3rd PARTY MANAGEMENT & COMPLIANCE

Why is 3rd Party Compliance so important?

Using 3rd Parties
- Greater insight
- Increased visibility
- Manages risk associated with non-employees
- Maximizes your bottom line

Client's Satisfaction
Cost Efficiency
Our Valued Partners
All Employees
What types of risk do you associate with 3rd parties?

KEY 3RD PARTY RISK AREAS

- Ethics & Anti-Corruption
- Cybersecurity
- Employment
What are the high-level strategies or tools your company uses to mitigate 3rd party risks?

<table>
<thead>
<tr>
<th>POLICIES &amp; PROCEDURES</th>
<th>DUE DILIGENCE</th>
<th>TRAINING</th>
</tr>
</thead>
<tbody>
<tr>
<td>SELF-HELP RESOURCES</td>
<td>INDUSTRY COLLABORATION</td>
<td>AUDITS</td>
</tr>
<tr>
<td>1-ON-1 PARTNERSHIP</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

OVERVIEW OF OUR RISK MITIGATION STRATEGIES & TOOLS
ETHICS & ANTI-CORRUPTION

CONTEXT FOR LOCKHEED MARTIN’S ETHICS & ANTI-CORRUPTION RISK MANAGEMENT EFFORTS

LM has strong Ethics and Anti-Corruption Programs internally, but...

Government contractors are increasingly being held responsible for misconduct of 3rd parties

With around 20,000 suppliers and hundreds of consultants, there’s a lot of risk to mitigate

As a huge player in our industry, we have power and responsibility to effect systemic change
**CONSULTANT ANTI-CORRUPTION RISK**

- Consultant Agreement & Code Flowdown

  - Due Diligence
  - Training
    - Conflicts of Interest
    - Criminal Charges
    - Other Red Flags or Legal Concerns
    - Code of Conduct
    - Other Compliance & Ethics Resources

- Agreement Monitor(s)

  - Maximum 2 year agreements
  - Due diligence review or in-person ethics training every year (alternate)
  - Required for all business development consultants

---

**SUPPLIER ETHICS & COMPLIANCE RISK**

- LM and DII Supplier Codes in all Purchase Orders
- FAR 52.203-13 Flowdown in USG contracts >$5.5MM

**Ethics Supplier Mentoring Program**

- Supplier Self-Assessment Tool
- Infographic guides to program elements
- Live Webinars
- Other Online Resources

**Industry Resources**

- The Small Business Toolkit
  - Created May 2015
ETHICS SUPPLIER MENTORING PROGRAM

CYBERSECURITY
You have to evaluate cybersecurity compliance not as an expense, but as a money saver. Sure, managing compliance takes resources, but it’s nowhere near as expensive as the costs associated with a breach.
EMPLOYMENT RISK

CONTINGENT LABOR EMPLOYMENT RISK MITIGATION STRATEGY

- Practice What You Preach
  - Lead by Example
  - Build a solid foundation in your Core Values (Code of Conduct)

- Hands On
  - Internal Audits
  - External Audits
  - Legal Counsel
  - Partnership with clients/suppliers

- Educating, Training & Repeating
  - Policy & Procedures
  - Training/Examples
  - Continuous and Evolving practices

- Laws that You Need to Know
  - New Hire/On-boarding
  - Civil Rights Violations
  - Federal Wage and Hour Laws

© 2018 LOCKHEED MARTIN CORPORATION AND DCR WORKFORCE. ALL RIGHTS RESERVED.
NOTABLE CASE LAWS

• Lawson v. GrubHub Inc., (Worker Misclassification – Feb 2018)
• Fausch v. Tuesday Morning (EEOC – Nov 2015)

“But the mere truth won’t do. You must have a lawyer.”

What are some challenges of 3rd party risk mitigation?
CHALLENGES OF 3RD PARTY RISK MITIGATION

- Availability or accuracy of data needed to assess risk
- Lack of cooperation/communication with partners
- “The Unknown” – You don’t know what you don’t know

“If you aren’t in over your head, how do you know how tall you are?”

Questions?
Thank you!

Elise Huggins  
DCR Workforce  
People Operations  
Elise.Huggins@DCRWorkforce.com

Lauren Schultz  
Lockheed Martin  
Corporate Ethics Office  
Lauren.C.Schultz@lmco.com