SETTING UP AN EFFECTIVE ETHICS PROGRAM

PART OF ETHICS SUPPLIER MENTORING PROGRAM WEBINAR SERIES

LOCKHEED MARTIN
DISCLAIMER

The information presented in this webinar is not all-encompassing on the vast topics of ethics and compliance.

The material is offered as support and guidance, and it does not supersede or in any way impact your contractual obligations under subcontracts or purchase orders received from LMC.

You are solely responsible for determining the content and scale of your ethics and business conduct program.
WEBINAR AGENDA

- Recap of Last Webinar
- Company Values
- Program Structure & Oversight
- Leadership Commitment
RECAP OF LAST WEBINAR
Many elements of an effective ethics program are required by law or regulation and can reduce penalties in event of misconduct.

Allegations of misconduct can damage the reputation of a single company or the entire industry.

An effective ethics program can help identify and address issues before they affect quality, cost or schedule.

Ethics programs reduce risk to your business and ours – and to the missions we serve.
ETHICS & COMPLIANCE PROGRAM STANDARDS

Government Regulations & Guidance

- US Federal Acquisition Regulation (FAR)
- US Federal Sentencing Guidelines for Organizations (FSGO)
- Resource Guide to the US Foreign Corrupt Practices Act (FCPA)
- UK Ministry of Justice Guidance - The Bribery Act 2010

Industry Standards

- Defense Industry Initiative on Business Ethics & Conduct (DII)
- International Forum on Business Ethical Conduct for the Aerospace and Defence Industry (IFBEC)

International Best Practices

- International Chamber of Commerce (ICC)
- Organisation for Economic Cooperation and Development (OECD)
- Transparency International

Growing list of program standards relatively consistent in expectations.
FAR 52.203-13 CONTRACTOR CODE OF BUSINESS ETHICS & CONDUCT

Are you a U.S. government contractor or subcontractor?

- **YES**
  - Do you have subcontract(s) of >$5.5 million and POP >120 days?
    - **YES**: Ask your lawyer about FAR Clause 52.203-13.
    - **NO**: You may still be required to have some elements of an ethics program.

- **NO**
  - If you are currently working on a qualifying contract or would like to be eligible for one, you’ll need an ethics program.
U.S. FEDERAL SENTENCING GUIDELINES FOR ORGANIZATIONS

Effective Compliance & Ethics Program
(Chapter 8, Part B, Section 2)

☐ Establish policies, procedures, and controls
☐ Exercise effective compliance and ethics oversight
☐ Exercise due diligence to avoid delegation of authority to unethical individuals
☐ Communicate and educate employees on compliance and ethics programs
☐ Monitor and audit compliance and ethics programs for effectiveness
☐ Ensure consistent enforcement and discipline of violations
☐ Respond appropriately to incidents and take steps to prevent future incidents

If misconduct does occur, having an effective ethics program can reduce fines by up to 90%.
ELEMENTS OF AN EFFECTIVE ETHICS PROGRAM

- Company Values
- Program Structure & Oversight
- Leadership Commitment
- Risk Assessment
- Policies & Procedures
- Code of Conduct
- Training
- Communications
- Program Assessment
- Reporting Mechanisms
- Investigations & Disclosures
- Discipline & Incentives
COMPANY VALUES
COMPANY VALUES – WHAT?

company values. key standards and principles that describe your culture and guide your operations.

“Every ethics program starts with values. This is about more than words on a page. It’s a chance to lay out everything a company stands for – and all the things it wants to strive for. Lockheed Martin’s core values are non-negotiable: *Do What’s Right, Respect Others*, and *Perform With Excellence*. And these are the ideas that its ethics program stresses as well.”

Marillyn A. Hewson
Chairman, President, and CEO
COMPANY VALUES – WHY?

Culture

Branding

Governance
COMPANY VALUES – HOW?

STEP ONE

Gather ideas

www.ethics.org/resources/free-toolkit/definition-values

Customers and competitors

Mission and vision
COMPANY VALUES – HOW?

STEP TWO

Talk to team

Informal discussion
Survey or questionnaire
Focus groups
COMPANY VALUES – HOW?

STEP THREE

Rework and revise

List all ideas
Combine similar values
Revise, revise, revise
Choose best options
COMPANY VALUES – HOW?

Communicate

Present to team
Include in code, policies, training, website, and more!
SMALL BUSINESS PERSPECTIVE
• Founded in Kennesaw, Georgia in June 1988
• Mission Statement: To serve as a support shop delivering special tooling and precision machining on-time, to specifications, and at a profit.

• 48 employees (two shifts)
• Revenue: $5 million / year
• Privately held
• Other characteristics
  • Veteran-owned small business
  • AS9100D-Certified
  • ITAR-Registered
  • 2017 Cobb Chamber of Commerce – Top 5 Small Business of the Year Award Winner
ABOUT US (CONT’D)

Involved in the local community:
• CobbWorks Board
• Chattahoochee Technical College Foundation Board & Shadow Partner
• Mount Paran Christian School “Gears in Motion” Project
• Cobb County School District CTAE Advisory Board
• Manufacturing Day Tours

Involved in the industry:
• National Tooling and Machining Association (NTMA)
• Women in Manufacturing (WiM)
• Georgia Manufacturing Alliance (GMA)
• OneVoice
• National Association of Manufacturers (NAM)
### Core Competencies

- Milling
- Turning
- Thread Cutting
- Surface Grinding
- O.D. Grinding
- I.D. Grinding
- Water-Jet Machining
- Assembly
- EDM Wire & Sinker
- Drilling
- Broaching
- Jig Grinding
- High Speed Tapping
- 5-Axis Capabilities

### Secondary Processes:
- IUID Marking
- Parkerize / Black Oxide (Commercial)
- Heat Treat (Commercial)
- Welding (Certified Welders, CWI)
- Laser Marking
RELATIONSHIP WITH LM

• Relationship with Lockheed Martin began in the early 1990s
  – Diverse Supplier of the Year Award (2011)
  – Have supported all LM business areas

• Product(s) and/or service(s) supplied
  – C-130 tooling and ground support
  – Repair and manufacture F-22 ground support
  – Manufacture standard tooling and F-35 parts (such as ejection seat carts and engine run holdbacks)
  – Assists with engineer prototypes for research and development efforts;
  – L-9 Test Lab support
  – Supply products for the P-3 and C-130 Hologram Programs
  – Supply parts for government spares via the LM Baltimore RMS group
  – Certified to weld and bend via LM Special Processes Approval
Ethics Program Director (Allison Giddens) works closely with President (Dennis Winslow) to determine Ethics Program strategy and with other managers to disseminate program information to employees.
IDENTIFICATION OF CORE VALUES

Step 1 required us to start from scratch –
HR sat down with the owner to interview him and gather 30+ core values via conversation about the history of the company, what matters most to him day-to-day, and where he sees Win-Tech in the future.

Step 2 involved employee buy-in –
SurveyMonkey was used to collect data anonymously and invited open feedback to add values employees felt were missed in the original list.

Step 3 weaved those interpretations and vision together –
Creating a program that centered around the top 3 chosen values that integrated Win-Tech mission to offer education and growth opportunities for employees.
COMMUNICATION OF CORE VALUES

Program:
Videos and articles

Employee and Manager:
Discussed material together

Intended result:
To offer employees the chance to grow in their roles at Win-Tech, Inc.

Additional result (unintended bonus!):
A new opportunity for valuable conversation
ETHICS CHALLENGE COIN
PROGRAM STRUCTURE & OVERSIGHT
PROGRAM STRUCTURE & OVERSIGHT – WHO?

JOB QUALIFICATIONS

• Demonstrated leadership skills
• Solid reputation/role model
• Fair, trustworthy, approachable
• Understanding of your business
• Experience with legal and regulatory compliance, issue resolution, investigations, training, communication

REPORTING STRUCTURE

• Reports to Board or CEO
• Part of Legal, HR, Internal Audit, Finance, Operations or Corporate Responsibility

TIME COMMITMENT/RESOURCES

• Ideally full-time
• Has time and resources to develop, implement, maintain ethics program
PROGRAM STRUCTURE & OVERSIGHT – HOW?

ETHICS PROGRAM MODELS

• **Decentralized**: some organization-wide program elements (code of conduct), other elements developed and implemented in business units

• **Centralized**: corporate develops and implements all program elements

• **Hybrid**: program elements developed by Corporate, customized and implemented by business units
ETHICS PROGRAM MODELS

- Ethics & Compliance Committee
  - Senior leaders from different functions
  - Help identify and mitigate risks, identify training and communication needs

- Working Groups
  - Smaller divisions of E&C Committee
  - Help implement specific program elements

- Ethics Liaisons
  - Full-time employees in other roles
  - Serve as Ethics POCs for specific location or team
ETHICS & BUSINESS CONDUCT POLICY
ETHICS & BUSINESS CONDUCT POLICY – WHAT?

- Outline of Ethics Program
- Single internal policy

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CODE OF CONDUCT

- Summary of expectations of employees
- References variety of policies
ETHICS & BUSINESS CONDUCT POLICY – EXAMPLE

POLICY
- Commitment to ethical behavior

APPLICABILITY
- Employees, Board, subsidiaries, JVs

ETHICS PROGRAM
- Code of Conduct and Supplier Code
- Role of Ethics Executive
- Role of Executive Leadership and Steering Committees
- Ethics and compliance training
- Making inquiries and reporting violations

VIOLATIONS
- May result in disciplinary action
ETHICS & BUSINESS CONDUCT POLICY – WHY?

- **Formalize**
- **Build Trust**
- **Increase Credibility**

Increase Credibility

Build Trust

Formalize
ETHICS & BUSINESS CONDUCT POLICY – HOW?

**STEP ONE**
Download DII Template Policy

**STEP TWO**
Customize Template Content and Format

**STEP THREE**
Make Policy Available to Employees
DEFENSE INDUSTRY INITIATIVE (DII) SMALL BUSINESS TOOLKIT

Governance & Organization

Training & Engagement
- Sample compliance training PowerPoint

Policies & Procedures
- DII Model Supplier Code of Conduct
- Template Code of Conduct
- Template Policies on 30+ topics

Auditing, Monitoring & Mentoring
- Self-Auditing Your Ethics Program
- DII Model Code of Conduct Assessment
- DII Mentors (for DII signatories only)

If you use just one resource, make it the DII Small Business Toolkit - it's free and easy to use
LEADERSHIP COMMITMENT TO ETHICS
LEADERSHIP COMMITMENT – WHAT?
LEADERSHIP COMMITMENT – WHY?

- Policies = Culture
- Words + Actions = Culture
LEADERSHIP COMMITMENT – EXAMPLE

“Our colleagues, our customers, and our suppliers need to know that they can trust us to do the right thing in our business dealings, every time. Honesty and integrity are fundamental to those relationships, and critical to our business success and growth.”
LEADERSHIP COMMITMENT – HOW?

Make the business case:
Ethics programs mitigate risk by preventing, detecting, addressing misconduct

Legal
Reputational
Financial

STEP ONE
LEADERSHIP COMMITMENT – HOW?

Establish expectations

Brainstorm with leaders

Discuss with employees
LEADERSHIP COMMITMENT – HOW?

Communicate expectations

STEP THREE
LEADERSHIP COMMITMENT – HOW?

STEP FOUR

Measure behaviors

- Performance reviews
- Employee survey
KEY TAKEAWAYS

Company values shape organizational culture, ethics program

Many ways to structure ethics program, even with team of one

Framework of ethics program should be documented

Leaders need to “walk the talk” for ethics program to be credible
SELF-SERVE RESOURCES

www.lockheedmartin.com > Suppliers > Ethics

Supplier Self-Assessment Tool
Infographic Guides

All ethics resources, including 1-on-1 mentoring are completely free and voluntary.

...AND MORE!
THANK YOU!

DEVELOPING POLICIES, PROCEDURES AND A CODE OF CONDUCT TO MITIGATE RISK

NEXT WEBINAR

Tuesday, May 22 @ 2-3pm ET

Risk Assessment

Policies & Procedures

Code of Conduct

www.lockheedmartin.com/en-us/suppliers/ethics.html

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