“Finding a Way to Answer the Question: Does It Work and How Do You Know?”

David Harris
Head of Business Conduct

OUR VISION
"To be the premier global defence, aerospace and security company.*"

OUR MISSION
"To deliver sustainable growth in shareholder value through our commitment to Total Performance.*"

Our home market strategy builds significant indigenous capability and footprint, often through mutually beneficial partnerships with investment in local businesses and the sharing of skills and technologies, providing sustainable employment for local people.

* Employee numbers as of 31 December 2011
Market Segment Activities

* Breakdown shown is for 2011 Results

Tone at the Top

**TOTAL PERFORMANCE**

We are committed to developing a Company culture of Total Performance, where our work is not just about what we do, but how we do it.

**Goal**

BAE Systems is committed to becoming a **recognised global leader** in business conduct by continuing to **embed policies and processes** across the Group, and **integrate them into day-to-day business practice**.

**Strategy**

We are placing business conduct at the heart of our business through implementation of our global Code of Conduct, our comprehensive response to the Woolf Committee Report, and our commitment to Total Performance.

Our Code of Conduct sets out the principles and standards we require all our employees to adopt. Used in conjunction with our Responsible Trading Principles, it supports our business activities.
The Big Picture

TRUSTED
We deliver on our commitments

INNOVATIVE
We create leading edge solutions

BOLD
We constructively challenge and take the initiative

The Board (and Committees)

GOVERNANCE
Code of Conduct
Internal Controls & Assurance
Risk Framework
Mandated Policies

FRAMEWORK
Integrated Business Plans
Programme Management
Performance Management

Some Current Measures

Risk Assessment
- Volume and trend of misconduct
- Material Risks

Helpline Statistics
- Volume and types of Calls
- Reports versus guidance requests
- Anonymity Rate

Training
- Ethics Training
- Compliance Training
- Target Audience
- % Completion
- Feedback

External Assessment & Assurance

Benchmarking
The Challenge

- Design an Ethics & Compliance programme for success – define what success will look like
- Measure the effectiveness of policies
- Ensure that employees know how to follow and apply “Principles-based” policies
- Policies to cover existing and emerging risks
- Guidance to be current and adequate
- Know and manage stakeholder expectations
- Build training, communications and other interventions that target the right audiences in the right way to achieve the desired outcomes

So what is available to us to start to answer the question: “Does it work, and how do we know?”

A simple process of:

Collate – Analyse – Review – Exploit → Act

C.A.R.E. before Action
C.A.R.E. – Some Definitions

- **Collate**: to bring together (often disparate and disconnected) pieces of data and information and compare them in detail, dismissing that which is not useful

- **Analyse**: examine the data and information, in great detail, to understand it better and/or discover more about it

- **Review**: examine and challenge the results of analysis to assure adequacy, accuracy, correctness and usefulness

- **Exploit**: use or develop the findings to gain a benefit

Collate - Internal Controls (Direct Indicators)

- **Business Controls**:
  - Delegated Authorities and Approvals
  - Stakeholder Relations – i.e. Investor Community
  - Communications policy
  - Sponsorship, fundraising and donations
  - Export Control
  - Product Safety
  - Risk Management and Assessments
  - Business Continuity
  - Assurance Statements
  - Internal Audit

- **Workplace Controls**:
  - People
  - Gifts & Hospitality
  - Facilitation Payments
  - Conflicts of Interest
  - IT Acceptable Use
  - Health & Safety
  - Security
  - Environment
  - Real Estate

Exist to assure:
- Reliability and integrity of information
- Compliance
- Safeguarding of assets
Collate - Indirect Indicators

Pull together all appropriate data and information from direct and indirect sources that are reliable, accurate and maintained.

Find a way to filter out the noise; decide what is most relevant and pertinent.

Add in other “intelligence” as necessary:
- What’s important?
- What’s reliable?
- What’s new?
- What’s different?
- What are the Risks?
- What is the Focus?
**Analise**

Remember that most of what you see at first will be "symptoms".

Look for meaning and reasoning behind what has been filtered, as far as is practicable.

What makes sense and what doesn’t?

- Trends and Patterns
- Inconsistencies
- Proportionality
- Conduct Comparisons
- Quantify Risks
- Identify Causes and Drivers
- Document Assumptions

**Review**

Look to test, confirm and prepare the results of analysis for reporting and action.

Share the results with others – gain sense checks and clarification.

Confirm what you now know – go back if necessary.

- Identify Significant Trends and Risks
- Plot Performance Indicators
- Identify "what wasn’t anticipated"
- Test Assumptions
- Adjust Filters
- What’s missing?
- Re-analyse
- Report and discuss Findings
- Define Action Plan
Exploit

Using the knowledge gained, get to as granular level as possible in determining what and where the issues and risks are – causes?

For the issues identified – consider intervention options for addressing it, selecting the one(s) that will get the biggest return for the least investment.

Begin to develop Actions to address those issues and risks.

Action Planning

Prioritise – use consistent criteria for determining priority.

Identify what needs to be done versus what could be done – define the desired "outcomes".

Identify and get agreement on ownership of actions.

From determined actions – develop the interventions, by type and method.
Outcomes Management

• An outcome involves an intentional imposition of change on the “system” with a resulting end state that can be measured.

• From an overall Ethics Programme perspective:
  • Outcome Management is the set of activities designed to monitor and adjust, as required, the way in which the Ethics Programme, and its associated products, processes and services meets the needs of BAE Systems
    “Manages meeting the needs of the organisation”

• From an Interventions perspective:
  • Outcome Management is the set of activities designed to manage and oversee the change in a way that ensures it contributes to improving the capability and or capacity of the Ethics Programme to meet the needs of the organisation
    “Manages the development of capabilities that supports meeting the needs of the organisation”

Intervention Options

ACTION PLANNING

INTERVENTIONS DESIGN AND DELIVERY
(EXAMPlES)

CORRECTIVE ACTIONS

IMPROVED “GATHERING”

TRAINING

SURVEYS

COMMUNICATIONS

“DEEPER DIVE”

REVISED POLICIES

MODIFIED MEASURES

LOCAL ACTION PLAN

MONITORING

GUIDANCE

ENGAGEMENT

“Did we achieve what we set out to achieve?”

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### Interventions – Some Basic Principles

- Know the problem or issue you are trying to address
  - Is it real or perceived?
  - Who owns it and who is responsible for fixing it?

- Clearly define Aims and Objectives for the intervention

- Think about what “good” will look like – as an outcome
  - Describe the change and end-state that you are trying to attain
  - Determine if the change can be attained with one or a number/series of interventions?

- Decide how you will monitor progress towards end-state and know when you have attained it
  - How will you know that the problem or issue has gone?
  - How will you demonstrate success?

### Measures

- Most organisations want to be able to “count” things that are “tangible”
  - Not always possible – but does not mean that “change” cannot be measured
- Use measures already in place with the Direct and Indirect sources of data and information, wherever possible
  - Try not to establish new ways of measuring things
  - Reliability may be low where you rely upon the input of others against unfamiliar (to them) requirements
  - You may not be able to measure in “absolute” terms – but you can see change
- Measures must be able to answer the question *Did we achieve what we set out to achieve?*
  - Associated communications must describe the desired and achieved outcomes – *not the things we did*
What would good look like?

- There is consistency in awareness, understanding and application of standards set out by our Code of Conduct and our Policies

- Leaders are consistent in word and action and role model the expected behaviours throughout

- All employees genuinely know what doing the right thing means and have full appreciation for their responsibilities and accountabilities

- There is a desire to know about and have early indication of ethical dilemmas and we have a cultural environment that supports it

- Decisions are taken after careful identification and consideration of ethical risks and there are clear (and worn) paths of escalation

- We know (and can demonstrate to others) that what happens is what was intended

An Example for Analysis - Business Unit “A”

### DIRECT INDICATORS

- **Background**
  - Currently in 3rd restructure in 2 years
  - High success in winning business and performing for many years

- **E&C training**
  - Significant deficit in employee mandatory requirements

- **Assurance Statement**
  - States Compliant, with no ethical issues

- **Internal Audit of Code of Conduct**
  - Indication of poor management behaviours from employee interviews

- **Health & Safety**
  - One death
  - Increase in lost work day case rate

### INDIRECT INDICATORS

- **Ethics Helpline**
  - Few Reports
  - High Substantiation and Anonymity Rates

- **Ethics Officer**
  - Many Reports
  - > 50% Intimidation/Harassment
  - Finds it difficult to gain management “acceptance” – doors closed

- **Employee Survey**
  - Low trust in management
  - Willingness to Speak Up:
    - Exec Mgt: > 90%
    - Employees: < 50%

- **Employee Grievances** (no hard data shared)
  - Apparently high compared to other businesses
  - Suggestion that > 90% in favour of company
  - History of “unfair dismissal” claims
Summary

- There is a huge amount of data and information available to assist in the development of *impact-driven and outcomes-focussed* interventions, whose desired effect can be described and achieved effect measured
  - Know where that data and information is
  - Know how to get access to it, on a regular and consistent basis
  - Look at it – by piece part, cross-matched, combined and compared
  - Decide how useful it is

- Be wary of reacting to symptoms rather than causes

- Decide what it is you want to achieve before deciding what you are going to do

- Communicate the change more than the interventions that will bring it about

**Apply C.A.R.E. before you Act**

Thank you