

SETTING UP AN EFFECTIVE ETHICS PROGRAM

PART OF ETHICS SUPPLIER MENTORING PROGRAM WEBINAR SERIES



PRESENTERS



Kevin Byrne
Senior Ethics
Analyst



Eddie Cordia
Ethics Analyst,
Space Systems



Jenny Jackson
Sr Mgr Ethics Analysis,
Aeronautics



Kendra Ray
President & Ethics
Director

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.



You are solely responsible
for determining the content
and scale of your program.

WEBINAR AGENDA



- Recap of Last Webinar
- Company Values
- Program Structure & Oversight
- Leadership Commitment

RECAP OF LAST WEBINAR

LOCKHEED MARTIN PERSPECTIVE



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

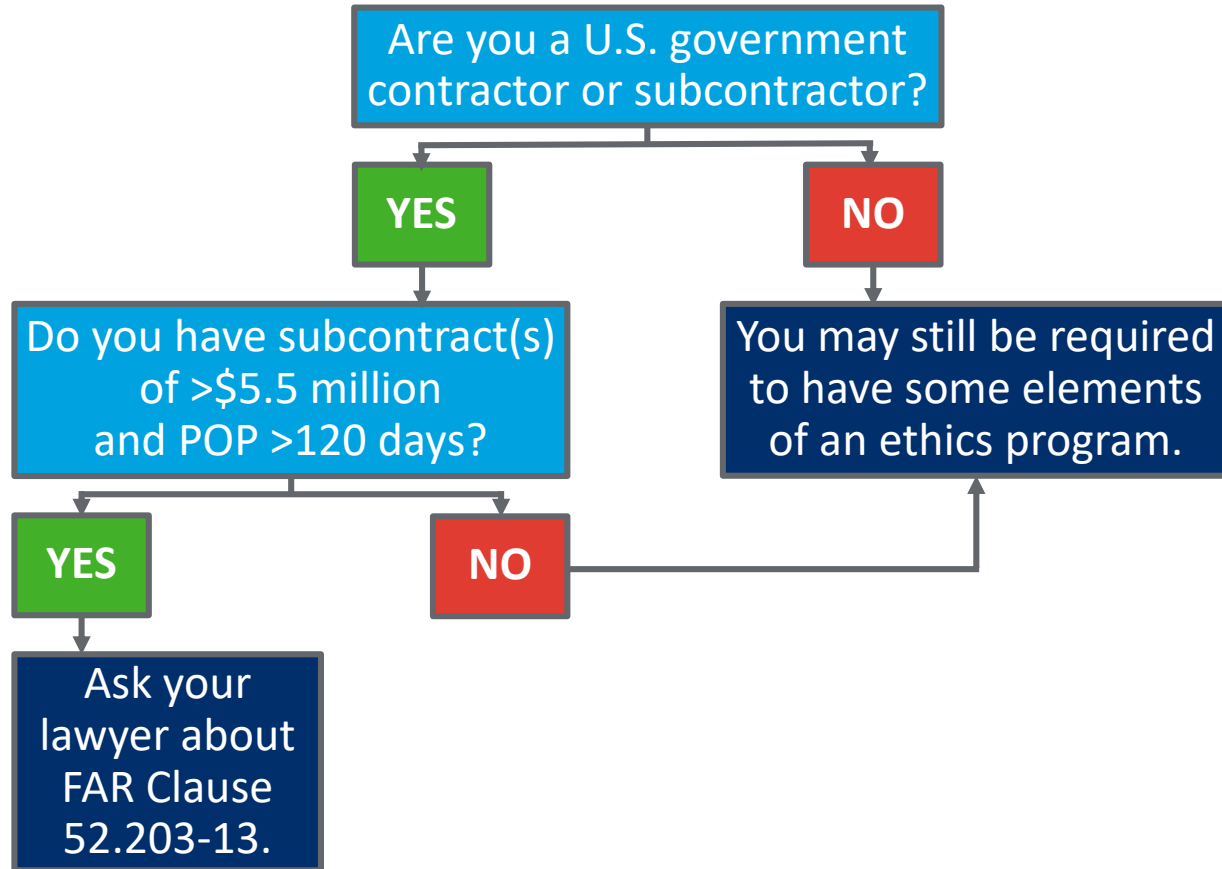
- Defense Industry Initiative on Business Ethics & Conduct (DII)
- International Forum on Business Ethical Conduct for the Aerospace and Defence Industry (IFBEC)

International Best Practices

- International Chamber of Commerce (ICC)
- Organization 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



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.

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

Acceptance. Accomplishment. Accountability. Adaptability. Admiration. Aesthetics. Alertness. Allegiance. Altruism. Ambition.
Appreciation. Aspiration. Authenticity. Autonomy. Availability. Candor. Caring. Changeability. Charity.
Chastity. Cheerfulness. Civility. Commitment. Community. Compassion.
Competence. Compromise. Consideration. Conscientiousness. Consideration.
Consistency. Cooperation. Courage. Creativity. Dedication. Democracy.
Dependability. Desires. Determination. Discretion. Efficiency. Empathy.
Encouragement. Enthusiasm. Equanimity. Fidelity. Flexibility.
Forgiveness. Freedom. Gentleness. Goodwill. Gratitude.
Hardworking. Helpfulness. Honesty. Humility. Ingenuity.
Initiative. Integrity. Justice. Kindness. Moderation.
Morals. Motivation. Openness. Patience. Perseverance. Perspective.
Promise-keeping. Prudence. Punctuality. Reason. Reconciliation. Reliability. Repentance.
Resilience. Resourcefulness. Respect. Righteousness. Sacrifice. Self-control. Self-discipline.
Self-respect. Sensitivity. Service. Sharing. Sincerity. Sobriety. Stamina. Stewardship. Supportive.
Sustainability. Teamwork. Tact. Truthfulness. Trustworthiness. Transparency. Trustworthiness.
Truthfulness. Understanding. Virtue. Wisdom. Work. Work Ethic.

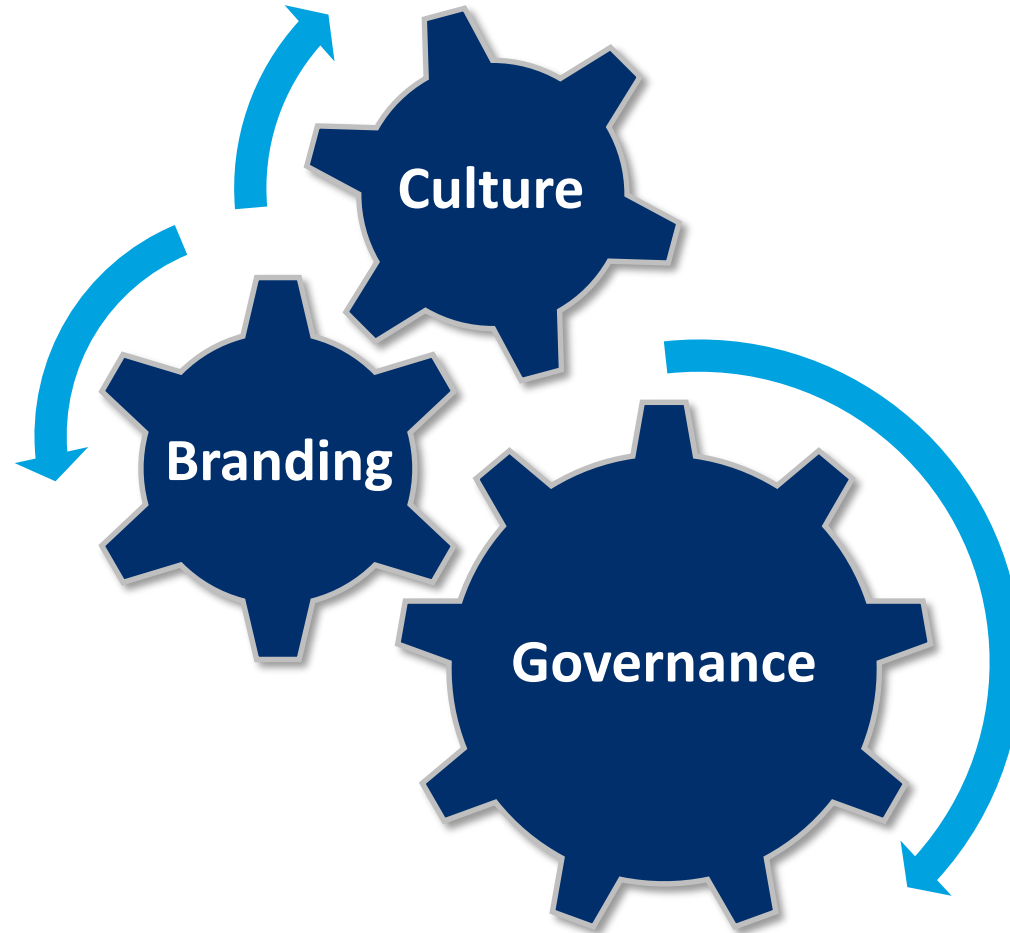
COMPANY VALUES – EXAMPLE



“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?



COMPANY VALUES – POLLING QUESTION

Does your company have a values statement?

COMPANY VALUES – POLLING RESULT

COMPANY VALUES – HOW?

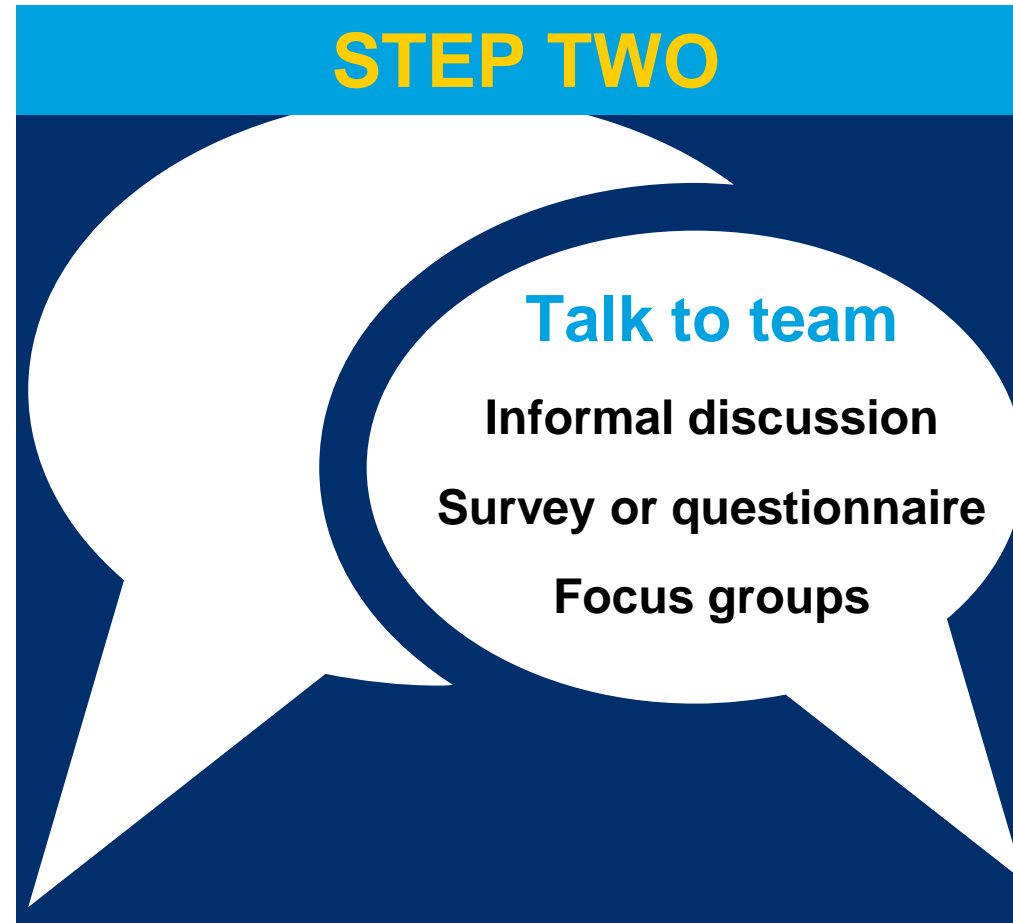
STEP ONE

Gather ideas

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

- Customers and competitors
- Mission and vision

COMPANY VALUES – HOW?



COMPANY VALUES – HOW?

Rework and revise

List all ideas

Combine similar values

Revise, revise, revise

Choose best options

STEP THREE

COMPANY VALUES – HOW?



SMALL BUSINESS PERSPECTIVE



ABOUT US

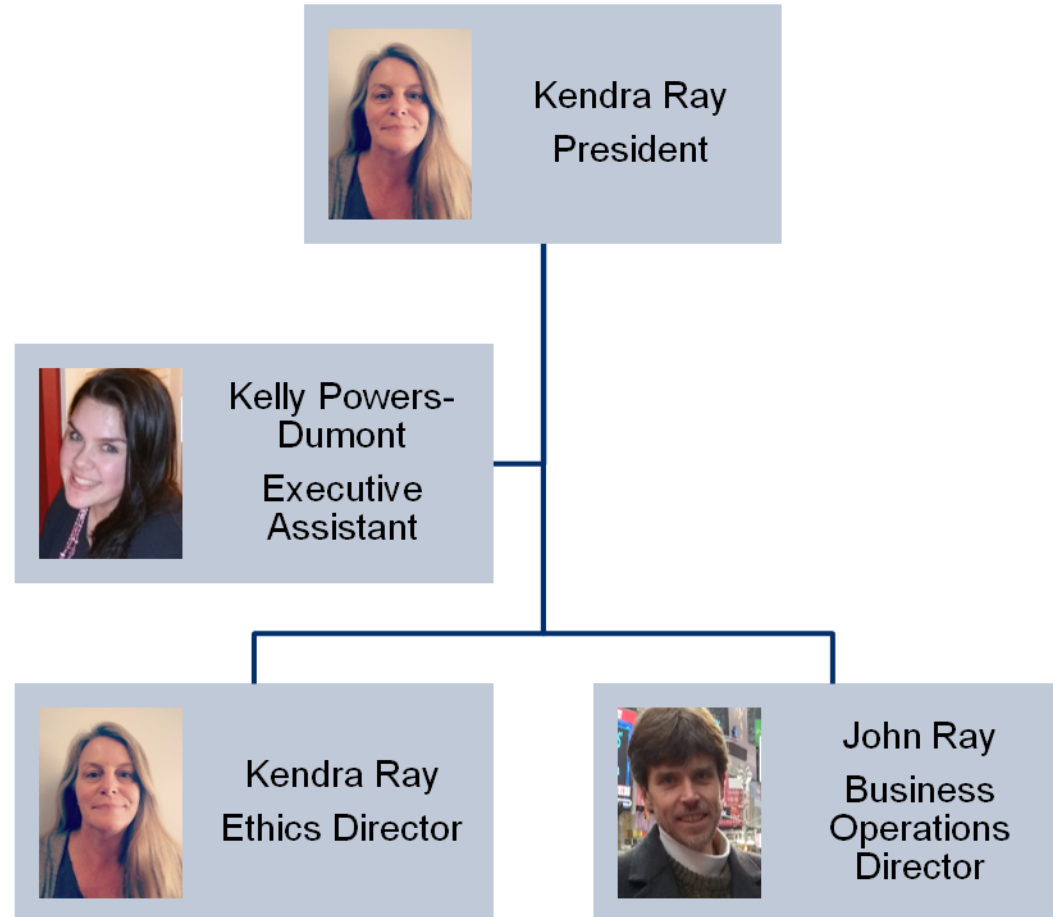


- Founded 1999
- *24 Years of Experience*



- Number of employees 27
- Annual revenue \$5,000,000.00
- Delta-Ray is a privately held corporation
- Economically disadvantaged, Woman-owned, Small Business
- HUBZone Certified
- AS9100D and ISO 9000;2015 certified
- ITAR compliant

LEADERSHIP TEAM



CORE COMPETENCIES



Capabilities

- Manufacturer of precision components for aerospace, defense, oil and commercial industries.
- We specialize in the precision machining of exotic materials with unusually high dollar values as well as difficult tolerance requirements
- Milling, Turning
 - 3 axis milling up to 60"
 - 5 axis milling up to 630mm
 - 7 axis turning up to 12" in diameter
- CATIA solid model capable
- Specializing in less than lead time demands
- Flight Safety Approved
- Complete contract manufacturing



RELATIONSHIP WITH LM



- We started as an aftermarket supplier 7 years ago. We currently support aftermarket and production supply needs on the Blackhawk, S92, and S76 programs.

- We are also a key supplier of the development programs for
 - * Combat Rescue Helicopter
 - * VH92 Presidential
 - * JMR
 - * 53K Heavy Lift
 - * Radar

- Products and/or service(s) supplied
 - CNC precision machining and contract assemble
 - MBD/ CATIA manufacturing



IDENTIFICATION OF CORE VALUES



Step 1 required us to start from scratch –

After training with our ethics mentor Feyzan Dalay, Ethics Officer, Sikorsky Engineering & Technology, we gathered multiple core values via conversations about the history of the company, what matters most day-to-day, and where Delta-Ray sees itself in the future.

Step 2 involved employee buy-in –

Met with employees to discuss core values and add any they thought we missed. From that list our team of employees helped choose the main values for the Delta-Ray family.

Step 3 weaved those interpretations and vision together –

Created the internal ethics program, brochure, and Delta-Ray's new vision and mission statements.



Vision Statement

Bring innovation and inspiration to our employees and industry at large.

We stay ahead of the technology curve, thru the use of our core values and by encouraging our employees growth through cross training and education.

Nurture a winning network of clients and creating a mutual alliance.

Be an environmentally responsible manufacture that makes a difference.

Mission Statement **Delta Ray Industries**



A company that creates, inspires and empowers.

We constantly focus on the unexpected. Our success is the product of our talented employees embracing teamwork as they are empowered to take risks, be collaborators, and problem solvers.

Company philosophy;
No challenge too big, no customer request too small.
If its designable, its machinable.

Core Values;
Teamwork
Respect
Ingenuity
Accountability



COMMUNICATION OF CORE VALUES



Program:

Trifold and articles

Employee and Manager:

Discussed material together

Intended result:

To offer employees the chance to grow as a team

Additional result (unintended bonus!):

A new opportunity for valuable conversation

New company philosophy and slogan



ETHICS AWARD AND TRIFOLD

Delta-Ray
INDUSTRIES



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

PROGRAM STRUCTURE & OVERSIGHT – HOW?

**IF YOU HAVE A
STAFF OF ONE**



ETHICS PROGRAM MODELS

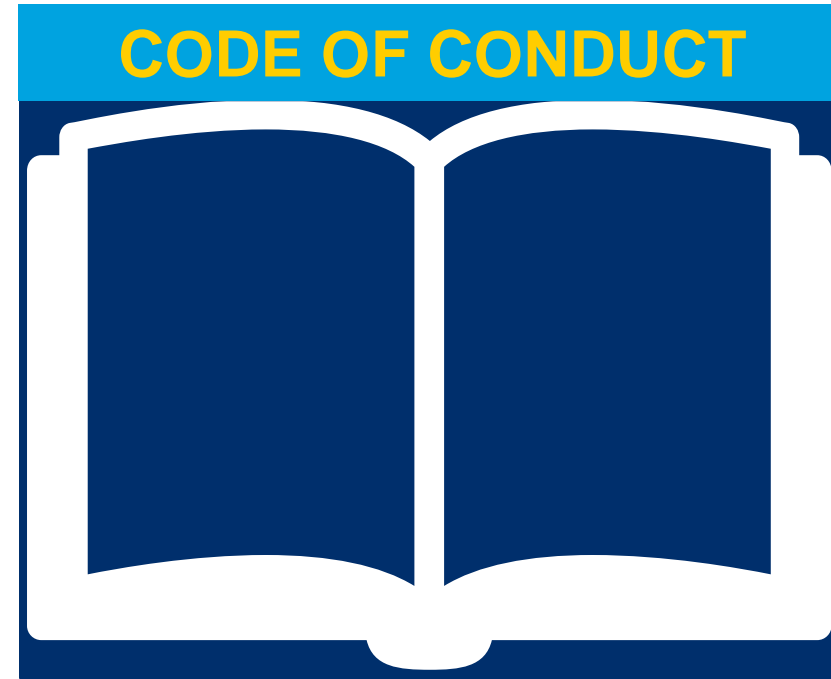
- **Ethics & Compliance Committee**
 - Senior leaders from different functions
 - Help identify and mitigate risks, identify training and communication needs
- **Working Groups**
 - Smaller divisions of E&C Committee
 - Help implement specific program elements
- **Ethics Liaisons**
 - Full-time employees 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

- Summary of expectations of employees
- References variety of policies

ETHICS & BUSINESS CONDUCT POLICY – EXAMPLE



POLICY

- Commitment to ethical behavior

APPLICABILITY

- Employees, Board, subsidiaries, JVs

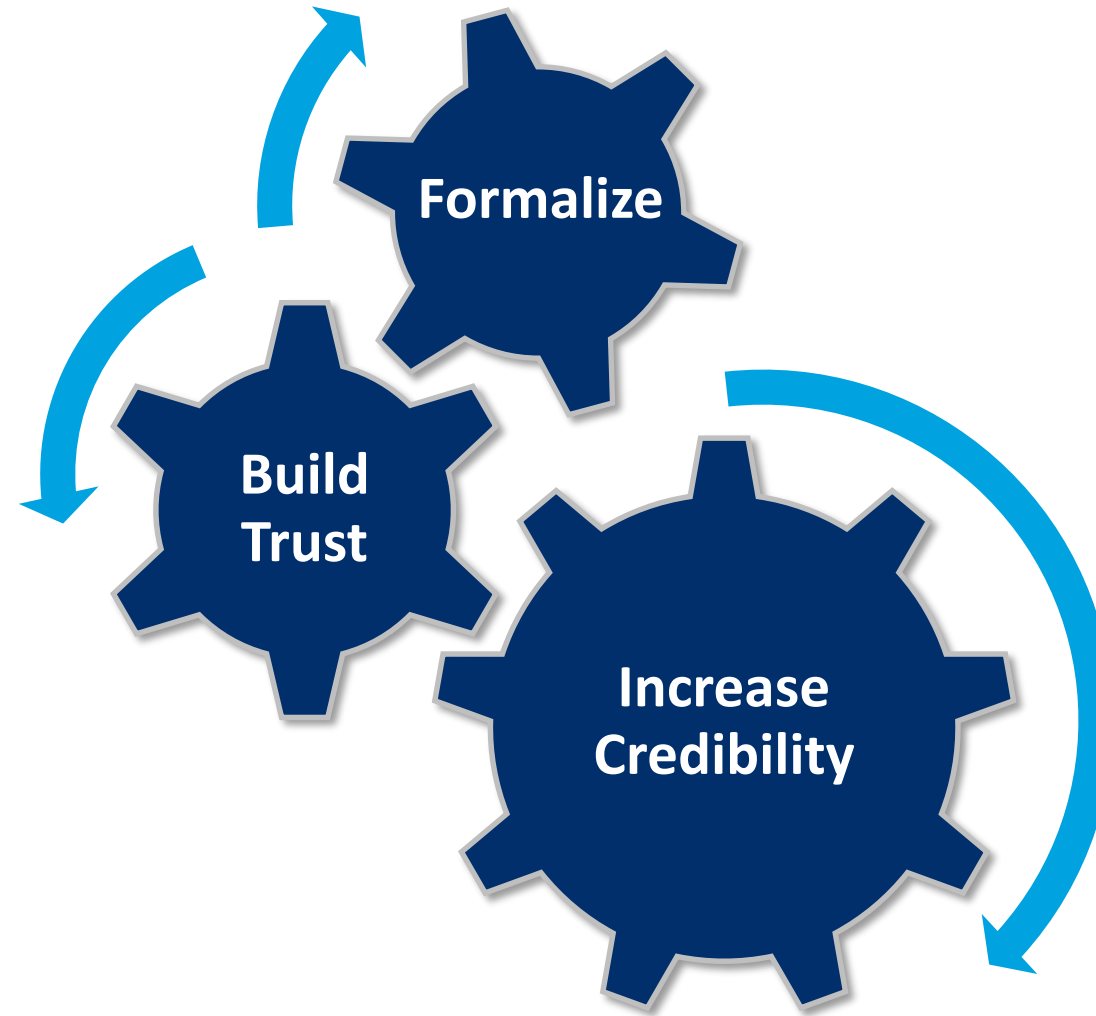
ETHICS PROGRAM

- 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?

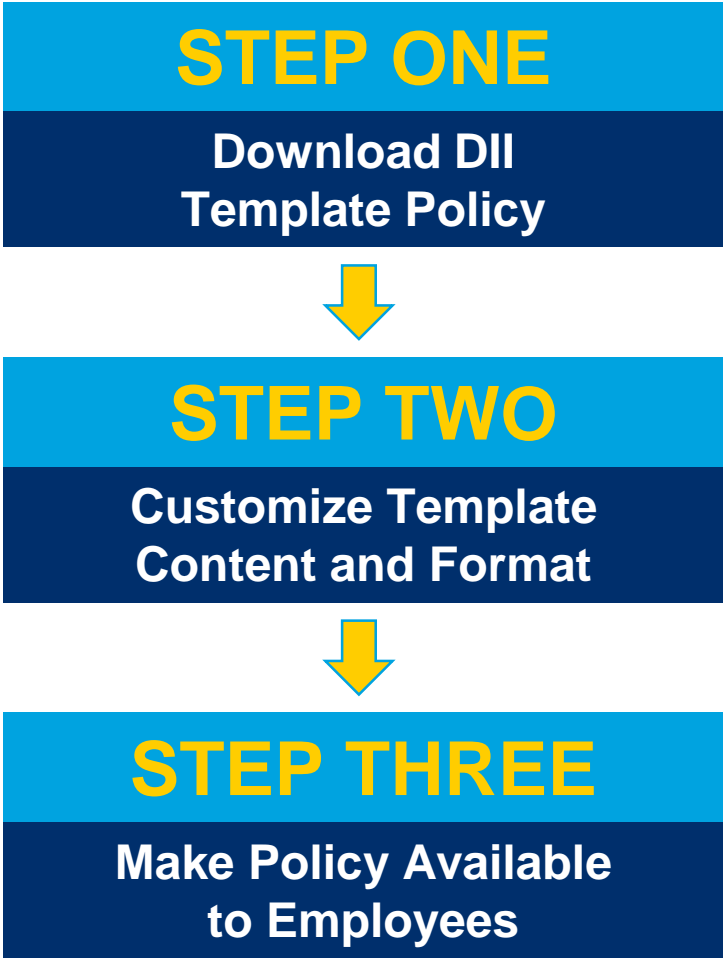


ETHICS & BUSINESS CONDUCT POLICY – POLLING QUESTION

**Does your company have a policy or other document
that outlines your ethics program?**

ETHICS & BUSINESS CONDUCT POLICY – POLLING RESULT

ETHICS & BUSINESS CONDUCT POLICY – HOW?



| | | |
|-----------------|--|----------------|
| COMPANY LOGO | Policy Number: # | Date: Date |
| | Policy Name: Ethics & Business Conduct | Rev: # |
| | Approver: Name | Function: Name |

OVERVIEW
This policy is to confirm Company's commitment to conduct business ethically and compliantly and to ensure all ethics and compliance issues are resolved appropriately according to our stated values, Code of Conduct, corporate policies, laws and regulations throughout our operations.

POLICY
All employees are personally responsible for conducting business both internally and externally with all stakeholders ethically and compliantly in accordance with our values, Code of Conduct, corporate policies, and in compliance with all laws and regulations globally.

As such, this policy provides the governance framework for reporting, capturing, handling, and resolving potential improper conduct and compliance violations.

Issue Reporting
Any stakeholder who suspects or becomes aware of any ethical misconduct of Company values, Code of Conduct, or any compliance violations of any laws or regulations is encouraged to report the issue to any of the following:

- Employee's supervisor/manager
- Any Human Resources or Legal representative
- Any compliance representative in the areas of Ethics & Compliance, Internal Audit/Finance, etc.
- Ethics hotline via internet or phone at
US 888-888-8888
Web www.xxx.com

In addition, any employee who has any concern or complaint regarding accounting, internal accounting controls, or auditing matters may also report the matter to the General Auditor or may also contact the Audit Committee on a confidential and/or anonymous basis by mail, c/o the Corporate Secretary, 1234 address Blvd., City, ST 11111.

Retaliation
Company will not tolerate retaliation against any stakeholder that reports potential ethics and compliance concerns in good faith (a genuine attempt to provide honest, complete and accurate information, even if it later proves to be mistaken or unsubstantiated). Retaliation includes but is not limited to improper denial of benefits, termination, demotion, suspension, threats, improper poor performance evaluation, intimidation, harassment or discrimination.

Retaliation violates both the Code of Conduct and corporate policy, therefore all known or suspected retaliation cases should be reported for investigation and resolution through any of the reporting channels listed above.

Issue Capture
All ethics & compliance issues, regardless of the severity or nature (i.e., simple inquiry), shall be confidentially recorded and managed in location/tool.

COMPANY Proprietary Information | Printed copies are uncontrolled, validate prior to use

Page: 1 of 2

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

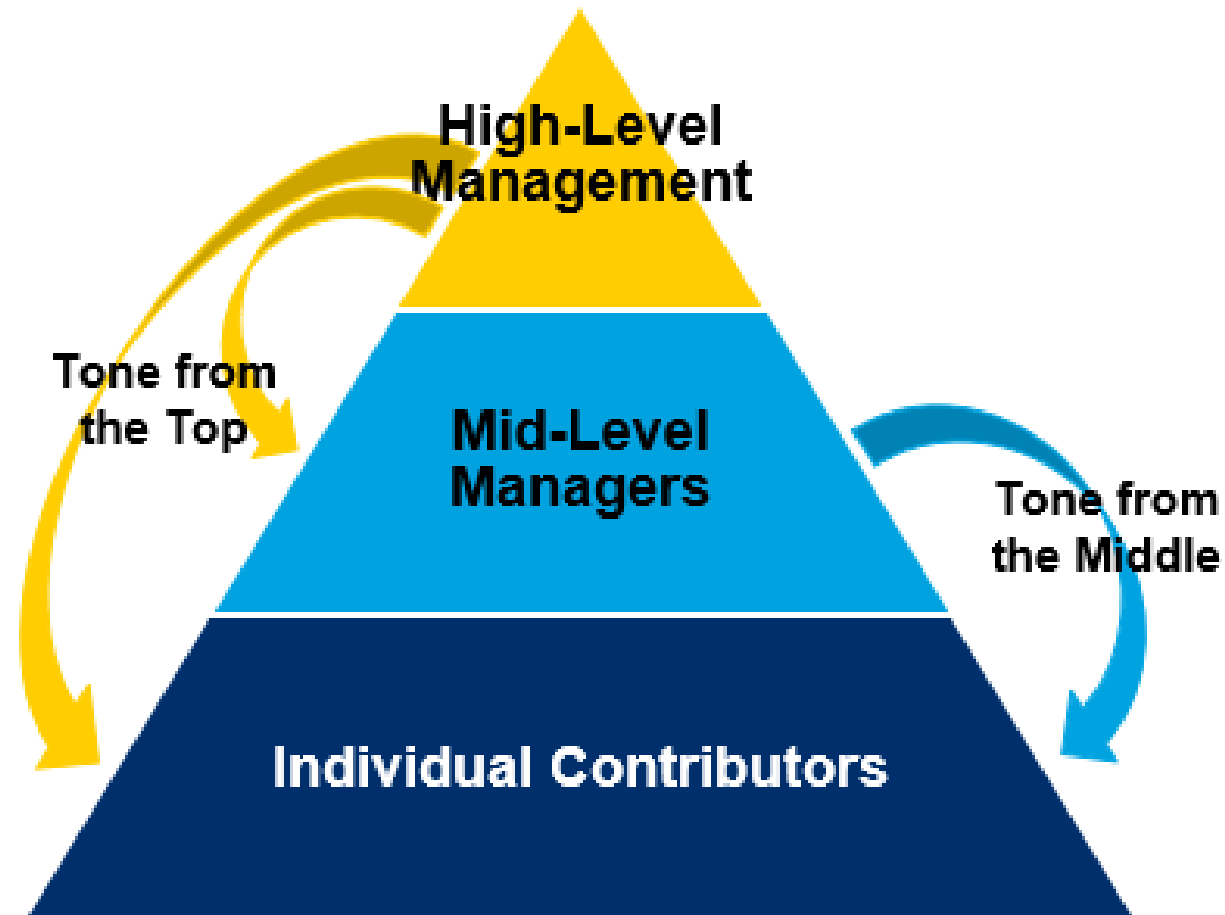
- Self-Auditing Your Ethics Program
- DII Model Code of Conduct Assessment
- DII Mentors (for DII signatories only)



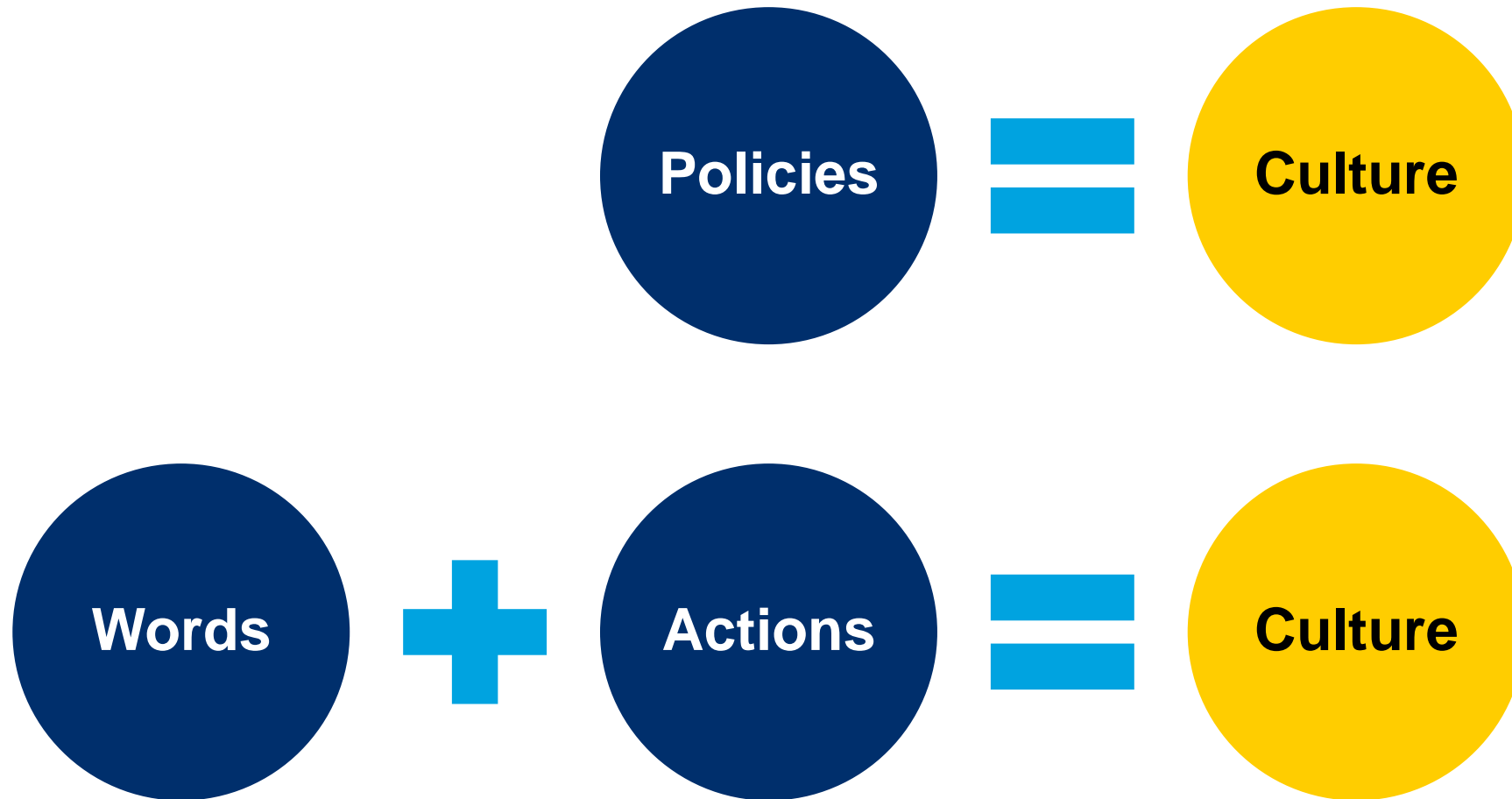
If you use just one resource, make it the DII Small Business Toolkit – it's free and easy to use

LEADERSHIP COMMITMENT TO ETHICS

LEADERSHIP COMMITMENT – WHAT?



LEADERSHIP COMMITMENT – WHY?



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?



LEADERSHIP COMMITMENT – HOW?



LEADERSHIP COMMITMENT – POLLING QUESTION

Which of the following comments would you be least likely to hear from a leader in an ethical culture?

- a. "Thanks for raising this issue. Let me look into it and get back to you ASAP."
- b. "I don't care what you have to do; just get the job done."
- c. "Please let me know if you foresee any problems meeting the deadline so we can address them early."
- d. "Thank you for all your hard work on this project."
- e. "Is there anything I can do to help you meet our targets?"

LEADERSHIP COMMITMENT – POLLING RESULT

LEADERSHIP COMMITMENT – HOW?



LEADERSHIP COMMITMENT – HOW?



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

| Supplier Self-Assessment Lockheed Martin Ethics Supplier Mentoring Program | | | |
|---|---|----------------|---|
| Program Element | Self-Assessment Questions | Supplier Notes | Lockheed Martin Practices and Resources |
| Company Values | Does your company have a values statement? | | Lockheed Martin's core values are Do What's Right, Respect Others, Perform with Excellence. |
| Program Structure & Oversight | Who is responsible for ethics in your organization? What resources does this person or team have? Who has direct oversight of or accountability for that person or team? | | Lockheed Martin's Vice President of Ethics and Sustainability manages the activities of our Ethics team, reports directly to our CEO, and gives quarterly briefings to the Ethics and Sustainability Committee of our Board of Directors. Lockheed Martin's Ethics organization is an independent department within the Corporation with a full-time staff. |
| Risk Assessment | How often does your company conduct an assessment of its ethics and compliance risk? | | The risk areas identified by Lockheed Martin are addressed in our Code of Ethics and Business Conduct, Setting the Standard, and the Business Conduct Compliance Training (BCT) course. |
| Policies & Procedures | Do your company's policies and procedures address the topics identified by your risk assessment? | | All Lockheed Martin suppliers and subcontractors are considered proprietary information. Do not publish documents related to our Anti-Corruption Program or our external code. |
| Code of Conduct | Does your company have a code of conduct or other written expectations for employee behavior? Is it available to all employees and other who act on behalf of the company? | | Lockheed Martin's Code of Ethics and Business Conduct, Setting the Standard, details the high expectations we set for employee behavior. From our commitment to great citizenship to our core business ethics, we consider all Lockheed Martin employees, consultants and members of the Board of Directors must certify that they have read, understood and will abide by our Code of Ethics and Business Conduct. |
| Training | How often does your company train employees on their ethics and compliance responsibilities? Does the training address the topics identified by your risk assessment? | | Lockheed Martin requires all employees to participate in our annual Voluntary Ethics Awareness Training and to complete Business Conduct Compliance Training courses relevant to their role. |
| Communications | Does your company communicate with employees about ethics and compliance, in addition to training? Do these communications address the topics identified by your risk assessment? | | Lockheed Martin uses a variety of methods to communicate with employees and external audiences. For example, we produce a series of short, stakeholder videos called the Integrity Minutes and other multimedia communications to engage with employees outside of our annual training. |
| Leadership Commitment | How do your company's leaders demonstrate their support for ethics? | | Lockheed Martin's President, CEO and Chairman introduce our annual Ethics Awareness Training module, as well as our Code of Ethics and Business Conduct. We also frequently select ethics for internal and external presentations. |
| Reporting Mechanisms | Does your company have ways for employees and external stakeholders to ask questions or report potential misconduct without fear of retribution? | | Lockheed Martin's How the Ethics Process Works brochure informs employees and other stakeholders how they can ask a question or report potential misconduct, and explains how contacts to the Ethics Office are handled. |
| Investigations & Disclosures | How does your company identify and investigate alleged misconduct? Do you have a process in place to ensure compliance with any mandatory disclosures? | | Lockheed Martin's How the Ethics Process Works provides an overview of what reporting parties can expect after they report potential misconduct to the Ethics Office. Lockheed Martin's legal team handles all disclosures to the U.S. Federal government. |

Infographic Guides

LOCKHEED MARTIN

WHAT IS A CODE OF CONDUCT?

A code of conduct is the foundation of an effective ethics program. A code summarizes a company's expectations for employees and others who act on its behalf. It should be simple and concise.

WHY CREATE A CODE OF CONDUCT?

- ✓ Comply with regulations, such as FAR Clause 52.203-13
- ✓ Establish the framework for your ethics program
- ✓ Communicate how you do business to internal and external stakeholders

OTHER RESOURCES

DII Model Supplier Code and Small Business Toolkit:
www.dii.org/featured-tools

Lockheed Martin Supplier Code:
www.lockheedmartin.com/content/dam/lockheed-martin/ea/documents/ethics/supplier-code.pdf

Ethics & Compliance Initiative (ECI):
ethics.org/resources/free-toolkit

ELEMENTS OF AN EFFECTIVE ETHICS PROGRAM

CODE OF CONDUCT

START WITH A TEMPLATE

Download the DII Model Supplier Code, the Lockheed Martin Supplier Code, or ask one or more of your key customers to use their code of conduct as your guide.

CUSTOMIZE TEMPLATE

Edit the template so your code of conduct addresses all of your company's ethics and compliance risks. Adjust the format to fit your internal style and set a schedule for updates.

DISTRIBUTE INTERNALLY

Give a hard copy of your code to every employee, require all new hires to certify they read it, and upload it to your internal and/or external website(s) for easy access.

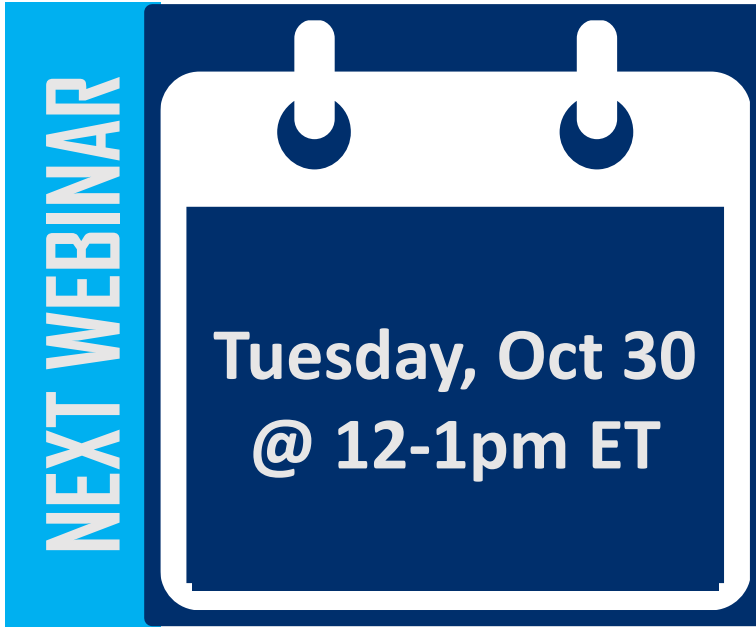
FLOW TO SUPPLIERS

Include your code of conduct or supplier code in contracts with suppliers and other business partners. Also flow down the substance of FAR Clause 52.203-13 if required.

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



Risk Assessment



Policies &
Procedures



Code of Conduct



[www.lockheedmartin.com/
en-us/suppliers/ethics.html](http://www.lockheedmartin.com/en-us/suppliers/ethics.html)



ethics.suppliers@lmco.com

LOCKHEED MARTIN

