The Interface Between Risk and Ethics

Iowa Chapter
December 12, 2018
Complete the Distinguished Lecturer Event Summary Critique

- **CTTC needs your feedback to continue to improve the DL Program**
  - Distribute the DL Evaluation Form to all attendees
  - Collect at the end of the meeting
  - Compile the attendee rating on the Event Summary Critique
  - Send the completed Event Summary Critique to your CTTC RVC and ASHRAE Headquarters

**Forms are available at:**
www.ashrae.org/distinguishedlecturers
BECOME A FUTURE LEADER IN ASHRAE – WRITE THE NEXT CHAPTER IN YOUR CAREER

ASHRAE Members who are active at their chapter and society become leaders and bring information and technology back to their job.

YOU ARE NEEDED FOR:

- Society Technical Committees
- Society Standard Committees
- Chapter Membership Promotion
- Chapter Research Promotion
- Chapter Student Activities
- Chapter Technology Transfer

Find your Place in ASHRAE and volunteer
Risk versus Ethics

• Recognize the importance of ethical decision making
• Identify likely sources of ethical dilemmas or conflict
• Distinguish the difference between risk and ethics and how they are related
• Create a corporate environment that accounts for both risk and ethics

ASHRAE Code Of Ethics
(Approved by ASHRAE Board of Directors January 30, 2013)

1.140.001.1 As members of ASHRAE or participants in ASHRAE committees, we pledge to act with honesty, fairness, courtesy, competence, integrity and respect for others in our conduct.

A. Efforts of the Society, its members, and its bodies shall be directed at all times to enhancing the public health, safety and welfare.

B. Members and organized bodies of the Society shall be good stewards of the world’s resources including energy, natural, human and financial resources.

C. Our products and services shall be offered only in areas where our competence and expertise can satisfy the public need.

D. We shall act with care and competence in all activities, using and developing up-to-date knowledge and skills.

E. We shall avoid real or perceived conflicts of interest whenever possible, and disclose them to affected parties when they do exist.

F. The confidentiality of business affairs, proprietary information, intellectual property, procedures, and restricted Society discussions and materials shall be respected.

G. Each member is expected and encouraged to be committed to the code of ethics of his or her own professional or trade association in their nation and area of work.

H. Activities crossing national and cultural boundaries shall respect the ethical codes of the seat of the principal activity.
Risk versus Ethics

• Is ethics an industry wide problem?
• If so, why?
Fundamental Truth about our Industry

• This is a people based industry
• It is all about long-term relationships
• Mutually meeting expectations is the key to long-term relationships (win/win)
Why Focus on Expectations?

‘Corporate Culture and Performance’ by John Kotter and James Heskett (2005)

Revealed that businesses that focus obsessively on meeting the needs of customers:

- Revenues increase 4 times faster
- Job creation is 7 times faster
- Owner equity grows 12 times faster
- Profit performance is 750% higher
Risk and Ethical Boundaries

• We generally have a problem when behavior
  • Fails to differentiate between ‘can’ and ‘should’ (Technical)
  • Is only about the minimum standard (Law)
  • Is only about risk avoidance (Ethics)
Efforts at Legislating Ethics

• Codes and regulations
• Licensing
• Codes of Ethics
  • ASHRAE Code of Ethics
• What are the problems with legislating ethics?
ASHRAE Code of Ethics

• Series of case studies
  • Was this ethical behavior?
  • How would you apply the ASHRAE Code of Ethics to produce ethical behavior?

• Case Study #1 - Can we do something versus should we do something (technical problem)
Boundary of Risk and Ethics

• Case Study #1
• Was this ethical behavior?
• How would you apply the ASHRAE Code of Ethics in this case?
Case Study #2 – Ethics as only a minimum standard (Legal problem)
Boundary of Risk and Ethics

• Bid Shopping
  • What is it?
  • Is it legal?
  • What is wrong with it?

“I’m not out of this until the fat lady sings”
“It’s just like buying a car. A guy like you, you probably buy a Jaguar. Well, you ask the dealer what they want for the car. They say $50,000. You know you will never pay that for the car.”

Developer/General Contractor
Tilt-up v. Star City Developers
Boundary of Risk and Ethics

• Case Study #2
• Is this ethical behavior?
• How would you apply the ASHRAE Code of Ethics to produce ethical behavior?
• Case Study #3 – Behavior is only about risk avoidance (Ethical problem)
Boundary of Risk and Ethics

• Constructing new residential streets

Werner Const. Vs. City of York, NE
Boundary of Risk and Ethics

* Put Rip-Rap back into place at Drop structure on Nobes.
* Replace Inlet throat on the west side of Main at Nobes Rd., so that water don’t run past Inlet.
* Clean-up area of water building Road.
* Adjust water valve box to grade at the Cul-de-Sac of 11th Street. WCC (under slabs) at Cul-de-Sac radius.
* Clean out all Inlets and Flush Storm Sewer Pipe. All.
* Make sure all Inlet Decks Have Manhole Covers on them. 1st & Blacker, Clearview & Main, Industrial Park.
Boundary of Risk and Ethics

- Pick up debris
- Get All equip step out of industrial park
- Shape old road & runway & pick up rubble, old pile in corn field
- 5 gal bucket of oil at end of colonial
- 1st manhole NO 25 on Nebraska needs cleanout
- Will not charge liquidated damages since street opened
Boundary of Risk and Ethics

• Case Study #3
• Is this ethical behavior?
• How would you apply the ASHRAE Code of Ethics to produce ethical behavior?
Boundary of Risk and Ethics

• Gray areas
  • Religious/political
  • Safety Factor and design
  • Overcharging on change orders
  • Sustainability (NSPE)
Right to Life: Don't do it

Pro-life group writes to contractors that could be involved in Planned Parenthood project.

By JoANNE YOUNG
Lincoln Journal Star

Lincoln Right to Life has sent letters to about 150 area subcontractors asking them to decline any request to work on Planned Parenthood of the Heartland’s building renovation project.

Planned Parenthood announced in May it would consolidate its two Lincoln locations into one comprehensive health center at 48th Street and Old Cheney Road.

Services offered at the 1,800-square-foot health center, which is being renovated, would include contraception, annual check-ups, sexually transmitted disease testing and treatment, pregnancy testing, sexual assault exams, abortion and adoption services.

It is the abortion services that prompted the letters from Lincoln Right to Life.

A June 21 letter signed by Lincoln Right to Life Board President Matt Tapling notified subcontractors that Planned Parenthood planned to perform abortions in the building and implored them to decline to work on the project.

Another letter was sent to subcontractors the organization believes are working at the site, asking them to confirm they are.

“We are trying to make sure they are crystal clear on the role Planned Parenthood plays within the abortion industry,” Tapling said.

He said Lincoln Right to Life was awaiting confirmation but then would “take action.” He would not elaborate, but he said a number of actions could be taken.

“We would like to have an open dialog with them,” he said.

One option could be a boycott, but Tapling said he would neither confirm nor deny that would be chosen.

The Lincoln Right to Life website lists ways to help disrupt the project, however, including refusing to shop or patronize businesses involved in the Planned Parenthood move and

See PROJECT, Page B2
Risk and Ethical Boundaries

• How do you incorporate an ethical background in your risk management program?
Risk and Ethical Boundaries

- Risk management steps
  - Identify risk
  - Quantify risk
  - Account for risk
Risk and Ethical Boundaries

• Rules of risk management
  • Don’t risk more than you can afford
  • Don’t risk a lot for a little
  • Know the odds
Risk and Ethical Boundaries

• How do you successfully navigate the risk/ethics boundary in our industry?
  • Hire the right clients
Risk and Ethical Boundaries

• How do you hire the right client?
  • Where are the risk versus ethics interfaces?
Ranking the Client
Go/No Go decision making procedure
  - Unique to every firm
  - Prior to acquisition decision
  - Include ethical basis
  - Must be in writing
  - On every project

Why would you acquire this project?

Where are the risk versus ethics interfaces?
Go/No Go Decision Making

• Step #1
  • Identify the risks
  • What are the big filter questions you should ask yourself after determining the client’s expectations?
Types of Risks

• Financial
• Operational
• Hazards
• Strategic

How not to set a boiler.
Financial Risks

• What are some of the financial risks that you would typically find on a project?
  • Which of these have an ethical basis?
Operational Risks

• What are some of the operational risks that you would typically find on a project?
  • Which of these have an ethical basis?
Environmental Risks

• What are some of the environmental risks that you would typically find on a project?
  • Which of these have an ethical basis?
Strategic Risks

• What are some of the strategic risks that you would typically find on a project?
  • Which of these have an ethical basis?
Go/No Go Decision Making

• Step #2
  • Quantify the risks

• How do you quantify risks and behavior?
Examples

- Include client/AE/contractor behaviors
- Include all other reoccurring risks
- Assume the highest risk is equal to 5, the next highest, 4, etc.
- What is your range for acceptable risk?
  - What is your RLH?

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Total Project Risk Score 0

Corporate RLH Value
Examples

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<td>Are there expanded service opportunities?</td>
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<td>Does the project aid geographic expansion?</td>
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<td>Does the project help balance our market mix portfolio?</td>
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<td>Do we have experience with this client?</td>
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<td>Is the client financial position adequate?</td>
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<td>Does the project have a 60% chance (or better) of being funded?</td>
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Scale: 1 is poor, 4 is excellent
## Examples

### Opportunities

**Concordia Drama and Music Addition**

**General** | **BD** | **BD2** | **Clients/Contacts** | **Activities**
---|---|---|---|---

#### Screening Criteria

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<td>Do we have a competitive advantage?</td>
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<td>Do we have the staff to handle the project?</td>
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<td>Does it fit within our strategic plan?</td>
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<td>Do we know the client’s “hot buttons”?</td>
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**Client Knowledge Memo**

Do we have a credible record with this client?  
What is the geographic impact?  
Are the budget, schedule and scope realistic?  
Is the project wired to another firm?  
Wired to Which Firm?  
Does it present potential liability threats?  

**Screening Total**

65

**Screening Explanations**
Go/No Go Decision Making

• Step #3 - Accounting for the risk
• This is where risk and ethics intersect
• What strategies exist to account for the risk identified and quantified?
Risk

• If you are not focusing on profitable behavior:
  • Acquiring and developing the best customers
  • Hiring and developing the best employees
  • Generating long-term relationships
  • Obsessively meeting client expectations

Risk management isn’t all that effective
Accounting for Risk and Ethics

• Complete the loop
  • Updated throughout the acquisition process
  • Included in the Turnover Meeting
  • Analyzed after the project is over to improve accuracy and project acquisition skills
Summary

• Develop a corporate strategy to account for risk and ethics

• Focus on behaviors that promote:
  • Long-term relationships
  • Meeting expectations
  • Shared ethics