

June 2013

# Raising the bar

Good anti-corruption  
practices in defence  
companies

Part I: Seven practices that distinguish the best

**“Those defence companies that do take corruption risk seriously have the chance to be seen by their government clients as better companies with which to do business.**

**As governments toughen their attitudes towards corruption, having a reputation for zero tolerance of corruption will be a distinguishing asset for a defence company.”**

**The Rt Hon Lord Robertson of Port Ellen  
KT GCMG honFRSE PC, Former Secretary  
General of NATO**

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# Executive Summary

The Defence Companies Anti-Corruption Index (CI) was published on 4 October 2012. This analysis, the first of its kind, provided comparative information on the disclosure and quality of anti-corruption systems in 129 major defence companies.

Whilst the media focused primarily on the banding results, the analysis also contains many examples of good practice by defence companies. Our objective is to help raise anti-corruption standards in the defence sector worldwide. Publicising such examples is a good way to spread knowledge of good practice and raise these standards.

In Part I of this follow-up report, we present and discuss the topics that distinguish the better companies. Our conclusion is that the following seven are the most discriminating:

1. The extent to which the company publicly reports information on its ethics and anti-corruption programme
2. Company leadership speaking up against corruption, internally and externally
3. How the Board assure themselves of the effectiveness of their anti-corruption programme
4. How the company carries out corruption risk assessments
5. How the company manages corruption risk in third parties
6. How the company trains its staff, especially those in exposed roles
7. How the company follows up whistle-blowing information

These are demanding questions. This report looks in some detail at each topic and gives examples. We think that companies scoring full marks on these topics represent today's good practice.

In Part II of this report—available as a separate online document—we have extracted 104 good practice examples in relation to all of the 34 questions in the Index. These examples are mostly in the public domain. However, there were also examples of good practice from the companies who opened up their company-confidential practices, policies and procedures to review by us. Where the company has given us permission, we quote such examples as well.

Part II of this report can be found at <http://companies.defenceindex.org/good-practice>.

## APPLICATION BY DEFENCE PROCUREMENT CHIEFS

Government defence procurement chiefs have also expressed significant interest in the Index results and its analyses. For the first time, the CI gives them a list of questions they can use to compare in some detail the business conduct practices of potential defence contract bidders. By reducing the list down to just seven demanding questions, and adding model answers, this represents a useful tool for defence procurement chiefs to use in identifying those bidding companies that have the best practice in ethics and anti-corruption.

A draft of these questions and model answers, based on the good practice cited in this report, is available online at <http://companies.defenceindex.org/good-practice>.

We hope that all defence companies will use this document, in conjunction with Part II of the report which has extracted 104 actual good practice examples, to review their own systems and identify areas of improvement.

We encourage companies to discuss these areas, and to share their own additional good practices and approaches. We also welcome feedback from companies so that we can further refine and improve this document in the spirit of raising company standards.

Companies can also significantly advance sector-wide improvement efforts. A good example is the recently formed defence industry initiative 'IFBEC'—the International Forum on Business Ethical Conduct for the Aerospace and Defence Industry. This is a new forum, committed to promoting the development of global, industry-wide ethical standards for defence and aerospace companies. We recommend that all defence companies join it, and that defence ministries encourage such participation.

#### ACTIONS FOR COMPANIES

We call on all defence companies to contribute actively to raising standards in defence through good practice in the following seven measures:

1. **Reporting the whole of your ethics and anti-corruption programme publicly.**
2. **Encouraging your Board Chair, the rest of the Board, the CEO and senior executives to speak up strongly on your zero tolerance of corruption in the company and the sector.**
3. **Improving how your Board reviews the effectiveness of the overall anti-corruption programme.**
4. **Strengthening your corruption risk assessment process, and testing it against the good practice examples in the report.**
5. **Ensuring that your company has robust processes for flowing down your ethics and anti-corruption programme to all third-party representatives including partners, sub-contractors and agents.**
6. **Reviewing and improving your training practices, especially for staff in exposed positions like sales and government relations.**
7. **Improving your processes for following up whistle-blowing complaints—the experience of many is that they work well on paper but not in practice. Encouraging staff to raise matters before the offence takes place.**

#### ACTIONS FOR GOVERNMENT DEFENCE PROCUREMENT CHIEFS

1. **Make this good practice report available to your current and prospective defence contractors. Require that the contractors see if they can incorporate these practices into their own anti-corruption policies and processes.**
2. **Consider using these seven questions—and related model answers—as a requirement for bidders to respond to as part of their pre-qualification.**
3. **Give consideration to applying the Defence Companies Anti-Corruption Index (CI) methodology to all their national defence contractors.**

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# Introduction

The purpose of this study is to help raise anti-corruption standards in the defence sector worldwide by spreading knowledge of good practice examples found in our Companies Index (CI).

[www.defenceindex.org](http://www.defenceindex.org)  
[www.ti-defence.org](http://www.ti-defence.org)

## This report focuses on what we found to be the areas distinguishing better companies.

In a time of record fines and debarments from corruption-related prosecutions, companies are well aware of this risk to their bottom line. The defence sector faces unique risks to corruption due to high-value contracts, requests for official secrecy, and close government interaction on the buyer and seller side. In 2012 alone, the press has reported allegations of corruption in the defence industry in countries from Austria and Italy, to India, Indonesia, and China. It is very much in the interest of companies to prevent these corrupt deals from happening.

Some defence companies recognise this and devote great time and resources to developing strong anti-corruption systems. There is plenty of guidance available on what constitutes good practice for corporations, such as the Global Reporting Initiative, UN Global Compact, OECD Anti-Bribery Convention, and from Transparency International.

Many other defence companies, however, have only recently put or are thinking about putting systems in place; or have such systems but without any real assurance that they are effective. The evidence for this was very clear in the Defence Companies Anti-Corruption Index (CI), where only 10 out of 129 companies scored in the top two bands (of six).

This report is a follow-up to the CI and focuses, in Part I, on what we found to be the areas that distinguish the better companies.

We also give 104 good practice examples relevant to all 34 questions in the Index, which can be found in Part II of this report—a separate document available online at <http://companies.defenceindex.org/good-practice>. We have extracted good practice examples from as wide a range of companies in as many different environments as possible. Nonetheless, those scoring in higher bands are naturally the ones with the better practice, so they will appear more often.

## ETHICS AND ANTI-CORRUPTION SYSTEMS

Defence companies use a variety of terms to describe their corporate system for promoting integrity and reducing corruption risk. Such terms include business ethics, business conduct, and compliance programmes.

TI-DSP believes that both compliance-based and values-based approaches are essential parts of the overall system. We have used the phrase ‘ethics and anti-corruption systems’ to describe a company’s approach to promoting its ethical culture and reducing corruption risk.

This includes the values and principles that the company seeks to promote and build integrity, as well as the policies and procedures the company employs to ensure that each staff member abides by the company’s anti-corruption policy.

We organise our understanding of an ethics and anti-corruption system into five “pillar areas”: leadership, governance & organisation; risk management; company policies & codes; training; and personnel & helplines. We believe this represents the basic capability that an international defence company should have in place. The typology opposite shows these pillars and the elements that comprise each.

## A SECOND COMPANION INDEX - THE TI GOVERNMENT DEFENCE ANTI-CORRUPTION INDEX (GI)

Defence corruption is a supply (companies) and demand (governments) problem—with both parties contributing to the issue. This is why we look at both.

In January 2013, we launched the sister index to the CI, the Government Defence Anti-Corruption Index (GI), which analyses what 82 countries do to reduce corruption risks. These countries accounted for 94 per cent of the global military expenditure in 2011, equivalent to USD 1.6 trillion. Countries are scored in bands from very low risk (A) to critical risk (F), according to a detailed assessment

across 77 indicators that cover five prominent risk areas in the sector: politics, finance, personnel, operations, and procurement.

The GI shows that only 15 per cent of governments assessed possess political oversight of defence policy that is comprehensive, accountable, and effective. In 45 per cent of countries there is little or no oversight of defence policy, and in half of nations there is minimal evidence of scrutiny of defence procurement. For more information on the GI, visit <http://government.defenceindex.org>.

#### OTHER SOURCES OF ETHICS AND GOOD PRACTICE IN ANTI-CORRUPTION

There has been a considerable amount of work on what constitutes good anti-corruption systems outside the defence sector, both within Transparency International, as well as by other organisations. For other Transparency International guidance on ethics and anti-corruption please see:

- The Business Principles for Countering Bribery (developed by a multi-stakeholder group and led by Transparency International—updated in 2013)

- TI-UK Diagnosing Bribery Risk (2013)
- The 2010 UK Bribery Act—Adequate Procedures (2010)
- Anti-Bribery Due Diligence for Transactions
- Assurance Framework for Corporate Anti-Bribery Programmes (2012)
- UN Global Compact—Transparency International Reporting Guidance on the 10th Principle Against Corruption (2009)

The US Department of Justice's FCPA Resource Guide and the UK Ministry of Justice's 2010 Anti-Bribery Act Guidance also provide good information on the adequate anti-corruption policies and processes governments expect companies to have in place. Each of the agencies, alongside others such as the US Securities and Exchange Commission and UK Financial Services Authority, provide other advice on an on-going basis. Other resources include private sector firms such as accounting or law firms that advise clients on this information. Finally, the Global Reporting Initiative, UN Global Compact, PACI Principles for Countering Bribery, and ICC Rules of Conduct also discuss anti-corruption reporting guidelines for corporations.

### Companies Index 5 Pillars of Ethics and Anti-Corruption Systems

LEADERSHIP, GOVERNANCE & ORGANISATION	RISK MANAGEMENT	COMPANY POLICIES & CODES
LEADERSHIP, GOVERNANCE & ORGANISATION	RISK ASSESSMENT	POLICIES
EXTERNAL ENGAGEMENT	PARTNERS & AGENTS	GIFTS & HOSPITALITY
STRUCTURE & ORGANISATION	OFFSETS	FACILITATION PAYMENTS
MONITORING & EVALUATION	PERSONNEL & HELPLINES	POLITICAL AND CHARITABLE CONTRIBUTIONS
TRAINING	PERSONNEL & DISCIPLINE	
GENERAL TRAINING	HELPLINES & WHISTLE-BLOWERS	
SPECIALIST TRAINING		

# The 2012 Defence Companies Index results in brief

## METHODOLOGY

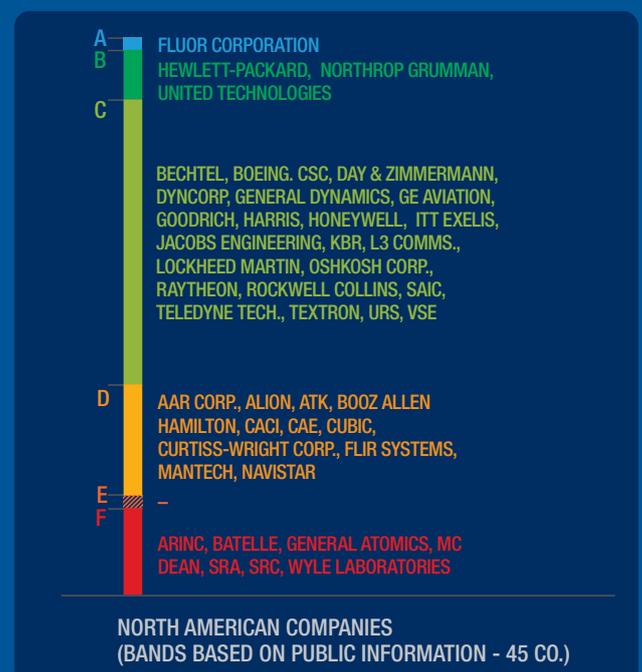
The CI examines a company's basic anti-corruption programmes and processes. All the chosen defence companies are assessed by TI-DSP against 34 questions concerning their ethics and compliance programmes, and then placed into one of six bands—from A to F—based on their total scores. The questions cover what TI-DSP regards as the basic capability that a global defence company should have in place. The questions are divided into five categories: leadership, governance & organisation; risk management; company policies & codes; training; personnel & helplines. (See <http://companies.defenceindex.org/methodology> for the full methodology and questionnaire).

The companies have also been given the opportunity to provide commentary and additional evidence on these questions.

The band results are shown in two different ways: one based on public information only; and another based on public and internal information for the thirty-four companies that provided internal information. These results provide an opportunity for the industry, public, academia, governments, and non-profit organisations to compare the anti-corruption policies and procedures of companies, based on the evidence that they make available.

## THE COMPANIES

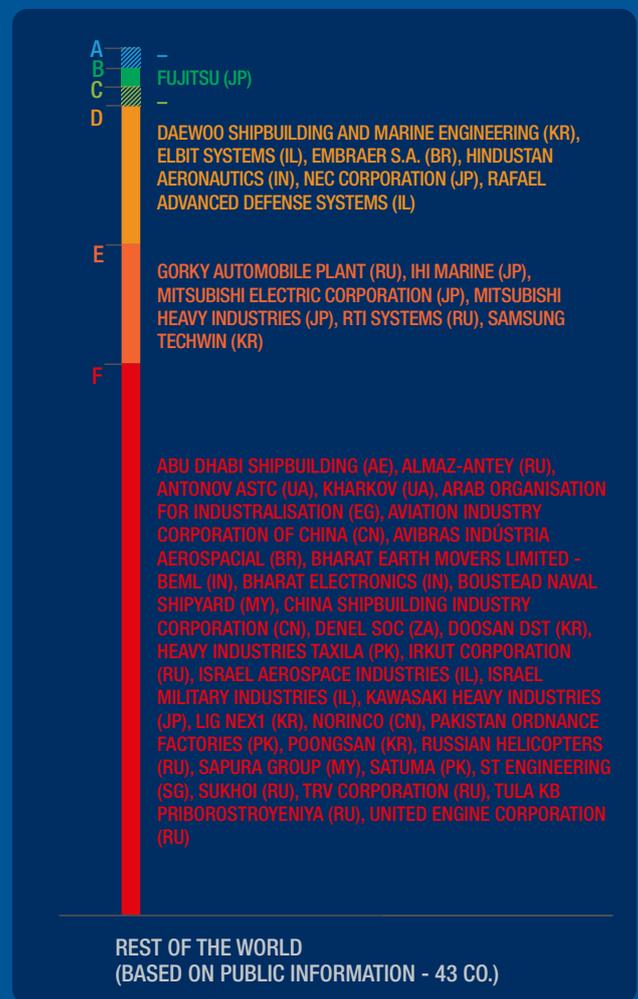
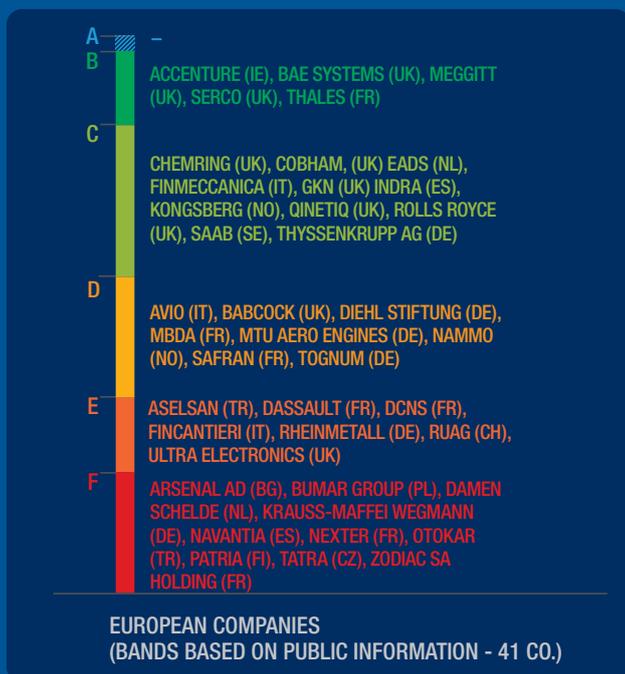
Most of the companies included in this study lie within the group of the top 100 global defence companies, as measured by defence revenue in 2010. In addition, in order to have a truly global range of companies, we added some that were of an arms-exporting nationality, were not within the top 100, but which nonetheless had either actual or estimated revenue of at least USD 100 million. This resulted in a final population of 129 companies from 31 countries.



### THE SCORING

Bands A or B mean that we have seen plentiful or good evidence that basic ethics and compliance systems and processes exist. Bands C and D are intermediate results—either because of a mix of good and poor evidence across the index questions, or because of more uniformly average evidence. Bands E and F represent scores from 33 per cent down to 0 per cent, indicating there is only poor or no evidence of anti-corruption processes.

Only one company, Fluor, received an A based solely on publicly available information. Over two-thirds of companies provided little public information on their anti-corruption companies, receiving a D or below.



# Overall results including internal information

We also asked companies to provide internal information on their anti-corruption systems. 34 companies chose to do so. With the inclusion of internal information, the average band improved from D to B, with 16 of 34 companies in Band A.

**A** 16 Companies

BECHTEL CORPORATION (C)  
 BOEING (C)  
 DAY & ZIMMERMAN (C)  
 DYNCORP INTERNATIONAL (C)  
 FLUOR CORPORATION (A)  
 FUJITSU (B)  
 HARRIS CORPORATION (C)  
 HEWLETT-PACKARD COMPANY (B)  
 HONEYWELL INTERNATIONAL (C)  
 KBR INC. (C)  
 LOCKHEED MARTIN (C)  
 MEGGITT (B)  
 RAYTHEON COMPANY (C)  
 ROCKWELL COLLINS (C)  
 SERCO GROUP (B)  
 THYSSEN KRUPP AG (C)

**B** 12 Companies

BAE SYSTEMS (B)  
 CHEMRING GROUP (C)  
 CSC (C)  
 GENERAL ELECTRIC AVIATION (C)  
 INDRA (C)  
 JACOBS ENGINEERING (C)  
 KONGSBERG GRUPPEN ASA (C)  
 MTU AERO ENGINES (D)  
 NEC CORPORATION (D)  
 QINETIQ GROUP (C)  
 SAAB AB (C)  
 SAIC (C)

**C** 6 Companies

CUBIC (D)  
 DAEWOO SHIPBUILDING  
 & MARINE ENGINEERING (D)  
 DIEHL STIFTUNG & CO. KG (D)  
 MITSUBISHI HEAVY INDUSTRIES (E)  
 FLIR SYSTEMS (D)  
 TOGNUM (D)



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-

-

This table shows the band for each company that provided internal information. It is based on what their score would be if the company-internal information were made public. The letter in parenthesis represents the company's band based on public information only.

# The seven distinguishing areas of good practice

- **Public disclosure**
- **Leadership speaking up**
- **Board assurance**
- **Corruption risk assessments**
- **Third party risk management**
- **Specialised training**
- **Effective whistle-blowing**

The seven topic areas that most distinguish the better companies are:

1. **The extent the company publicly reports information on its ethics and anti-corruption programme.**
2. **The extent the company leadership speaks up against corruption, internally and externally.**
3. **How the Board assure themselves of the effectiveness of their anti-corruption programme.**
4. **How the company carries out corruption risk assessments.**
5. **How the company manages corruption risk in third parties.**
6. **How the company trains its staff, especially those in exposed roles.**
7. **How the company follows up whistle-blowing information.**

The identification of these topics came from three different exercises. The first one was looking at which topic areas got the lowest scores from companies in the three 'better' bands—Bands A, B and C. The results, shown in the table opposite, picked out five of the seven questions. Gifts and hospitality, whilst being one of the worst ranking elements, were not included as a distinguishing area since companies can draw upon the plentiful public evidence in this sphere to improve their internal practices and processes.

The second was to review the results of all the participating companies—those that provided internal information. These were companies with which TI-DSP had detailed discussions on what systems and processes were in place inside the company for every question. It was evident from these discussions that some questions were noticeably more demanding than others, especially questions A2 through to A6, which focused on leadership engagement.

The third analysis was our own, looking at the overall results, the feedback we received, and what we believe to be essential for the advancement of ethics and anti-corruption in the industry. This particularly brought in the need for public reporting of the whole ethics and anti-corruption programme, and the need for better ways to follow up whistle-blowing.

The next sections discuss what we found to be good practice in each of these seven areas.

## Topic areas scoring lowest for companies banded A, B, and C in the CI

Area	% of companies to receive full marks in these bands	Ranking of worst performing areas
Internal leadership commitment	7%	1
Specialised anti-corruption training	13%	2
Corruption risk assessment	20.5%	3
Gifts & hospitality	27%	4
Board monitoring of effectiveness of anti-corruption programmes	29.5%	5
General anti-corruption training	33%	6
Third party due diligence	34.8%	7

# 1.

## PUBLIC REPORTING OF ETHICS & ANTI-CORRUPTION SYSTEMS

An important area of good practice is to publicly report information on the policies and processes of a company's ethics and anti-corruption systems.

During the course of our study and after publication, some companies asked us why they needed to explain to the public their approach to ethics and anti-corruption. This was surprising as there is an existing corporate consensus of why disclosure is important from both an adequate procedures perspective and from a public reporting standard. For instance the Global Reporting Initiative is well developed and has been important in encouraging organisations to report on sustainability on a routine basis. Similarly, the UN Global Compact requires regular reporting on the company's anti-corruption efforts and has published a reporting guidance document to assist companies in this endeavour.

Transparency is a matter of good corporate practice, and is a way for companies to compare and improve practices, thereby raising overall industry standards. Good reporting cannot ensure good company behaviour, but it is an indication of a company's commitment, awareness and action towards it.

In conversations we have had with companies, institutional investors and governments, we heard similar reasons:

- **Broad reporting on anti-corruption systems—both internally and externally—signals the serious commitment of the company to prevent corruption.**
- **It drives performance within the company so employees understand the values and standards they must uphold.**
- **Public declaration of this commitment deters employees, public officials, and third parties engaging with the company from participating in corrupt activities.**
- **It allows governments, investors, and the public to assess the risks of engaging with a company.**

**Transparency is important as a matter of good corporate practice, and as a way for companies to compare and improve practices.**

Only one company, Fluor Corporation, scores in Band A based on public information. Fluor is a large engineering and construction company, not usually thought of as a defence company. However, it draws 11.7 per cent of its revenue from defence according to the 2012 Defense News Top 100 list, and this is sufficient to place it in the Top 100 defence companies globally.

The summary page of Fluor’s Index results from the CI website (below) shows how they are strong on public reporting. The percentage figures show their total score on the questions in each of the five pillar areas. The first row is their score based on public information only. The second row shows the score including internal information. The only area where there is a significant increase in the score once internal information is included is in training; and even that area scores 70 per cent on public information alone. The company also discloses a comprehensive risk assessment system.

Nine companies scored in Band B: Accenture, BAE Systems, Fujitsu, Hewlett-Packard Company, Meggitt, Northrop Grumman Corporation, Serco Group, Thales, and United Technologies Corporation. Based on their assessments using just public information, all of these reveal a good level of reporting of their ethics and anti-corruption systems. Their summary results are shown in the next pages.

All company summary pages can be found at <http://companies.defenceindex.org/results/overall>.

Through their overall Band scores of A and B, these companies publicly demonstrate that it is possible to report the values, systems and procedures that they have in place to prevent corruption. This is to their credit and shows there is no confidentiality or secrecy barrier to good public reporting about anti-corruption in the defence industry. Examples of how companies publicly report on their anti-corruption systems can be found in Part II of this report.



# Band B Company Summary Results

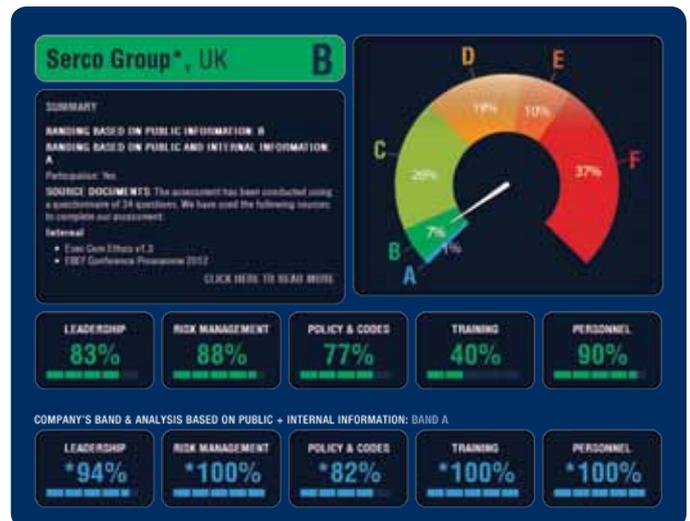
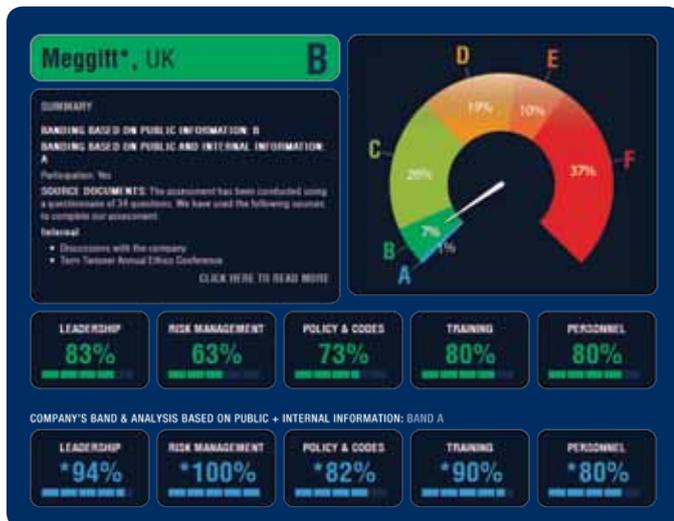
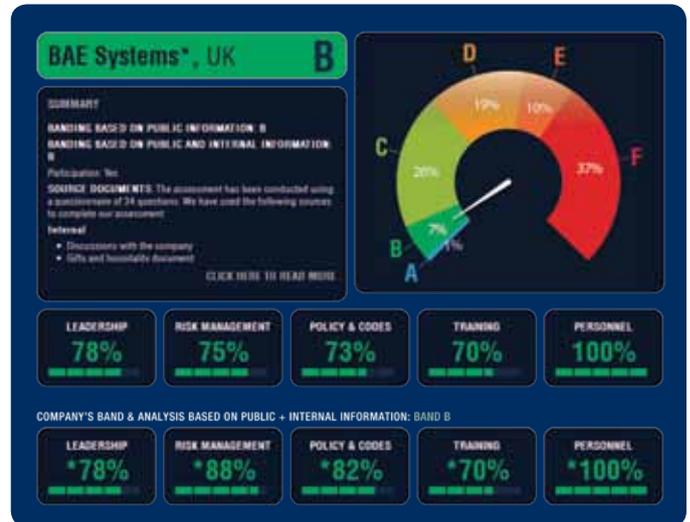
## BASED ON PUBLIC INFORMATION

Four companies scored in Band B based solely on what they make publicly available. These companies show there is no confidentiality or secrecy barrier to good public reporting about anti-corruption in the defence industry.



### BASED ON PUBLIC + INTERNAL INFORMATION

Five companies that scored in Band B also provided internal information. Scrutiny of the results for each company shows that the two areas where there was least public disclosure were in risk assessment and training. These are both areas where the industry is collectively weak; these A and B companies represent less than ten per cent of the companies studied. Most of the companies in Bands D, E and F fail to disclose at all what they do on training and risk assessment. This includes some of the world's largest defence companies.



## 2. COMPANY LEADERSHIP SPEAKING UP AGAINST CORRUPTION

It is a truism that ‘tone from the top’ is a vital part of a strong ethics and compliance programme. A crucial part of the success of any anti-corruption system is clearly communicating the values and ethics employees are expected to uphold, and leaders demonstrating they are following this advice themselves. Leadership taking responsibility to go beyond mere compliance with the law and promoting integrity across the corporation is one of the best ways to instil these values.

In our analysis for the CI, however, we came across numerous companies where there was no visible evidence of any such tone. In discussions with professionals in this field, one of the most common bits of feedback is dismay at how some senior executives undermine their own programmes by professing how unconvinced they are of the need for any ethics and compliance programmes in their respective company. Staff is very quick to recognise when their own leaders do not support such systems.

Leadership plays a central part of setting the expectations of acceptable behaviour across the company, and of how the industry is viewed by society. Repeatedly speaking up in public and internally about corruption not being tolerated is a central ingredient in preventing corruption before it happens, and more convincing than apologising if or when it does.

Whilst CEOs may feel exposed talking so publicly about corruption, this should not be an excuse not to speak out. Such external engagement—for example, at industry conferences and to the media—demonstrates to governments, the public, and other companies as well as to the company’s own staff that corruption will not be tolerated.

Just what constitutes ‘tone from the top’ and how might you measure it? In the CI, we focused on three questions: two on the extent to which top executives speak out externally on the issue of corruption and the stance of their company; and one that analyses this same engagement internally within the company. Demonstrating a leader’s commitment against corruption visibly is a good indicator of ‘tone from the top’.

### FINDINGS

However, the analysis of the CI results reveals that very few CEOs or Board members made serious public declarations against corruption. Just 13 out of 129 CEOs demonstrated strong external engagement against corruption. Speaking up internally was also the worst scoring section in the Index, as shown in the table on page 15.

Many CEOs had statements in the preface to their Code of Ethics, but these tend not to be very convincing: most read as if they were written by the HR or legal department and do not go into any depth about their convictions.

If a company wants to be taken seriously about its efforts to fight corruption, we think that senior leadership—the Chair of the Board of Directors, Board members, the CEO and the senior executives—should speak up publicly and internally about the problem and about what it does on this front.

## GOOD PRACTICE

Since so few CEOs and Boards of Directors actually speak up publicly against corruption, there are few examples of good practice.

Leaders clearly need to determine what works for them personally and for their company. They can look at the good practice examples in Part II of this report for ideas on how to communicate the ways in which they prevent corruption to their employees, governments, investors, and the public.

Some leaders publicly discuss their approach to anti-corruption at global conferences such as the G20 and World Economic Forum (WEF); for example, the CEO of Fluor discussed his company's anti-corruption position at the 2012 WEF meeting in Davos and is the 2013 chair of Partnering Against Corruption Initiative (PACI). In his talk in 2009 as group president at WEF, he provided five recommendations on how to develop ethical behaviour and an effective anti-corruption programme, such as: "limit the number of third-party agents, and when they are involved, exercise due diligence and watch for signs of inappropriate behaviour."

Likewise, the CEOs of Accenture and Bechtel also have engaged with the Global Compact and the World Economic Forum's PACI principles.

The CEO of Thales provides an in-depth interview in the company's 2011 Corporate Social Responsibility report on the company's commitment to ethics. Specifically, he spoke about the company's engagement in anti-corruption initiatives such as the G20.

The companies that scored well on the relevant questions in the Index (A1, A2, A3) are noted in the boxes on the next page.

Other examples of what these companies have been doing can be found in the detailed examples in response to questions A1, A2 and A3 in the Part II report online: <http://companies.defenceindex.org/good-practice>.

# Speaking up against corruption is good practice.

## BASED ON PUBLIC INFORMATION

ACCENTURE  
 ALLIANT TECHSYSTEMS (ATK)  
 BAE SYSTEMS  
 BECHTEL CORPORATION  
 CACI INTERNATIONAL  
 DAY & ZIMMERMANN,  
 DYNACORP INTERNATIONAL  
 FLUOR CORPORATION  
 GENERAL DYNAMICS  
 CORPORATION  
 GOODRICH CORPORATION  
 JACOBS ENGINEERING  
 KBR INC.  
 KONGSBERG GRUPPEN ASA  
 MEGGITT  
 NEC CORPORATION  
 NORTHROP GRUMMAN  
 CORPORATION  
 RAYTHEON COMPANY,  
 ROCKWELL COLLINS  
 SAAB AB  
 SAIC  
 SERCO GROUP  
 TEXTRON  
 THALES S.A.  
 THYSSENKRUPP AG  
 TOGNUM  
 UNITED TECHNOLOGIES  
 CORPORATION

## BASED ON PUBLIC + INTERNAL INFORMATION

BAE SYSTEMS  
 BECHTEL CORPORATION  
 DAY & ZIMMERMANN  
 DYNACORP INTERNATIONAL  
 FLUOR CORPORATION  
 JACOBS ENGINEERING  
 KBR INC.  
 KONGSBERG GRUPPEN ASA  
 MEGGITT  
 NEC CORPORATION  
 RAYTHEON COMPANY  
 ROCKWELL COLLINS  
 SAAB AB  
 SAIC  
 SERCO GROUP  
 THYSSENKRUPP AG  
 TOGNUM

## BASED ON PUBLIC INFORMATION

ACCENTURE  
 BECHTEL CORPORATION  
 CACI INTERNATIONAL  
 DAY & ZIMMERMANN  
 FLUOR CORPORATION  
 MEGGITT  
 NORTHROP GRUMMAN  
 CORPORATION  
 RAYTHEON COMPANY  
 ROCKWELL COLLINS  
 THALES S.A.  
 THYSSENKRUPP AG  
 EADS  
 LOCKHEED MARTIN

The boxes below show companies which received a 2 (the highest score) on the following three questions in the CI:

- publishing CEO or Chair of the Board statement on anti-corruption
- evidence of strong personal external commitment by the Chair of the Board
- evidence of strong personal, internal commitment to the anti-corruption principles of the company, actively promoting the Integrity Building and Anti-Corruption (IBAC) agenda

**Leadership statements**

**External leadership**

**BASED ON PUBLIC +  
INTERNAL INFORMATION**

BECHTEL CORPORATION  
DAY & ZIMMERMANN  
FLUOR CORPORATION  
MEGGITT  
RAYTHEON COMPANY  
ROCKWELL COLLINS  
SAAB AB  
THYSSENKRUPP AG  
LOCKHEED MARTIN

**BASED ON PUBLIC  
INFORMATION**

DAY & ZIMMERMANN  
NORTHROP GRUMMAN  
CORPORATION  
LOCKHEED MARTIN  
TOGNUM

**BASED ON PUBLIC +  
INTERNAL INFORMATION**

BECHTEL CORPORATION  
DAY & ZIMMERMANN  
MEGGITT  
ROCKWELL COLLINS  
THYSSENKRUPP AG  
LOCKHEED MARTIN  
KBR INC.  
NEC CORPORATION  
SAIC  
SERCO GROUP  
TOGNUM  
BOEING  
HARRIS CORPORATION  
HONEYWELL INTERNATIONAL  
DYNACORP INTERNATIONAL  
JACOBS ENGINEERING  
DAEWOO SHIPBUILDING &  
MARINE ENGINEERING  
MTU AERO ENGINES GMBH  
QINETIQ GROUP

**engagement**

**Internal leadership engagement**

### 3. BOARD ASSURANCE ON THE EFFECTIVENESS OF THE PROGRAMME

This topic is the subject of a single question in the Index (A8). It is not focused on the myriad elements of a good ethics and anti-corruption programme, but on the overview and periodic review of effectiveness of the programme. Typically, assurance focuses on the existence of anti-corruption measures, but what is more important is whether those systems actually work. Specifically, if you were the Chair of the Board of the company, what would constitute assurance that your programme was working effectively?

In our discussions with the companies, they themselves voiced some of the challenges:

- **What constitutes 'effectiveness'?**
- **How much time do you allocate to programme effectiveness at the (very busy) Board or its committees?**
- **How much weight do you give to monitoring by the ethics/compliance department?**
- **How do you ensure that oversight is effective in all geographies?**
- **How do you prove to employees that the company's programme is effective?**
- **How do you assure shareholders and the public that the company's programme is effective?**
- **How do you ensure that the programme is not just one big 'box-ticking' machine and that employees are communicating issues openly?**

#### FINDINGS

Overall, this is an area where few companies reported in detail how they regularly assured themselves that the anti-corruption system was working effectively. Sixteen companies disclosed good evidence of a monitoring and reporting system. A further 55 companies mention that they do have some level of a review process of the anti-corruption system but this often occurred on an ad hoc basis or only reviewed part of the system at a very high level.

#### GOOD PRACTICE

Companies take a variety of different approaches to ensure that the anti-corruption system is effectively preventing corruption and empowering employees to speak up with questions or concerns.

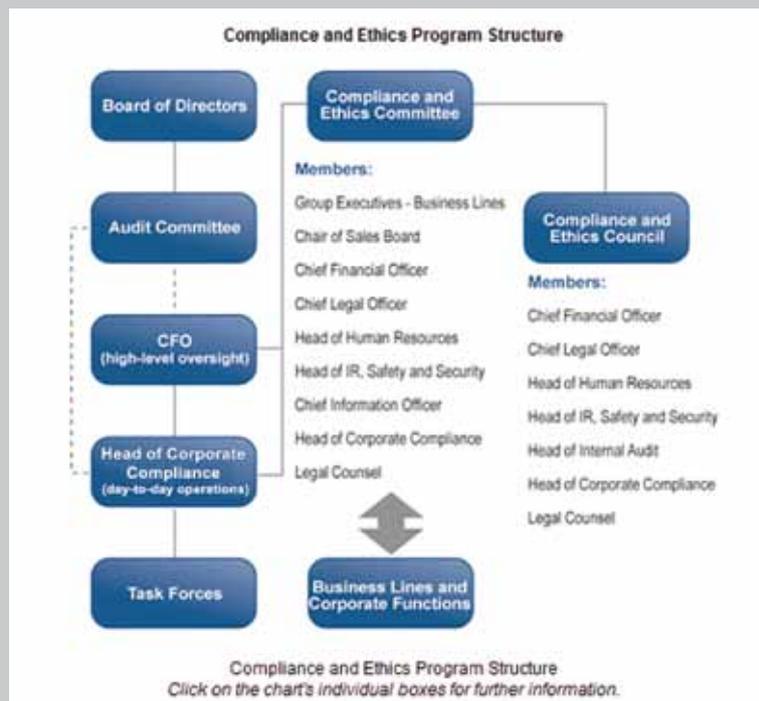
The starting point is having in place an appropriate formal organisational structure and a clear scope of activities. The charts opposite show the scope of Textron's activities and the reporting structure of Fluor. Both give an idea of how companies can structure their ethics and anti-corruption governance.

### Company example: **Textron's Ethics & compliance program elements**



Source: A Gagne, *Auditing your ethics and compliance programme*, Textron Systems Corporation, retrieved May 2013, [http://dii.prod2.classfive.com/files/Gagne\\_DII\\_Panel.pdf](http://dii.prod2.classfive.com/files/Gagne_DII_Panel.pdf).

### Company example: **Fluor's Compliance and ethics program structure**



Compliance and Ethics Program Structure  
Click on the chart's individual boxes for further information.

Source: Fluor, *Program Structure*, retrieved May 2013, <http://bit.ly/fluor-program>.

## How do companies make sure anti-corruption systems are effective?

### RESPONSIBILITY & ASSURANCE

Companies usually allocate responsibility for the programme with the CEO and a senior individual, with periodic Board overview of the programme and its performance. The Board overview would be by the main Board or by one of the Board Sub-Committees (Ethics, Audit, Risk, or Corporate Responsibility Committees).

The CI shows that for almost half of defence companies (56 of 129), the Board recognises its overall responsibility for the company's anti-corruption system. This typically entails a specific agenda item on the Board meeting to discuss developments related to corruption, such as results of hotline reports, investigations, and employee discipline.

Bechtel and DynCorp International's Boards, for instance, meet at least four times a year to review company-wide ethics, and compliance performance. Among items they review are anti-corruption training, group ethics and compliance activities, helpline statistics and trends, and customer and employee survey data. Where there is a dedicated sub-committee, the Board may meet more frequently and are able to review programme performance in more depth. For example, Honeywell International, Fluor, and Day & Zimmermann each have a dedicated ethics and compliance committee that focuses on the company's anti-corruption programme and other ethics issues.

Almost half (60 of 129) of companies state that they appoint a senior individual that is responsible for monitoring the day-to-day activities of the anti-corruption system. The better companies provide this individual with direct access to both the CEO and the Board, so that they can directly raise corruption and other ethics/compliance issues with senior leadership. They bring up these topics through reporting on issues such as number of hotline reports, number of investigations, and the results of those investigations.

Finally, within the ethics/compliance department, the better companies hold a regular review of the programme. For example, General Electric Aviation's ethics and compliance staff meet at least once a month to review the programme, which includes discussing current reports, why they may have occurred, and any actions that need to be taken to prevent them from occurring again.

The leading companies also took additional steps to assure themselves about the effectiveness of their programme. What they did fell into the following eight categories:

### a. Board assurance of risk assessment effectiveness

Regularly updated corruption risk assessments are the foundational element of any good assurance system. Without understanding the corruption risk that each business unit faces, the company cannot develop a coherent and effective anti-corruption risk management programme. A good corruption risk assessment system that tracks internal risks, country risks, business area risks and transaction risk is essential material for the Board review of the programme. A good example of such risk categories is from American-based Jacobs Engineering (see below).

## Company example: Jacobs' risk categories

### Internal risk

- Lack of knowledge of the substantive rules
- Integrity weakness
- Misalignment of people or resources
- Over-managed or under-managed risks.

### Transaction risk

- Improper review, approval, or inadequate documentation
- Violations of expenditure type or amount
- Overridden controls

### Country risk

- The economic and social context
- Corruption perception index
- Local customs, norms, needs, and practices
- Armed hostilities, violent upheaval, geopolitical forces, health crises, business interruption.

### Partnership risk

- Improper selection criteria or hidden information
- No shared values/difficult execution
- Inability to control the enterprise
- New acquisitions: slow integration of our culture, deficient financial controls, dissimilar risk silos.

### Residual risk

- Criteria determines whether residual risk is acceptable or unacceptable
- Thresholds settle compensating controls, escalation, and reporting.

Source: Internal company document provided to TI-DSP.

### b. Board committee structure and reporting

Companies with good monitoring systems have a clear understanding of what the role of the Board should be. Specifically, the whole Board must take overall responsibility for assuring the system is working effectively, allocate necessary and appropriately trained resources to conduct an effective risk assessment, and actively participate in the risk assessment process by lending their experience and expertise so as to signify a strong tone from the top.

This includes a clear reporting structure through the hierarchy, up to the Board or one of its committees, which requires assurance that the system is working well. Sometimes there is a fixed agenda. One of the Board Committees, for example, has a specific agenda item to review whether/when/how they should self-disclose any investigation to the government. Although a subcommittee may receive more frequent reports of the ethics and anti-corruption system, in the better companies, the main Board still holds overall responsibility and receives reports.

A good but unusual practice we saw was companies that took the issue to two different Board Committees. For example, the BAE Systems Board has both an Audit and a Corporate Responsibility Committee, each receiving reports on the anti-corruption system. These groups come together twice a year to review major issues and cross-report at meetings throughout the rest of the year.

The compliance chiefs of United Technologies and Fluor report to the Board Subcommittee on Ethics and Compliance four times a year. They receive an ethics report

twice a year that includes details such as investigations and its results. Whilst this, in the past, used to be largely a quantitative data report, currently the company is doing more to incorporate qualitative data on emerging corruption risks and trends across the company. They then discuss the follow-up action plans that the managers are taking to mitigate the risk. If the Board is not satisfied, they will set further actions in place.

### c. Assurance statements

Often known as “operational assurance statements”, these test the implementation of a particular policy or procedure against a set of criteria. A hierarchy of assurance statements from all areas of the business are essential for someone on the Board to have an overview of the totality of the corruption risks in the company, and see that legitimate action plans are in place to mitigate the risks. A good reference document, even though it provides guidance only on assurance of design rather than effectiveness, is the Transparency International Assurance Framework for Corporate Anti-Bribery Programmes.

At BAE Systems, line leaders of each entity of the company—across all geographies—are responsible for completing a biannual assurance assessment and submitting a report to the CEO. Assessments for each policy area against defined criteria result in ratings (e.g. “traffic lights” of green, yellow, or red) to signal compliance or where risks exist. For assessments that are not green, an action plan with details of person responsible and timeline for how to bring it back to green is also required.

## Leading companies have developed quantitative and qualitative indicators to give advance warning of problems.

### d. Internal audit

Assurance statements are buttressed by the work conducted by internal audit. From our discussions with companies, they see auditing as an expensive but necessary assurance step they must take to check the anti-corruption programme is working properly. At the same time, a challenge internal auditors face is to unearth the information unreported in self-audits. The CI did not focus on internal audit but very few companies publicly report on even how they approach internal audit in general.

According to a public presentation,<sup>2</sup> United Technologies Corporation has an internal audit programme that annually reviews for corruption, fraud, and other such items through methods such as site interviews, and monitoring anti-corruption training completion data.

Other companies also expressed concern with internal audit when it focuses solely on investigations. These companies said that they use outside counsel to investigate corruption cases to mitigate any potential conflict of interest. This is an area where defence companies could do more collectively, so more good practices could be shared.

### e. Tracking trends and indicators

The leading companies have developed a set of indicators that they find to be useful in identifying trends and giving advance warning of problems. Companies such as Honeywell International, Serco Group and Fluor all follow both quantitative and qualitative indicators.

Quantitative indicators include number/nature of hotline calls; percentage of most employees at risk who are trained; quarterly movement on 'red flags' and risk assessment metrics, number of current investigations and number of follow-up investigations, staff survey results, and disciplinary results. They also follow qualitative indicators on ethics and indicators of culture, such as ethics officers' opinions in different businesses/geographies, or survey results of staff confidence that the company will act on a report of corrupt activity.

<sup>2</sup> R Muli, *Self auditing your ethics programme*, United Technologies, retrieved May 2013, [http://diiproduct2.classfive.com/files/Muli\\_Self\\_Auditing\\_Your\\_Ethics\\_Program.pdf](http://diiproduct2.classfive.com/files/Muli_Self_Auditing_Your_Ethics_Program.pdf).

#### f. Public reporting

Some companies publicly report the results of their investigations. For example, General Electric Aviation states<sup>3</sup> the number of investigations, the topic areas (e.g. conflicts of interest and improper payments) covered, the number of disciplinary actions taken (e.g. employee separations, warnings, job changes, and financial implication), and the geographic location of the disciplinary actions. They also mention whether they reviewed the programme for existing weaknesses and the actions they took to remedy the same.

Northrop Grumman similarly publishes<sup>4</sup> the results of their investigations in their Corporate Social Responsibility report, and even circulates these statistics in a quarterly ethics newsletter to employees.

#### g. External review

The final component of effective monitoring is external review.

From information shared with TI-DSP, two companies regularly conduct external reviews of their anti-corruption systems: BAE Systems<sup>5</sup> and ThyssenKrupp.<sup>6</sup> Both commission external reviews of their programmes and both publish the recent results on their websites.

ThyssenKrupp has a good variant on this: they alternate external review between different independent bodies, such as a law and auditing firm. They believe that by relying on one company or one type of external reviewer, such as an auditing firm, the company risks becoming too close to the firm and not identifying serious issues as a result.

We also think there is significant scope for companies and governments to innovate and collaborate on developing new ways to conduct external reviews of anti-corruption systems. For example companies could develop a robust peer review methodology to analyse the companies' ethics and anti-corruption programmes.

#### g. Certification programmes

An emerging topic in this field is external certification of anti-corruption programmes, for instance through certification agencies such as BSI or ISO. This concept was not covered in the CI but is an area that many companies raised with us. In particular, companies discussed that they were interested in suppliers signing up to a globally recognised certification process before companies engaged in due diligence processes.

<sup>3</sup> General Electric, *Ombudsperson process*, retrieved May 2013, <http://www.ge.com/investor-relations/governance/ombudsperson-process>.

<sup>4</sup> Northrop Grumman, *Corporate responsibility reports*, retrieved Mar 2013, <http://www.northropgrumman.com/CorporateResponsibility/Pages/Reports.aspx>.

<sup>5</sup> BAE Systems, *Ethical leadership group review*, retrieved May 2013, <http://www.baesystems.com/our-company-rzz/corporate-responsibility/working-responsibly/meeting-high-ethical-standards/ethical-leadership-group-review>.

<sup>6</sup> ThyssenKrupp, *Compliance program*, retrieved May 2013, <http://www.thyssenkrupp.com/en/konzern/compliance.html>.

The boxes below show companies which received a 2 (the highest score) on the question regarding monitoring the effectiveness of their programme in the CI.

#### BASED ON PUBLIC INFORMATION

ACCENTURE  
ALLIANT TECHSYSTEMS (ATK)  
BABCOCK INTERNATIONAL GROUP  
BAE SYSTEMS  
DAY & ZIMMERMANN,  
DYNCORP INTERNATIONAL  
FINMECCANICA S.P.A.  
FLUOR CORPORATION  
GENERAL DYNAMICS CORPORATION  
L3 COMMUNICATIONS HOLDINGS  
LOCKHEED MARTIN  
NORTHROP GRUMMAN CORPORATION  
QINETIQ GROUP  
SAPURA GROUP  
SERCO GROUP  
THYSSENKRUPP AG

#### BASED ON PUBLIC + INTERNAL INFORMATION

BAE SYSTEMS  
BECHTEL CORPORATION  
DAY & ZIMMERMANN  
DYNCORP INTERNATIONAL  
FLUOR CORPORATION  
GENERAL ELECTRIC AVIATION  
HONEYWELL INTERNATIONAL  
JACOBS ENGINEERING  
LOCKHEED MARTIN  
QINETIQ GROUP  
RAYTHEON COMPANY  
SERCO GROUP  
THYSSENKRUPP AG

### Monitoring effectiveness of programme

## 4. CORRUPTION RISK ASSESSMENT

Assessing corruption risk is the platform upon which an effective ethics and anti-corruption programme is founded. Understanding the scale of the risk enables companies to develop and put in place sufficient mitigation plans to manage these risks.

According to the UK Bribery Act Guidance, there are five different categories of corruption risk: Sectoral risk (e.g. defence or extractives), Transaction risk for actual and potential deals, Country risks in different countries, Business opportunity risk associated with new projects, and Business contractor/partner risk. Without corruption risk assessments, the company potentially could leave itself open to wide financial and reputational risks.

In the defence sector, business opportunity (e.g. high value contracts and contracts with many contractors or intermediaries) and business contractor/partnership risk (e.g. contracts that involve the use of intermediaries or interaction with government officials) are highly significant given how frequently they occur.

The US Department of Justice's FCPA Guidance argues that corruption risk assessments that are not focused and customised to the company's areas of highest risk are "ill-conceived and ineffective." The guidance suggests that: "Devoting a disproportionate amount of time policing modest entertainment and gift-giving instead of focusing on large government bids, questionable payments to third-party consultants, or excessive discounts to resellers and distributors may indicate that a company's compliance program is ineffective. A USD 50 million contract with a government agency in a high-risk country warrants greater scrutiny than modest and routine gifts and entertainment."

Given that both the US FCPA Guidance and the UK Bribery Act Guidance state the authorities will take into account company efforts to mitigate risk in the highest areas, it is thus very much in the interest of defence companies to focus their priorities on assessing corruption risk. It could be the case for many of them that the risk associated with contracting is the most important, this requiring the institution of strict contractual and monitoring terms to apply high anti-corruption standards to third parties, such as agents and suppliers.

## **Understanding the scale of corruption risks enables companies to develop and put in place mitigation plans to manage them.**

### **FINDINGS**

Overall, companies reported very little public information on how their risk assessment processes prevent corruption. Only 11 out of 129 companies had good public evidence of how they conducted a corruption risk assessment. Very few of these companies, though, reported the results of these assessments: specifically, what they perceived as their major risks and the mitigation plans they had in place to tackle the same. This could be a key way to demonstrate to the public, governments, and investors that the company is aware of its risks and has a robust plan in place to tackle them. This dramatically changed when we reviewed internal information: 26 out of 34 companies had good internal evidence of corruption risk assessments.

In these companies, a corruption risk assessment was seen as the foundational tool to structure their anti-corruption programmes and develop mitigation plans. For example, a good corruption risk assessment will inform how a company should invest its training and audit resources to various geographic locations or business units. Many companies referred to their corruption risk assessment as part of the company's "Enterprise Risk Management" or ERM.

The good practice companies review all ethics and compliance risks on a regular basis, up to six times per year. They have templates and methodologies for analysing the relative severity of the risks so these can be prioritised against one another. These look across the entire company and include all geographies no matter the size of the business unit. They measure the risk of many different aspects of the business ranging from corruption to disruption of the supply chain. The risks are often prioritised based on ratings (e.g. "stoplights" of green, yellow, or red) to signal whether they are at-risk. The company then assigns responsibility for monitoring and preventing the risk. Each risk is assigned to a senior person, who is then responsible for taking whatever action is needed to mitigate the risk, and a timeline by which they need to complete these actions (e.g. to improve company communications, update a policy or provide a targeted training to an employee group that is at risk). Frequently, the Board is also provided with a summary of these assessments and the actions taken to prevent the risk.

For example, Jacobs Engineering has a one page summary sheet that describes their corruption risk assessment process, including their plans for mitigating the risk once it is identified (see box on next page).

# Company example: Jacobs' 'How do we manage risk' poster

## HOW DO WE MANAGE THE RISK ARISING FROM VIOLATIONS OF LAWS?

### 1. ESTABLISH GOOD GOVERNANCE PRINCIPLES

Creates entity level controls that define the culture, set the right tone-at-the-top, and motivate and inspire desired conduct.

- Active and independent board, exercising appropriate oversight, setting objectives.
- Policies and procedures are practical, clear, and accessible.
- Management promotes ethical decision making guidelines which harmonize mission, vision, and enduring values.
- Senior management team has a prudent approach to risk.
- Our culture promotes principled decision making, transparency, responsibility and accountability.
- Matrix management system creates checks and balances between operations and essential business functions.
- Explicit authority and resources in a compliance and business practices function.

### 2. DEVELOP AN AWARENESS AND COMMUNICATION PROGRAM

The on-going process to assure understanding of Jacobs' expectations for compliance and ethical business conduct.

**TRAINING AND EDUCATION**

- The population is made generally aware of company values and expectations through annual code of conduct training.
- We refresh the company's values and compliance at on-boarding, targeting them across groups based on relevance and risk, for a set level of competence.
- Qualified professionals present these through a training matrix that contains multiple delivery methods.
- The objective is to train the 4M people and deter organizational wrongdoing.
- Reinforced through consistent messaging in other languages.

**REINFORCING**

- Behavioral internal practices against global best practices through peer exchanges and learning activities with other companies and subject matter experts.
- Industry and regulator relationships are essential.
- We periodically evaluate system design and effectiveness of the education against our risk threshold to determine whether updates need to be adjusted.

**(EXCEPTIONS AND APPROVALS)**

- Deviations from policies and procedures require high-level approvals from executive management and the general counsel.

### 3. MONITOR AND AUDIT

Verify that the organization, employees, and its agents comply with policies and standards.

**AUDITS**

- Audits conducted to assess compliance and to provide reasonable assurance.
- Independent from operations and functions.
- Plan approved by the audit committee.
- Staff competent in the knowledge of a control, how it should operate, and where it functions.
- Deficiencies are identified and communicated in a timely manner to management and those parties responsible for taking corrective action.
- Clearance given are institutionalized and reported to management and the audit committee.

**EXTERNAL VERIFICATION**

- The audit committee has approved the retention of independent third-party auditors who audit for efficiency, effectiveness, and financial statement reliability.
- The results are communicated to management and the audit committee.

### 4. CREATE CONTROLS IN ESSENTIAL BUSINESS FUNCTIONS

Controls are designed to detect and prevent violations and are linked to the results of the risk assessment.

**ACCOUNTING AND FINANCE**

- Integrity of financial transactions.
- Accuracy and completeness of books and records.
- Reliability of financial reporting.
- Subsequent of assets.
- Expenses of fiscal, self-dealing, and control thereof.
- Public sector pricing, disclosures, and business systems interferences.
- Legal: Protect the company by the review and approval of contractual commitments.
- Provide coverage for insurable risk.
- Define and manage document retention.
- Execute operations through regulatory and administrative processes.
- Staff of public sector administrations.
- Acquisition due diligence.
- Code of conduct enforcement.
- HUMAN RESOURCES: Hiring and screening, evaluation, and promotion of qualified staff.
- Employee relations.
- Payroll and discrimination, wage, hour, and other employment compliance.
- Workforce surveys and interviews.
- Record keeping and documentation.
- Quality and safety: Prevent and detect injury to people, facilities, or assets.
- Interfaces with external regulators.
- Program control reviews, provide assurance for compliance with policies.
- Client satisfaction surveys, metrics and performance reporting.

### SOURCES OF RULES AND HOW THEY APPLY TO US

**CORPORATE GOVERNANCE**

**Non-Government Organizations**

**Rating Agencies**

**Client Policy**

**LOCAL / NATIONAL LAWS**

**RULES FOR REGULATED BUSINESS**

Jacobs is a U.S. listed corporation. Therefore, employees, agents, representatives, and subcontractors are covered by U.S. law.

Presence – "doing business in" foreign locations establishes the nexus for jurisdiction.

### THE PROBLEM

Violations of the law can be controlled but not eliminated. What is our framework for addressing this issue, and can we demonstrate that we maintain procedures adequate to prevent, detect, and correct improper conduct?

**TYPES OF VIOLATIONS**

- Payments to obtain or retain business or secure an improper advantage.
- Procurement integrity.
- Influencing a government act or decision.
- Conflicts of interest.
- Receipt or solicitation.
- Improper gifts, gratuities, or entertainment.
- Theft of assets.
- Fraud and related.
- False claims.
- Fraud statements.
- Perjury.
- Controlled substances.
- Insider trading.
- Anti-trust.
- Export control.
- Obstruction of justice.
- Acts of intermediaries and agents.

**TARGETED PEOPLE AND ENTERPRISES**

- Government officials.
- State-owned enterprises.
- Public sector clients.
- Commercial transactions.

**PAYMENT RELATED RISK**

- Cash.
- Prevents.
- Anything of value.
- Unrequested offers.
- Contributions.

November 2011 | JACOBS

Source: Internal company document provided to TI-DSP.

Full-size versions of these examples can be downloaded at <http://companies.defenceindex.org/good-practice>

## GOOD PRACTICE

Corruption risk was assessed across the entire company and all operations on at least a yearly basis. The operation-wide corruption risk assessment allowed a company to allocate resources for monitoring and training throughout the year.

For example, each operation unit of Textron<sup>2</sup> conducts an ethics and compliance risk-based action plan on an annual basis. Textron has identified a number of potential legal and compliance risks including accuracy of business records, anti-bribery and corruption, conflicts of interest, suppliers, intermediaries, and gifts and entertainment. Each operation assesses the risk associated with these potential corrupt activities. They then identify “process owners” or “subject matter experts” within each operation unit to develop mitigation plans, such as monitoring and training programmes. They also use performance checks and internal audit to monitor that these are on target.

Fujitsu has a risk management structure which the CEO for each business unit oversees. Each business unit has a dedicated Chief Risk Management Officer who is responsible for organising the assessment of the corruption risk (along with other metrics) and the respective actions to be taken.

Boeing also conducts an operation-wide compliance risk process. The senior executives from each business unit are responsible for determining compliance risk areas and implementing compliance risk monitoring and mitigation plans. These leaders formally come together as a board six times a year to discuss and review existing internal controls, report on areas of improvement and to share best practices. Overall, Boeing monitors more than 35 compliance risks and uses COSO (Committee of Sponsoring Organisations of the Treadway Commission) standards as a guide to assess and prioritise risks. The senior vice president of the Boeing Office of Internal Governance annually reports on the company-wide status to the Boeing Board of Directors with more frequent updates to the company's Executive Council.

All of these companies use their corruption risk assessments as input into how they structure and monitor their anti-corruption programme. For example, they use these assessments as drivers for their internal audit units and training—with the internal audit and training focusing first on the areas deemed to be most at risk.

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<sup>2</sup> A Gagne, *Auditing your ethics and compliance programme*, Textron Systems Corporation, retrieved May 2013, [http://dii.prod2.classfive.com/files/Gagne\\_DII\\_Panel.pdf](http://dii.prod2.classfive.com/files/Gagne_DII_Panel.pdf).

# Good practice companies review all ethics and compliance risks up to six times per year.

The boxes below show companies which received a 2 (the highest score) on the corruption risk assessment question in the CI.

## BASED ON PUBLIC INFORMATION

SERCO GROUP  
 TEXTRON  
 THALES S.A.  
 ACCENTURE  
 BAE SYSTEMS  
 FINMECCANICA S.P.A.  
 FLUOR CORPORATION  
 MTU AERO ENGINES GMBH  
 SAAB AB  
 ULTRA ELECTRONICS HOLDINGS  
 CHEMRING GROUP

## BASED ON PUBLIC + INTERNAL INFORMATION

FLUOR CORPORATION  
 GENERAL ELECTRIC AVIATION  
 HONEYWELL INTERNATIONAL  
 QINETIQ GROUP  
 RAYTHEON COMPANY  
 SERCO GROUP  
 THYSENKRUPP AG  
 BOEING  
 KBR INC.  
 MEGGITT  
 MTU AERO ENGINES GMBH  
 SAIC  
 MITSUBISHI HEAVY INDUSTRIES  
 BAE SYSTEMS  
 BECHTEL CORPORATION  
 DAY & ZIMMERMANN  
 JACOBS ENGINEERING  
 CHEMRING GROUP  
 CSC  
 CUBIC CORPORATION  
 FLIR SYSTEMS  
 FUJITSU  
 HARRIS CORPORATION  
 HEWLETT-PACKARD COMPANY  
 SAAB AB  
 NEC CORPORATION

## 5. MANAGING CORRUPTION RISK IN THIRD PARTIES

Many companies identify working with third parties—agents, intermediaries, suppliers, distributors, and sub-contractors—as the biggest area of corruption risk. US DOJ FCPA Guidance and UK Bribery Act Guidance also cite third parties as a corruption risk, and advise companies to concentrate their resources on the highest risk ones.

Agents and intermediaries pose the biggest risk of corruption for defence companies, since they interact closely with high risk parties such as government officials (e.g. procurement or customs & immigration officials). This risk only increases when third parties work with government officials where there is little meaningful oversight and regulation.

Given government offset requirements with defence contracts, joint ventures are more attractive and often require the use of local suppliers and contractors. This is an area that poses a unique corruption risk for defence companies.

What, then do companies do to mitigate the risk associated with these third parties?

### FINDINGS

More companies report that they took efforts to maintain ethical relations with suppliers than with agents. Twenty-three companies state that they make clear to suppliers through policy and contractual terms their policies against corruption. However, few companies (9) have publicly available statements on their contractual terms with agents, and how they monitor agents through audit and other mechanisms to ensure they are following these terms to prevent corruption.

Given the significant risks posed by agents and the myriad of government guidance encouraging companies to focus on this area especially, it is very surprising that companies do not disclose more on what they do on this front. This is a view echoed by the institutional investors who contacted TI-DSP after the publication of the CI. When taking internal information into account, this number increased greatly with 29 out of 34 companies stating they have contractual and monitoring controls in place for agents.

This shows that there is a disclosure gap for these companies that provided internal information, regarding what they do to mitigate corruption risk in third parties.

## GOOD PRACTICE

### a. Agents and intermediaries

A major question that companies raised with us was how far down the supply chain should the application of anti-corruption expectations go. Some of the largest companies which have complex and extremely long supply chains expressed concern that it was not feasible to manage corruption risk with all of them due to resource constraints. These same companies then stated they used a risk-based approach to prioritise which suppliers to focus their resources on managing. For instance, some companies spent most of their efforts on agents or intermediaries, as the corruption risk assessment identified that area as the highest risk. This is an emerging area of good practice that companies, governments, and Civil Society Organisations (CSOs) are starting to discuss more openly, and will continue to improve.

GKN, Lockheed Martin, Meggitt, MTU Aero, Serco Group and Thales have policies and processes to manage the risk of corruption when engaging a particular agent or intermediary. Some companies—such as BAE Systems and General Electric Aviation—even stated that they have gone to great lengths to reduce the number of agents they employ given the great risks associated with them.

The good practice companies publicly disclose what they do when they contract a third party, and refresh those contracts at least every two years. Many of those companies that provided internal information stated they conducted due diligence on potential agents and intermediaries before they entered into contract. Very few companies provided TI-DSP with detailed information on what this due diligence looked like. The better companies state their due diligence was risk-based and thus customised for each agent they examined, and took into account factors such as the country, local anti-corruption regulation and enforcement, interaction with government officials, and potential conflicts of interest.

They then require formal justification of the agent's role and the proportionality of the commission. Finally, they require senior management sign-off at headquarter level for all agent contracts worldwide.

MTU Aero requires a formal approval process for every Sales Consultant proposed to be contracted (and for contract renewals after three years) worldwide. The applicant needs to fill out a detailed questionnaire to be reviewed by the Compliance Board. In parallel a TRACE (due diligence review, by a non-profit member association, that provides anti-bribery compliance solutions for multinational companies and their commercial intermediaries) check is undertaken. In case no TRACE findings are being made and no satisfactory answers are being given in the questionnaire, the Compliance Board proposes to the CEO to approve the new contract/the renewal of existing contracts. The CEO must approve every new sales consultancy contract, every renewal before entering into new contracts, and renewal of existing contracts.

Due diligence is an important, but only one part, of a component for mitigating corruption risk with third parties. Other mechanisms such as the right to audit and anti-corruption training are also relevant but less widely disclosed by defence companies. GKN unusually discloses a public set of guidelines that all its companies must follow when employing a sales consultant or agent. These include due diligence, contractual compliance with GKN's policies, and allowance for termination of the contract if a sales consultant violates this; they also declare the terms under which GKN can audit the sales consultant. Each member of the Executive Committee of GKN is then responsible for ensuring that their group company follows this policy and submits a written report to the Audit Committee on an annual basis to assure that this is done.

**In good practice companies, due diligence is customised for each agent.**

Meggitt states that its policy is to treat its agents as part of an “internal sales team,” and thus “demands regular reporting on existing and potential customers, sales forecasting and specific activity reviews and target setting, all of which will provide a record of the success of the relationship.”

In the case of Serco Group, they have a standard due diligence questionnaire that includes detailed questions about an intermediary’s anti-corruption programmes, among other things.

Serco also provides a list of corruption indicators<sup>2</sup> (red flags) and sample questions that employees can tailor to the particular risks depending on the type of business engagement they are entering (see box on next page).

Thales states that it only works with approved third parties which have gone through a “strict, multi-layer compliance and approval process” that includes the submission of company registrations and annual reports, and is independently verified by a third-party.

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<sup>2</sup> UK Serious Fraud Office (SFO), *Corruption indicators*, retrieved May 2013, <http://sfo.gov.uk/bribery--corruption/corruption-indicators.aspx>.

## Company example: Serco's corruption indicators



### 4.3.4 Corruption indicators

The Serious Fraud Office have issued a non exhaustive list of items to probe into when assessing counterparties to a commercial arrangement. In certain business activities / arrangements, it would be prudent to undertake due diligence to the level of detail and scrutiny to capture the following SFO Corruption Indicators (<http://www.sfo.gov.uk/bribery--corruption/corruption-indicators.aspx>) i.e. to ascertain if there is any evidence of:

- Abnormal cash payments;
- Pressure exerted for payments to be made urgently or ahead of schedule;
- Payments being made through 3rd party country, eg. goods or services supplied to country 'A' but payment is being made, usually to shell company in country 'B';
- Abnormally high commission percentage being paid to a particular agency. This may be split into 2 accounts for the same agent, often in different jurisdictions;
- Private meetings with public contractors or companies hoping to tender for contracts;
- Lavish gifts being received;
- Individual never takes time off even if ill, or holidays, or insists on dealing with specific contractors him/herself;
- Making unexpected or illogical decisions accepting projects or contracts;

Source: Internal company document provided to TI-DSP.

## Company example: Hewlett-Packard Electronic industry code of conduct

### D. ETHICS

To meet social responsibilities and to achieve success in the marketplace, Participants and their agents are to uphold the highest standards of ethics including:

- 1) **Business Integrity**  
The highest standards of integrity are to be upheld in all business interactions. Participants shall have a zero tolerance policy to prohibit any and all forms of bribery, corruption, extortion and embezzlement (covering promising, offering, giving or accepting any bribes). All business dealings should be transparently performed and accurately reflected on Participant's business book and records. Monitoring and enforcement procedures shall be implemented to ensure compliance with anti-corruption laws.
- 2) **No Improper Advantage**  
Bribes or other means of obtaining undue or improper advantage are not to be offered or accepted.
- 3) **Disclosure of Information**  
Information regarding business activities, structure, financial situation and performance is to be disclosed in accordance with applicable regulations and prevailing industry practices. Falsification of records or misrepresentation of conditions or practices in the supply chain are unacceptable.
- 4) **Intellectual Property**  
Intellectual property rights are to be respected; transfer of technology and know-how is to be done in a manner that protects intellectual property rights.
- 5) **Fair Business, Advertising and Competition**  
Standards of fair business, advertising and competition are to be upheld. Appropriate means to safeguard customer information must be available.
- 6) **Protection of Identity**  
Programs that ensure the confidentiality and protection of supplier and employee whistleblower<sup>2</sup> are to be maintained.
- 7) **Responsible Sourcing of Minerals**  
Participants shall have a policy to reasonably assure that the tantalum, tin, tungsten and gold in the products they manufacture does not directly or indirectly finance or

<sup>2</sup> Whistleblower definition: Any person who makes a disclosure about improper conduct by an employee or officer of a company, or by a public official or official body.

Source: Hewlett-Packard, *Electronic industry code of conduct*, retrieved May 2013, <http://bit.ly/HP-code>.

## b. Suppliers

Suppliers also pose a corruption risk to defence companies given the large number of local suppliers in high-risk countries defence companies employ. Lockheed Martin has piloted in the UK an in-depth questionnaire that suppliers must answer before entering into a contract. The questionnaire includes questions on relevant allegations and legal proceedings, potential governmental conflicts of interest, and company anti-corruption policies and practices. The questionnaire responses are to be refreshed on a one to three-year cycle. Additionally, suppliers in certain high-risk countries must sign an anti-corruption supplier declaration. Lockheed Martin tracks the completion of this process through an internal online system.

Some companies, such as DCNS and Hewlett-Packard, have separate and public Codes of Conduct tailored to suppliers. These Codes have specific clauses covering the ethics and business integrity standards they expect of their suppliers. For example, DCNS has a Code of Conduct for suppliers<sup>2</sup>, which is an integral

part of the purchase agreement and sets out the principles DCNS expects its suppliers to commit to, particularly governance, anti-bribery and human rights. DCNS also reserves the right to audit its suppliers to ensure they comply with and implement the Code. In addition, DCNS requires that suppliers develop and implement their own Corporate Social Responsibility (CSR) based on those principles. Further, DCNS details in a two-page leaflet, the gifts and hospitality expectations that suppliers must follow.

Hewlett-Packard (HP) states<sup>3</sup> that all suppliers “shall have a zero tolerance policy to prohibit any and all forms of bribery, corruption, extortion and embezzlement (covering promising, offering, giving or accepting any bribes).” Additionally, HP requires that all suppliers adopt a management system to ensure compliance with these codes, including the provision of training, whistle-blowing, and non-retaliation against whistle-blowers.

The companies on the next page scored the best on questions 11-13 which covered managing corruption risk with third parties.

<sup>2</sup> DCNS, *The code of conduct for suppliers*, retrieved May 2013, <http://en.dcnsgroup.com/group/supplier-partnerships/code-de-conduite-des-fournisseurs/>.

<sup>3</sup> Hewlett-Packard, *Electronic industry code of conduct*, retrieved May 2013, <http://www.hp.com/hpinfo/globalcitizenship/environment/pdf/supcode.pdf>.

# Thorough due diligence is good practice.

The boxes below show companies which received a 2 (the highest score) on the following three questions in the CI:

- due diligence when selecting agents
- anti-corruption agreements/ processes for agents
- anti-corruption policies and terms with contractors, subcontractors and suppliers

## BASED ON PUBLIC INFORMATION

SERCO GROUP  
 THALES S.A.  
 ACCENTURE  
 BAE SYSTEMS  
 FLUOR CORPORATION  
 SAAB AB  
 CHEMRING GROUP  
 QINETIQ GROUP  
 MEGGITT  
 HEWLETT-PACKARD COMPANY  
 UNITED TECHNOLOGIES CORPORATION  
 ELBIT SYSTEMS  
 GENERAL ELECTRIC AVIATION  
 KBR INC.  
 SAFRAN S.A.  
 DYNCORP INTERNATIONAL  
 CSC  
 FUJITSU  
 GKN  
 OSHKOSH CORPORATION  
 ROLLS ROYCE  
 BOOZ ALLEN HAMILTON  
 JACOBS ENGINEERING  
 GOODRICH CORPORATION

## BASED ON PUBLIC + INTERNAL INFORMATION

FLUOR CORPORATION  
 GENERAL ELECTRIC AVIATION  
 HONEYWELL INTERNATIONAL  
 QINETIQ GROUP  
 RAYTHEON COMPANY  
 SERCO GROUP  
 THYSSENKRUPP AG  
 BOEING, KBR INC.  
 MEGGITT  
 MTU AERO ENGINES GMBH  
 MITSUBISHI HEAVY INDUSTRIES  
 BAE SYSTEMS  
 BECHTEL CORPORATION  
 DAY & ZIMMERMANN  
 JACOBS ENGINEERING  
 CHEMRING GROUP  
 CSC  
 CUBIC CORPORATION  
 FLIR SYSTEMS  
 FUJITSU  
 HARRIS CORPORATION  
 HEWLETT-PACKARD COMPANY  
 SAAB AB  
 NEC CORPORATION

## BASED ON PUBLIC INFORMATION

ACCENTURE  
 FLUOR CORPORATION  
 FUJITSU  
 GENERAL ELECTRIC AVIATION  
 GKN  
 HEWLETT-PACKARD COMPANY  
 MEGGITT  
 SAFRAN S.A.  
 THYSSENKRUPP AG

**Due diligence in agents**

**Anti-corruption**

**BASED ON PUBLIC +  
INTERNAL INFORMATION**

BAE SYSTEMS  
 BECHTEL CORPORATION  
 BOEING  
 CHEMRING GROUP  
 CSC  
 DAY & ZIMMERMANN  
 DIEHL STIFTUNG & CO. KG  
 FLUOR CORPORATION  
 FUJITSU  
 GENERAL ELECTRIC AVIATION  
 HARRIS CORPORATION  
 HEWLETT-PACKARD COMPANY  
 HONEYWELL INTERNATIONAL  
 INDRA SISTEMAS, S.A.  
 JACOBS ENGINEERING  
 KBR INC.  
 KONGSBERG GRUPPEN ASA  
 LOCKHEED MARTIN  
 MEGGITT  
 MITSUBISHI HEAVY INDUSTRIES  
 MTU AERO ENGINES GMBH  
 NEC CORPORATION  
 QINETIQ GROUP  
 RAYTHEON COMPANY  
 ROCKWELL COLLINS  
 SAAB AB  
 SERCO GROUP  
 THYSSENKRUPP AG  
 TOGNUM

**BASED ON PUBLIC  
INFORMATION**

ACCENTURE  
 AVIO S.P.A.  
 BABCOCK INTERNATIONAL  
 GROUP  
 DAY & ZIMMERMANN  
 DCNS S.A.  
 EADS  
 FINMECCANICA S.P.A.  
 FLIR SYSTEMS  
 FLUOR CORPORATION  
 FUJITSU  
 GKN  
 HARRIS CORPORATION  
 HEWLETT-PACKARD COMPANY  
 HINDUSTAN AERONAUTICS  
 INDRA SISTEMAS S.A.  
 KBR INC.  
 LOCKHEED MARTIN  
 OSHKOSH CORPORATION  
 RAFAEL ADVANCED DEFENSE  
 SYSTEMS  
 SERCO GROUP  
 TELEDYNE TECHNOLOGIES  
 UNITED TECHNOLOGIES  
 CORPORATION  
 VSE CORPORATION

**BASED ON PUBLIC +  
INTERNAL INFORMATION**

BECHTEL CORPORATION  
 BOEING  
 CHEMRING GROUP  
 CSC  
 DAEWOO SHIPBUILDING &  
 MARINE ENGINEERING  
 DAY & ZIMMERMANN  
 DYNACORP INTERNATIONAL  
 FLIR SYSTEMS  
 FLUOR CORPORATION  
 FUJITSU  
 GENERAL ELECTRIC AVIATION  
 HARRIS CORPORATION  
 HEWLETT-PACKARD COMPANY  
 HONEYWELL INTERNATIONAL  
 INDRA SISTEMAS S.A.  
 JACOBS ENGINEERING  
 KBR INC.  
 KONGSBERG GRUPPEN ASA  
 LOCKHEED MARTIN  
 MEGGITT  
 MITSUBISHI HEAVY INDUSTRIES  
 MTU AERO ENGINES GMBH  
 QINETIQ GROUP  
 RAYTHEON COMPANY  
 ROCKWELL COLLINS  
 SAAB AB

## 6. ANTI-CORRUPTION TRAINING

Training is a key component of mitigating the company's exposure to corruption risk. Those companies that keep training "fresh" and relevant to employees do it so as to derive the maximum possible benefit from what is a time and resource intensive exercise. Companies with good practice make use of real past examples and create hypothetical scenarios to bring to life real issues that employees have or could face in the field.

### FINDINGS

Overall, training is an area where companies publicly reported little on what they did in detail. Forty-three companies stated that they provided training that covered the Code of Ethics but only 20 companies reported that this explicitly covered anti-corruption. Only seven companies reported that they provided customised training to employees or members of the Board most at-risk of corruption.

In our discussions with companies, a major choice they cite is finding the suitable balance between face-to-face and online anti-corruption training. They explain that face-to-face training is more effective at imparting knowledge as it allows employees to discuss questions and issues in-depth, but it is costly.

One way that companies have chosen to prioritise the use of face-to-face training is to provide customised anti-corruption training to employees in the most sensitive and risky situations (e.g. staff working in sales and procurement or in countries that are perceived to have a high level of corruption). The remaining staff, deemed to be at less risk for engaging in corruption receive online training and have resources to ask follow-up questions or voice concerns.

Another choice companies face is between developing customised training or buying "off the shelf" training from an external training provider. Given that every company has different policies and a different set of corruption risks, the better companies opt for customising at least some part of "off the shelf" training, with the aim of providing the best training possible to their employees.

Though customised training is more expensive, it is an essential part of imparting knowledge to employees and mitigating the chance for corruption violation. Many companies choose to work with an expert external training company to provide the company training. These external providers allow the opportunity to customise the training beyond their standard packages. Other companies, such as SAIC, choose to develop their own in-house training so that they can select scenarios based on actual employee experiences. These companies believe this makes the training more relevant to employees.

Finally, some companies use third parties to conduct employee surveys. These surveys aim to get the temperature of the success of the trainings and the attitude of the employees about the company. For instance, these surveys can ask employees whether they feel comfortable raising concerns or potential corruption cases with the appropriate people, and why. If they do not, then the company is in a position to understand and develop an action plan to remedy this concern.

Whilst costly, companies that use employee surveys believe that they help determine whether they are using their training resources most constructively. Those companies that use employee surveys tend to conduct them every couple of years.

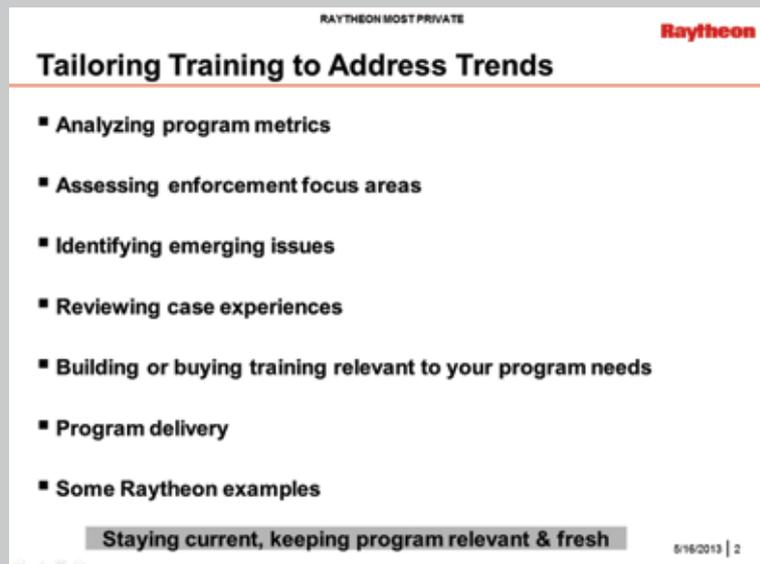
## GOOD PRACTICE

Many companies, such as Meggitt, have companion ethics booklets that employees can consult after their training as a resource when they have questions that come up on a case-by-case basis. These booklets contain scenarios based on typical employee questions covering topics ranging from conflicts of interest to facilitation payments and charitable contributions.

Raytheon provides an example of good practice for anti-corruption training programmes (see image below). Some of Raytheon's training is provided to all employees through video vignettes based on actual cases, which Raytheon argues is "powerful and relevant for employees" (DII Best Practice Forum: Tailoring Training to Address Trends 2011).

The "EthicSpace" series provides short video clips that tell stories about ethical concerns faced by their employees. Episodes are delivered to employees via email each quarter and cover topics such as use of social media, labour charging, competitive intelligence, and reporting concerns. Raytheon conducts follow-up surveys and small focus groups to improve the effectiveness of the training. In addition to its in-person training, Raytheon also provides desktop resources for employees to follow-up with any questions or concerns that they may have. To illustrate, they have a "decision-making model" which asks a series of questions (e.g. Does the action comply with the law? Does it feel comfortable? Is it the "right" thing to do? Could it be shared publicly?). This is in an effort to help guide employees when they are making a decision.

### Company example: Raytheon's 'Tailoring Training...' PPT



Source: T Schultz, *Tailoring training to address trends*, Raytheon presentation at DII Best Practices Forum, 2011.

Full-size versions of these examples can be downloaded at <http://companies.defenceindex.org/good-practice>

## Training is an area of poor public disclosure.

Fujitsu also provides guidance to employees on “red flags” or signs that they should be aware of before taking a certain action.<sup>2</sup> For example, a red flag for an improper payment could be being asked to make a political or charitable contribution or use a particular subcontractor. If this occurs, Fujitsu advises employees to use “extra caution” and raise questions with the CEO of the business unit.

Some companies provide targeted training to employees most at risk and use internal tools to track when employees undergo training and the type of training they should receive (see box opposite). All employees receive general anti-corruption training, while employees deemed most at risk (e.g. sales or government contract employees) receive follow-up targeted training, on subjects such as procurement integrity.

Northrop Grumman uses a training matrix that “outlines ethics and compliance training requirements and provides links to subject experts and available on-line materials” for employees to receive anti-corruption training. Northrop Grumman provides training through a variety of different means including “classroom instruction, workplace meeting materials, computer-based training, video, and self-paced learning guides.”

An unusual good practice is that some companies provided anti-corruption training to their Boards. Given the recent corruption scandals at the Board level and recent FCPA Guidance, it would seem prudent to provide anti-corruption training to these members. We were surprised to see that many companies struggled to provide any evidence—internal or public—of such training being provided to Board members on a regular basis. QinetiQ Group provides in-person general and advanced anti-corruption training to all Board members.

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<sup>2</sup> Fujitsu, *Fujitsu way code of conduct*, retrieved May 2013, <http://www.fujitsu.com/uk/Images/fujitsu-way-code-of-conduct.pdf>

## Company example: Compliance training assignment matrix sample

Sample/Template of a Compliance Training Assignment Matrix

No	Subject / Class Name(s)	Functions	Employee Population / Status	Business Areas	YR 1	YR2	YR 3	New Hire
1	<b>Insider Trading</b> "Insider Trading"	All	Global / All	All		2		1
2	<b>Trade Control</b> "Trade Compliance – Business"	All Admin, CDV, Eng, Finance, GovRel, HR, IS, LGL, MKT, OP, PM, SAL, TEC (by defined job families)	Global /Designate job families within Job functions	All	1			
	<b>Trade Control</b> "Trade Compliance - Development"	ADM, ENG, FIN IS, MKT, OPS, PM, TEC	Global /Designate job families within Job functions		1			1
	<b>Trade Control</b> "SAI – Export Compliance"	ADM, CTR, ENG FIN, HCL, HR, IS, LGL, MKT, OPS, SEC, SVC, TEC	Global /Designate job families within Job functions	All	1			1
3	<b>AntiTrust</b> "Global Competition Principles & Practices" and "Competition Law and Distribution and Sales"	Accounting, Procurement, Finance, Tax, Legal, Healthcare, Marketing, BD, PM, Sales, Contracts, Subcontracts, Supply Chain	Global / All	All			3	
4	<b>Anti-Bribery</b> "Ethical Leadership Anti-Corruption"	All	Global /All	AAA	1			1
		All	Global /All except NE Mfg	All Except AAA	1			1
5	<b>Trade Control</b> "Trade Compliance – International"	All	International Only/All	All	1			1
6	<b>Kickbacks and Gratuities</b> "Kickbacks and Gifts"	Accounting, Procurement, Finance, Tax, Legal, Healthcare, Marketing, BD, PM, Sales, Contracts, Subcontracts, Supply Chain	Domestic / Exempt	Govt (BBB, CCC, AAA/GCS, DDD, EEE) & FFF, GGG		2		
7	<b>Procurement Integrity</b> "Procurement Integrity"	Procurement, Subcontracts, Finance, Eng, Legal, Marketing, BD, PM, Sales, Contracts, HR	Domestic / Mgr and Above	Govt (BBB, CCC, AAA/III, DDD, EEE) & FFF, GGG, HHH		2		
8	<b>Truth in Negotiations</b> "TINA Better Never than Late" and "Truth in Negotiations Act"	Procurement, Subcontracts, Finance, Eng, Legal, Marketing, BD, PM, Sales, Contracts	Domestic / Exempt	Govt (BBB, CCC, AAA/III, EEE) & FFF, GGG, BCD			3	
9	<b>Product Substitution</b> "Product Substitution"	Operations, Procurement, Quality, Services, Eng	Domestic /Exempt NE Eng & Ops only	Govt (BBB, CCC, AAA/III, DDD, EEE) & FFF, GGG, BCD		2		
10	<b>Harassment</b> "Supervisor & Manager Sexual Harassment Awareness—Multi-State Edition"	All	Domestic / Supvr & Above	All	1			1

Source: Company example provided to TI-DSP.

Full-size versions of these examples can be downloaded at <http://companies.defenceindex.org/good-practice>

# Training is a key component in mitigating the company's exposure to corruption risk.

The boxes below show companies which received a 2 (the highest score) on the following three questions in the CI:

- different levels of anti-corruption training for employees in sensitive positions
- targeted anti-corruption training for senior managers and members of the Board
- training explicitly covering anti-corruption

## BASED ON PUBLIC INFORMATION

FLUOR CORPORATION  
FUJITSU  
GOODRICH CORPORATION  
JACOBS ENGINEERING  
NORTHROP GRUMMAN CORPORATION  
THALES S.A.  
THYSSENKRUPP AG

## BASED ON PUBLIC + INTERNAL INFORMATION

BECHTEL CORPORATION  
BOEING  
CHEMRING GROUP  
CSC  
CUBIC CORPORATION  
DAY & ZIMMERMANN  
DIEHL STIFTUNG & CO. KG  
DYNCORP INTERNATIONAL  
FLUOR CORPORATION  
FUJITSU  
HARRIS CORPORATION  
HEWLETT-PACKARD COMPANY  
HONEYWELL INTERNATIONAL  
JACOBS ENGINEERING  
KBR INC  
KONGSBERG GRUPPEN ASA  
MTU AERO ENGINES GMBH  
QINETIQ GROUP  
RAYTHEON COMPANY  
ROCKWELL COLLINS  
SERCO GROUP  
THYSSENKRUPP AG  
TOGNUM

## BASED ON PUBLIC INFORMATION

BAE SYSTEMS  
FINMECCANICA S.P.A.  
FUJITSU  
HINDUSTAN AERONAUTICS  
MEGGITT  
SAPURA GROUP  
THYSSENKRUPP AG

Training of employees at risk

Training to

**BASED ON PUBLIC +  
INTERNAL INFORMATION**

BAE SYSTEMS  
 BECHTEL CORPORATION  
 BOEING  
 CSC  
 DAY & ZIMMERMANN  
 DYNCORP INTERNATIONAL  
 FLUOR CORPORATION  
 FUJITSU  
 HEWLETT-PACKARD COMPANY  
 HONEYWELL INTERNATIONAL  
 INDRA SISTEMAS S.A.  
 KBR INC  
 KONGSBERG GRUPPEN ASA  
 LOCKHEED MARTIN  
 MEGGITT  
 MTU AERO ENGINES GMBH  
 NEC CORPORATION  
 QINETIQ GROUP  
 RAYTHEON COMPANY  
 SERCO GROUP  
 THYSSENKRUPP AG

**BASED ON PUBLIC  
INFORMATION**

ACCENTURE  
 BAE SYSTEMS  
 COBHAM  
 FINMECCANICA S.P.A.  
 FLUOR CORPORATION  
 FUJITSU  
 GKN  
 GOODRICH CORPORATION  
 HEWLETT-PACKARD COMPANY  
 HINDUSTAN AERONAUTICS  
 JACOBS ENGINEERING  
 KONGSBERG GRUPPEN ASA  
 LOCKHEED MARTIN  
 MEGGITT  
 NORTHROP GRUMMAN  
 CORPORATION  
 RAYTHEON COMPANY  
 SAFRAN S.A.  
 SERCO GROUP  
 THALES S.A.  
 THYSSENKRUPP AG

**BASED ON PUBLIC +  
INTERNAL INFORMATION**

BAE SYSTEMS  
 BECHTEL CORPORATION  
 BOEING  
 CHEMRING GROUP  
 CSC  
 CUBIC CORPORATION  
 DAY & ZIMMERMANN  
 DIEHL STIFTUNG & CO. KG  
 DYNCORP INTERNATIONAL  
 FLIR SYSTEMS  
 FLUOR CORPORATION  
 FUJITSU  
 GENERAL ELECTRIC AVIATION  
 HARRIS CORPORATION  
 HEWLETT-PACKARD COMPANY  
 HONEYWELL INTERNATIONAL  
 JACOBS ENGINEERING  
 KBR INC.  
 KONGSBERG GRUPPEN ASA  
 LOCKHEED MARTIN  
 MEGGITT  
 MITSUBISHI HEAVY INDUSTRIES  
 MTU AERO ENGINES GMBH  
 NEC CORPORATION  
 QINETIQ GROUP  
 RAYTHEON COMPANY  
 ROCKWELL COLLINS  
 SAIC  
 SERCO GROUP  
 THYSSENKRUPP AG  
 TOGNUM

## 7. WHISTLE-BLOWING

Whistle-blowing is an extremely important part of the proper functioning of any anti-corruption programme. There are many articles on how often it is whistle-blowing that identifies problems, rather than internal audit or monitoring. What distinguishes leading companies is:

1. their approach in encouraging employees to 'speak up' and raise matters before the offence takes place;
2. empowering employees to report potential suspicious activities;
3. how they follow-up through investigations once these have been reported.

Measuring the quality of a whistle-blowing programme is very difficult. While procedures are important, it is really about effectiveness of these procedures: Precisely, whether there are advice lines where employees could seek further guidance. If employees feel comfortable reporting, how does the company follow up on the reports, and how the company protects the employee from potential retaliation? The question therefore is what criteria could be used to differentiate quality whistle-blowing programmes from those that are merely good on paper? How do companies assure themselves that their systems are working?

### FINDINGS

This is an area where we had much discussion with companies. The average band score for all 129 defence companies on whistle-blowing (covered in personnel & helplines pillar) was Band C, which meant that on average we saw moderate evidence of whistle-blowing hotlines in place. But many companies and investors asserted that this relatively encouraging picture overstates the status of the industry. They said that our criteria for scoring on personnel and whistle-blowing were less stringent compared with other areas, since it only assessed the existence of hotlines. After further review, we agree with this assessment.

In our follow-up discussions with companies (and investors), there was widespread

recognition that a strong whistle-blowing programme is an asset. Some companies and investors expressed concern that whistle-blowing actually undermines the strength of the company, because it raises threats to the company's reputation and financial bottom line. But most companies argued the opposite: good companies want a strong whistle-blowing programme since they want to learn of any potential wrongdoing before it leads to an even bigger hit to reputation and finances down the line.

To have a strong whistle-blowing programme, companies should encourage their employees to raise questions when they need more guidance or report potential corrupt activities.

It is hugely in a company's interest for employees to feel comfortable asking tough questions or reporting any potential instances of corrupt activities. This will allow them to quickly take action to curtail or prevent the activity from either occurring in the first place or getting worse in the future.

Whistle-blowing also helps point out weaknesses in the system that were not identified by risk assessments. If an employee does not feel comfortable asking questions or reporting any suspicious activity through the appropriate channels, the company exposes itself to the risk that employees report their concerns to newspapers, citing the fact that the company chose to ignore them.

As many companies explained to us, one of their biggest challenges with employees is to convince them that if they do report potential corruption, the company will take action and the whistle-blower will be protected from retaliation.

### GOOD PRACTICE

Some of the companies with the most clear good practice in whistle-blowing are Accenture, BAE Systems, Daewoo Shipbuilding & Marine Engineering (DSME), Hewlett Packard, Lockheed Martin, QinetiQ Group, SAIC, Rockwell Collins, and ThyssenKrupp.

## Leading companies encourage employees to “speak up” before any offence takes place.

In their public documents, both QinetiQ Group and Rockwell Collins provide multiple points of contact to whom employees can report misconduct and follow up for further clarifications on scenarios that might not be clear. These points of contact ranged from managers and the legal department to dedicated ethics officers and human resources.

Better practice constituted those companies which had additional points of contact who are independent and separate from direct senior management, as the latter can potentially be the person(s) participating in the corruption.

Alternatively, DSME publicly states the financial rewards it will pay whistle-blowers who report credible instances of corruption (see box below).

Monitoring ethics hotlines often falls to the ethics and compliance department. Some companies outsource their whistle-blowing systems to independent providers. Other companies choose to set up a firewall between their reporting/assistance personnel and their investigation/internal audit personnel.

For instance, ThyssenKrupp believe that employees are less likely to raise issues with departments that are also tasked with investigating and disciplining. They task one group as “consultants” who are responsible with providing guidance, anti-corruption training, and hotline monitoring. The other group investigates and reports any misconduct. The companies recognise these departments must work together to mitigate risk. As a result, they meet at least once a quarter to discuss findings and raise issues as needed.

## Company example: DSME’s Whistle-blower protection

### Applicable Activities

- Accepting inappropriate bribes, entertainment, or favors from stakeholders
- Taking advantage of his/her job position to gain profit or causing damage to the company
- Interfering with other employee’s work to benefit oneself or others
- Disclosing company’s confidential information and customer information without permission
- Collusion among stakeholders such as bid rigging to close a deal
- Retaliation against whistle-blowers by exposing the identity or unfair treatments
- Other activities in violation of code of ethics, employee code of conduct, and laws
- Breach of mutual growth agreements and fair transaction agreements with subcontractors
  - Report corrupt or unfair business activities of subcontractors

### How to File a Report

- Although anonymous reporting is allowed under certain circumstances, using a real name is recommended.
- You can check the status of your report using the report number provided at the time of submission.
- If a report is submitted anonymously, you can check the status of your report. But you will not receive an e-mail/SMS notification or any reward.
- Please note that you must have the report number to check the status of your report if it is filed anonymously.

### Whistle-blower Rewards

- Reward up to 50 million won for reporting acceptance of a bribe, entertainment, or favors
- Reward up to 500 million won for a report resulted in increasing profit or reducing loss to the company.
- Please refer to [Whistle-blowing System](#) for more information on rewards and calculation methods.

### Protection of Whistle-blower

# Next steps

For the first time, the CI provides government defence procurement chiefs with a list of questions they can use to compare in some detail the business conduct practices of potential defence contract bidders. By reducing the list down to just seven demanding questions, and adding model answers, this represents a useful tool for defence procurement chiefs to use in identifying those bidding companies that have the best practice in ethics and anti-corruption.

A draft of these questions and model answers, based on the good practice cited in this report, is available online at <http://companies.defenceindex.org/good-practice>.

## ACTIONS FOR GOVERNMENT DEFENCE PROCUREMENT CHIEFS

1. **Make this good practice report available to your current and prospective defence contractors. Require that the contractors see if they can incorporate these practices into their own anti-corruption policies and processes.**
2. **Consider using these seven questions—and related model answers—as a requirement for bidders to respond to as part of their pre-qualification.**
3. **Give consideration to applying the Defence Companies Anti-Corruption Index (CI) methodology to all their national defence contractors.**

We hope that all defence companies will use this document, in conjunction with Part II of the report which has extracted 104 actual good practice examples, to review their own systems and identify areas of improvement.

We encourage companies to discuss these areas, and to share their own additional good practices and approaches. We also welcome feedback from companies so that we can further refine and improve this document in the spirit of raising company standards.

Companies can also significantly advance sector-wide improvement efforts. A good example is the recently formed defence industry initiative 'IFBEC'—the International Forum on Business Ethical Conduct for the Aerospace and Defence Industry. This is a new forum, committed to promoting the development of global, industry-wide ethical standards for defence and aerospace companies. We recommend that all defence companies join it, and that defence ministries encourage such participation.

#### ACTIONS FOR COMPANIES

We call on all defence companies to contribute actively to raising standards in defence through good practice in the following seven measures:

1. **Reporting the whole of your ethics and anti-corruption programme publicly.**
2. **Encouraging your Board Chair, the rest of the Board, the CEO and senior executives to speak up strongly on your zero tolerance of corruption in the company and the sector.**
3. **Improving how your Board reviews the effectiveness of the overall anti-corruption programme.**
4. **Strengthening your corruption risk assessment process, and testing it against the good practice examples in the report.**
5. **Ensuring that your company has robust processes for flowing down your ethics and anti-corruption programme to all third-party representatives including partners, sub-contractors and agents.**
6. **Reviewing and improving your training practices, especially for staff in exposed positions like sales and government relations.**
7. **Improving your processes for following up whistle-blowing complaints—the experience of many is that they work well on paper but not in practice. Encouraging staff to raise matters before the offence takes place.**

# Raising the bar

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