Ethics & Compliance
The Competitive Advantage

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What is Ethics & Compliance?
Gray Area
Now What?
Advantages of an Ethical and Compliant Culture

- Employees in higher integrity cultures are 67% less likely to observe significant instances of business misconduct than employees in lower integrity cultures.

- Managers that exhibit corporate values can improve employees’ performance by 12%.

- Ethical companies receive widespread public attention and secure the trust of customers and suppliers.

- A strong culture of integrity correlates positively with long-term total shareholder return; there are fewer lawsuits, fines, and penalties.
The Requirement

FAR 3.10 Contractor Code of Business Ethics & Conduct

Subpart 3.10—Contractor Code of Business Ethics and Conduct

3.1000 Scope of subpart.
This subpart—
(a) Implements 41 U.S.C. 3509, Notification of Violations of Federal Criminal Law or Overpayments; and
(b) Prescribes policies and procedures for the establishment of contractor codes of business ethics and conduct, and display of agency Office of Inspector General (OIG) fraud hotline posters.

3.1001 Definitions.
As used in this subpart—
“Subcontract” means any contract entered into by a subcontractor to furnish supplies or services for performance of a prime contract or a subcontract.
The FAR states that all federal contractors should have a written code of business ethics and conduct...and a display of hotline posters.

“Government contractors must conduct themselves with the highest degree of integrity and honesty.”
FAR 3.1003 and 52.202-13(b) – Mandatory for Small Businesses

Mandatory if

- Value of contract is greater than $5,000,000; and
- Performance period is 120 days or more; and
- Contractor is a small business concern*.

The FAR states you must have:
1. Have a written code of business ethics; and
2. Make a copy of the code available to each employee engaged in performance of the contract; and
3. Exercise due diligence to prevent and detect criminal conduct; and
4. Otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law.

Timing: Within 30 days after contract award, unless the Contracting Officer establishes a longer period.

*AbilityOne® nonprofits don’t automatically qualify as a small business for purposes of being awarded a small business contract. Under the SBA regulations, 501(c)(3)s are not considered in the definition of a small business.
FAR 3.1003 and FAR 52.203-13(c) – Mandatory for Large Businesses

Mandatory if
- Value of contract is greater than $5,000,000 and performance period is 120 days or more; and
- Contractor is a large business concern.

The FAR states you must have:
1. An ongoing business ethics awareness and compliance program; and
2. An internal control system.

Timing: Within 90 days after contract award, unless the Contracting Officer establishes a longer period.

- Applies to the Prime, its principals, employees, agents, and flows to the subcontractor(s) as well.
- Also applies to subcontractors who meet the dollar and performance period requirement.
Consequences of Compliance Failures

**Financial Loss**
- Damages
- Settlements
- Fines

**Missed Opportunities**
Loss of business and opportunities to differentiate the company from its competitors

**Reputational Harm**
Negative impact to the trust of supporters, customers, employees, and key stakeholders

**Career Damage**
- Damage to credibility
- Suspensions
- Terminations
- Jail Time
- Penalties
Ethics & Compliance Program Elements

- Corrective Actions
- Confidential & Anonymous Hotline
- Standards & Procedures
- Monitoring, Auditing and Risk Assessments
- Disciplinary Guidelines
- Exclude Bad Actors
- Compliance Training
- Assignment of Responsibility

Ethics & Compliance
Code of Conduct

- Policies & Procedures
- Guidance Documents
- Code of Conduct
  - A code is a written clarification of your mission, values, principles, and expectations for acceptable workplace behavior.
Compliance Training

- Mechanism to Communicate
- Mandatory for Code of Conduct
- Annual (minimum)
- Online or Instructor Led
Hotline & Hotline Poster

- Internal Reporting Mechanism
- Anonymity & Confidentiality
Ethics is every employee’s responsibility!
Common “Red Flags”

If we bring that up, people will start asking questions, just leave it alone.

It’s for the good of the company. It’s not like it’s for me.

Don’t worry about it. These instructions are from the top.

This is about my bonus and your bonus.

We’ve always done it this way. It’s no big deal.
Key Takeaways

- Formal Ethics & Compliance Program
- Integrate Managers into E&C
- Encourage a Two-Way Dialogue
- Reinforce Organizational Commitment

Source: CEB “Culture of Integrity & Ethics”
Integrate Managers into E&C Efforts

- Articulate the role of managers
- Educate managers to receive and respond to issues
- Use managers to cascade formal compliance expectations
- Use liaisons to complement the role of managers

Source: CEB “Culture of Integrity & Ethics”
Encourage a Two-Way Dialogue

• Provide multiple reporting channels
• Create a Stand-Along Speaking Up Policy
• Use Managers to Train Employees on Reporting Protocols
• Socialize Speaking Up Through Multiple Communications.

Source: CEB “Culture of Integrity & Ethics”
Reinforce Organizational Commitment

- Demonstrate senior leaders commitment to ethical accountability
- Determine opportunities to publicize compliance issues
- Reinforce accountability through compliance messaging

Source: CEB “Culture of Integrity & Ethics”
It takes many good deeds to build a good reputation, and only one bad one to lose it.

--Benjamin Franklin
Thank You

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