

# Creating and Maintaining an Effective Ethics and Business Conduct Program



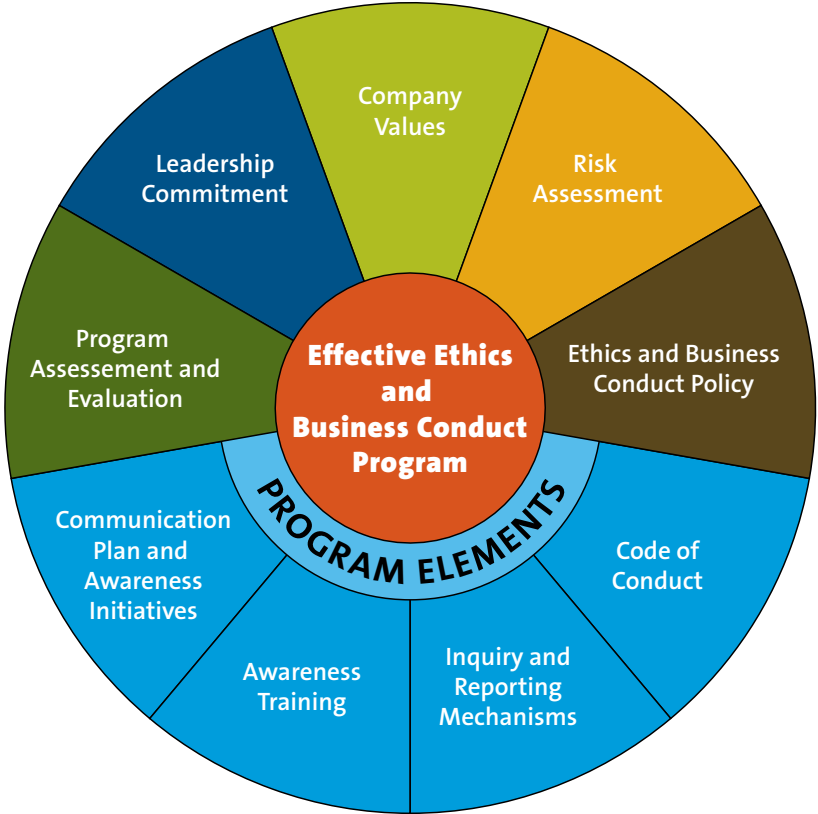
# About the DII

The Defense Industry Initiative (DII) is an organization comprised of companies that provide systems, professional services, weapons, technology, supplies and construction to the U.S. Department of Defense. DII Signatory Companies are united in their commitment to adopt and implement the highest standards of business ethics and principles of conduct that acknowledge and address their organizational responsibilities under federal procurement policy and law. The DII seeks to promote and nurture a culture of ethical conduct within every company in the defense industry.

## **Signatories to the Defense Industry Initiative have agreed to adopt the following principles:**

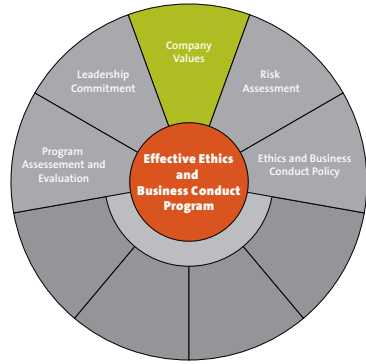
- To work together by sharing best practices for creating an organizational culture in which ethics and compliance are paramount
- In all activities, to seek to advance the objective of maintaining the highest ethical standards and encouraging employees to engage in ethical conduct in the pursuit of all business affairs

A list of Web sites generally related to DII Signatory Companies, business ethics, government ethics and professional ethics associations is available on the DII homepage, [dii.org](http://dii.org).



# Company Values

Your company values will be the foundation of your ethics and business conduct program. The best way to determine your values is to talk with your company's leadership and employees. Some companies find it most effective to conduct focus groups, while others have used written questionnaires or asked employees for suggestions.



## The following questions can be used to help your employees and leaders identify company values:

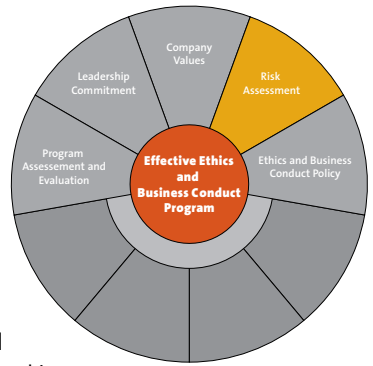
- What do we stand for?
- What is most important to us?
- What do we believe in?
- What is our vision?
- How do we want to be perceived?
- What are our personal values?
- What are our professional values?
- What was the philosophy of the founders/owners of our company?
- What do we say about our company in ads or other marketing materials?
- Who are the stakeholders of our company and what is important to them (for instance, our customers, suppliers and employees, their families, our communities, and our shareholders)?

## Examples of company values may include:

- |                       |                   |
|-----------------------|-------------------|
| Honesty               | Leadership        |
| Integrity             | Openness          |
| Respect               | Courage           |
| Trust                 | Safety            |
| Good Citizenship      | Accountability    |
| Responsibility        | Cooperation       |
| Customer Satisfaction | Teaming           |
| Quality               | Loyalty           |
| People                | Excellence        |
| Fairness              | Creativity        |
| Commitment            | Dignity           |
| Diversity             | Conscientiousness |

# Risk Assessment

Building upon a foundation of ethics, many companies choose to include certain areas of compliance training and awareness in their ethics and business conduct programs. First, your company should conduct a comprehensive risk assessment by looking closely at your particular business to determine areas of business and legal risk. Identified risk areas may call for training for all employees or for select groups of employees in specific risk areas.



## Some risk areas may include:

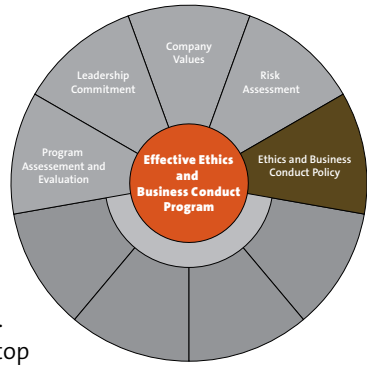
- |                                |                               |
|--------------------------------|-------------------------------|
| Anti-Kickback/Anti-Bribery     | Government Contracting issues |
| Antitrust                      | Procurement Integrity/TINA    |
| Business Courtesies/Gratuities | Proprietary Information       |
| Company Assets                 | Safety Rules/OSHA             |
| Conflicts of Interest          | Teaming                       |
| Cost Accounting                | Time charging                 |
| Environmental                  | Non-harassment                |
| Export Control                 | Non-Discrimination/EEO/       |
| Foreign Corrupt Practices Act  | Affirmative Action            |

Your compliance program should be distinguished from your ethics and business conduct program, as a compliance program is a rule-based system designed to mitigate risk to the business enterprise and an ethics and business conduct program is a values-based system designed to help employees guide their conduct in the absence of clear rules (the gray areas).

Compliance programs establish minimum acceptable conduct, whereas strong ethics and business conduct programs are the foundation upon which compliance programs and legal best practices are built. Compliance rules tend to cluster in discrete subject areas, and some areas may only concern a specific, targeted group of employees (e.g. export control issues, TINA, etc.). Your compliance program may be integrated into your ethics and business conduct program, resulting in a cohesive whole. However, it is important to distinguish compliance, which is rules-based, from ethics, which is values-based.

# Ethics and Business Conduct Policy

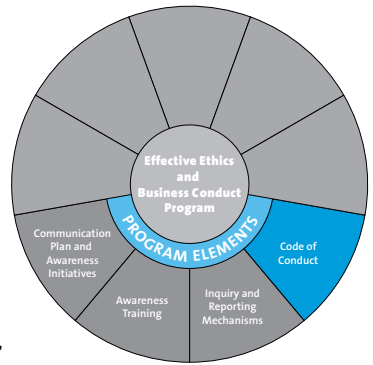
Your company's policies and procedures (and other communication media) should include a written policy on ethics and business conduct. The policy should be signed by your company's top official. This formalizes your company's commitment to the highest ethical conduct in all aspects of your business.



Generally, an ethics and business conduct policy includes a general statement related the commitment of the Board of Directors, management and employees to ethical behavior. Additionally, the ethics policy often sets forth the organizational structure of the ethics and business conduct program and the functional reporting to a high-level member of management. The policy should also cover the establishment of an Ethics and Business Conduct Steering Committee comprised of senior management (functions and operations). This committee should be responsible to oversee the activities of the ethics and business conduct and compliance programs, and receive briefings on telephone line activities and the ethical culture of the company. The ethics and business conduct policy should also provide for the company code of conduct, the institution of an inquiry and reporting mechanism and tracking system, periodic ethics and compliance training, mechanisms to collect and report employee feedback, and periodic program audits and assessments.

# Code of Conduct

The purpose of your company's code of conduct is to set forth your company values and important business conduct information for your employees. It is important that your code is a straightforward, brief, understandable, and useful tool for your employees. Many companies choose a relatively general employee code of conduct or handbook that provides brief descriptions of various company policies, with references to the more expansive policies for more detailed information on topics relevant to their specific work situations or issues.



## Items you may want to include in your company code of conduct:

- A letter from the Chairman/Executive Office
- Statement of company values (if you selected one-word values, you may choose to add a phrase or sentence to expand upon and explain each value)
- Instructions to ask a question or report a concern related to ethics
- Your company's policies on confidentiality, non-retaliation and approach to investigation of employee concerns
- Other resources employees may contact for advice on specific topics (such as employee benefits, legal problems, contract issues or safety concerns)
- Your company's telephone line for asking questions or reporting concerns
- A list of questions to consider when approaching an ethical dilemma
- Answers to frequently asked questions

Many DII Signatory Companies have posted their codes of conduct on their Web sites. We encourage you to visit the DII home page, [dii.org](http://dii.org), to locate DII Signatory Companies' Web sites so you may review their codes and contact them if you have questions.

While you can learn a great deal from other companies' codes of conduct and statements of values, you are encouraged to develop your code of conduct internally so it reflects your company's unique culture, history and workforce.

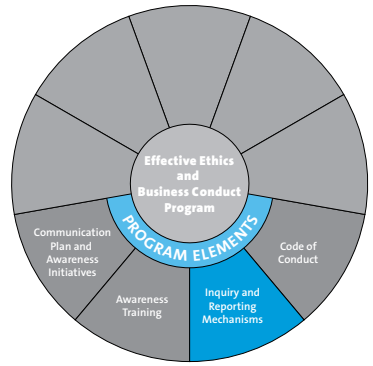
**Some companies' codes of conduct may include certain policies that pertain to their high risk compliance areas. Examples of these areas include:**

- Mischarging and timecharging
- Company confidential information
- Competitor information
- Conflicts of interest
- Discrimination and harassment
- Electronic communications
- Environmental protection
- Export issues
- Foreign Corrupt Practices Act
- Hiring former government employees
- Offering gifts, gratuities and entertainment
- Accepting business courtesies and kickbacks
- Insider information
- Political contributions and activities
- Privacy
- Product quality and product safety
- Protection of company assets
- Security
- Use of company assets
- Workplace safety

You may also refer to the Risk Assessment section for examples of high risk areas.

# Inquiry and Reporting Mechanisms

It is important that your ethics and business conduct program includes a place for your employees, suppliers, customers and others who do business with your company to ask questions or raise areas of concern. Having a telephone line (preferably toll-free) or a person to contact goes a long way, but be aware that many people may hesitate to come forward due to fear of retaliation or retribution in the workplace.



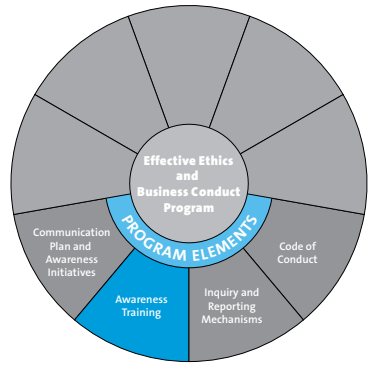
Your telephone line should be answered by a live person and not an answering machine, except after normal business hours. Many companies also provide a method for anonymous email contact. Concerns that are raised should be promptly investigated by your designated ethics advisor or forwarded to the appropriate company department or personnel for resolution. When possible, provide feedback to the contact at the conclusion of the investigation.

Many DII Signatory Companies assign a specific name to their telephone line or email box (for instance, Helpline, Ethics Line, Open Line or Integrity Line) to communicate that it serves as more than a “hotline” to report wrongdoing, but also as a tool for employees to ask questions or seek guidance. Encourage your employees to ask when in doubt.

Once your telephone line has been established, you need to publicize the number and email address in your employee directory, place it on posters, and include it in the company newsletter and other employee communications. It is also important to establish a system for tracking and reporting contacts that are made to your telephone line. The Ethics and Compliance Officers Association has made software for such a system available to its members, or you may contact DII Signatory Companies to discuss their tracking and reporting systems.

# Awareness Training

In addition to publishing a code of conduct, it is necessary to continue to communicate your company's commitment to ethics to your employees. Employee awareness can be achieved through something as formal as one hour of live ethics training each year or through a variety of ethics awareness initiatives that can be presented to employees periodically on a more informal basis (such as incorporating ethics discussions into regular staff meetings, safety meetings or employee forums).

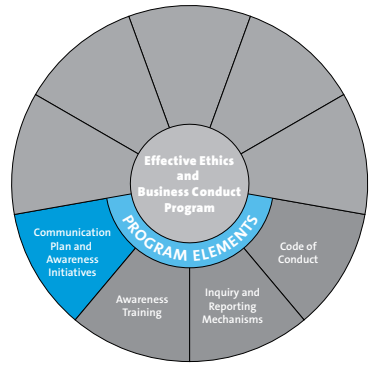


One effective method of training is top-down, cascade training that begins with the company's president or CEO training his or her staff. The training is then cascaded down through the entire company, with each leader training his or her direct reports so each employee hears the company's ethics message directly from his or her immediate supervisor.

Other examples of ethics training materials include videos, CD-ROMs, board games and scenario-based training. Additional ethics training resources are available to DII Signatory Companies at the DII Library.

# Communication Plan and Awareness Initiatives

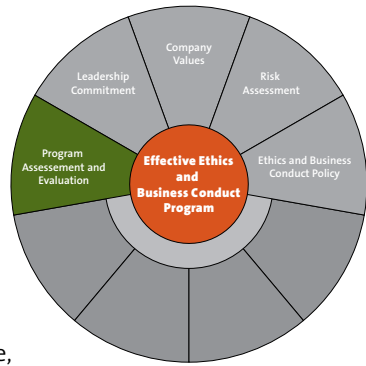
Developing a comprehensive communication plan for your ethics and business conduct program allows you to manage the task of communicating your program's elements to your employees. A communication plan ensures that you are able to engage all audiences with specific messages using a variety of media.



Communication of your company's commitment to ethical conduct should include consistent messages delivered in engaging and diverse manners (such as email, posters, company newsletters, company Intranet and other existing company communications). It is important to use multiple methods to ensure your message is effectively and efficiently communicated to employees, suppliers, customers and other stakeholders.

Leaders play an important role in the communication and awareness of your company's ethical standards. All levels of leadership in your company should use every available opportunity to verbalize a personal commitment to the company's ethical standards. Opportunities to incorporate references to ethics may include formal speeches or presentations, as well as one-on-one conversations that take place in the workplace or on the shop floor. Other effective forums for ethical discussions may be safety meetings, staff meetings, stand-up meetings, marketing strategy sessions or program reviews.

# Program Assessment and Evaluation



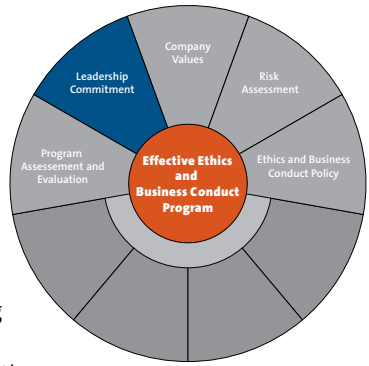
Part of maintaining an effective Ethics and Business Conduct Program is conducting regular program assessments and evaluations. In addition to your company's values and culture, there are various program elements to be measured – for instance, your company's code of conduct and related policies, inquiry and reporting mechanisms, training and communication, and leadership actions. The design, implementation and impact of these important program elements and activities should be evaluated.

Many companies have used annual employee surveys (separate from more general Human Resources surveys) and focus groups to measure the culture of their companies and spotlight areas for improvement in their programs. Additionally, evaluating the data gathered from your reporting mechanisms – the frequency, nature and resulting actions – can shed light into the effectiveness of your program. Reporting on metrics should be kept simple and focused in order to lead to effectiveness.

Internal and external audits of your program can help your company avoid noncompliance and should be conducted regularly. This may be particularly useful when there is a new business venture, downsizing or personnel changes have taken place, or complacency has become evident. It is important to ensure internal controls are kept up to date and effective, and that corrective action is taken when misconduct or potential for misconduct is identified.

# Leadership Commitment

The visible commitment of your company's leadership at all levels is imperative to the success of your program. Leaders set the tone and culture of an organization, including its attitude about ethics. It is imperative that employees see that leaders are committed to the highest ethical standards. Much has been said about "tone at the top." Research has shown that tone at the top does make a difference and that employees often define "top" as their immediate supervisors or managers. Further, studies have shown that employees are more likely to report an ethical concern to their supervisor or another manager than to a telephone line or another reporting mechanism.



It is important for a leader to understand how his or her company's ethics program works, and how his or her role as a leader fits into the program and contributes to building and maintaining an ethical culture

## **Leaders in your organization should be responsible to:**

- Lead by example
- Ensure that employees understand the company's ethics standards
- Create a culture that encourages employees to comply with company policies and voice questions and concerns
- Respond appropriately and immediately to concerns that are raised
- Ensure that employees receive a copy of the code of conduct
- Ensure that employees complete training and certifications as required

The engagement of middle management is just as important as support from your senior leadership. Messages related to your organization's ethics standards must remain consistent at all levels of leadership and from all parts of your company. Messages reinforcing your company leadership's commitment to ethics should be included in ethics training, your code of conduct, staff meetings, posters, new employee orientation and other communications. Many messages are communicated to your employees during the work day. It is important for leaders to use every opportunity to communicate their personal commitment to ethical conduct. Ultimately, employees will do what they perceive their leaders and managers want them to do.

All U.S. companies that contract with the Department of Defense are eligible to join the DII. Membership with the DII has many benefits, including the opportunity to network and share best practices with other DII Signatory Companies. Additionally, members are given access to an extensive library of ethics and compliance program and training materials from other DII Signatory Companies and are invited to participate in DII activities such as the annual DII Best Practices Forum and seminars on key compliance issues.

## How to join the DII

Your Company Chief Executive can begin the process by writing a memo to the DII Coordinator that designates a principal DII representative and commits your company to:

- Adopt and practice the six DII principles of business ethics and conduct
- Participate in the annual DII Best Practices Forum and other programs
- Respond to an annual questionnaire

There is an annual assessment for DII membership to support programs and activities. This assessment is determined by total annual company revenue. The first year assessment for new Signatory Companies is prorated over the remainder of the fiscal year, which ends September 30.

For more information about the DII and how your company can join, visit the DII home page, [dii.org](http://dii.org).



