the receipt ticket (preferably electronically) to accounting to match to the purchase order. This should be done prior to invoice approval. On large orders, a release of claims signed by the vendor may also be required.
6. Material disposition. The steps for material returns and disposition of scrap should be clearly identified and communicated to field personnel. As scrap returns can often be a trouble area, clear steps for scrap disposition and clear consequences for mishandling of scrap should be spelled out in detail and incorporated into company policy.

Clear guidelines for accepting vendor gifts and gratuities. If this is an area of particular concern, you might draft a "purchasing ethics" policy and require anyone with purchasing authority to sign. This policy should also be shared with vendors so they understand how to interact with your purchasing professionals. Written guidance on gift and gratuity acceptance will also assist the human resources department in the event an employee must be disciplined or excused due to infractions of policy.

## Field Labor Management Process

Labor is obviously the most variable cost element of a project, and if not tracked properly, it is easy to overlook misreported or over-reported hours. An effective field management process includes:

1. **Work breakdown structure:** The labor budget should be broken down into work tasks with measurable production quantities. That allows for actual reported labor being compared to installed quantities to determine if the desired production rate (actual installed quantity/actual hours) is being met. Any significant overruns are red flags that can be investigated and used for process improvement.
2. **Short interval planning with resource loading:** By requiring project managers and field leaders to produce short interval plans (one- to three-week schedules) that indicate crew size, work tasks, and expected production, managers can monitor field staffing levels and time reporting to ensure that the desired production levels are achieved and that excessive man-hours are not being buried into the project.
3. **Effective time card entry and approval process.** Field employees should only be allowed to charge time in accordance with the budgeted work breakdown process. Time cards should also go through an approval process so that a second set of eyes is reviewing time entry prior to payroll processing.

## Field Change Order Process

Almost all projects have change orders, but not all contractors are successful at recovering the cost of

those changes. Field personnel can be tempted to perform work for the customer or other trades in order to build good will or sometimes in exchange for gifts. When is this behavior desirable and when is it considered unethical? This is a grey area that one can hardly expect to navigate without a clearly spelled out process that includes:

1. **Clear authority levels** detailing who can authorize additional work and what the dollar value of that authorization is.
2. **Approval process** detailing who gets notified about potential change of scope, how they get notified (phone call, email), and the time requirement for notification.

Contract terms and conditions usually stipulate the requirements to get paid for change order work so the specific field change order process will change from contract to contract. Therefore, as part of the project planning process, the field change order process should be established and reviewed with all field leadership.

## Training and Performance Management

While standards and processes can encourage ethical behavior and provide guidance for field employees, they are only effective when employees receive adequate training and support in the execution of those standards.

Training can be accomplished using a variety of mediums including traditional classroom learning, online courses and tutorials, and toolbox talks. Toolbox talks with case studies are particularly effective for guiding discussions on ethics issues, such as lower quality material substitution and vendor gifts. By having field employees walk through case studies, they can examine how they would react to a potential vendor-driven incentive or conflict of interest.

Policies and standards for ethical behavior must be reinforced through consistent performance management. "Demonstration of Company Values" should be a key accountability that is rated and discussed during performance reviews. If a specific field policy spells out disciplinary action for noncompliance, it must be administered consistently, regardless of the employee's rank, tenure, or quality of work.

Your field employees should also have a means of recourse outside of their supervisory chain if they see unethical behavior or feel pressured to act unethically themselves. Whether this is direct access to the HR manager, or a 1-800 ethics hotline, they need to feel safe and free from reprisal while seeking help with an ethics problem.

## Conclusion

Your field personnel face ethical challenges and make decisions that align with their personal values, but those decisions may not necessarily align with company values or interests. By focusing more on desired ethical behaviors during the hiring process and reinforcing those behaviors after hire through clear standards, processes, and effective performance management, you can ensure that your field employees are true ambassadors of your company.

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