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On ethics: Steven Pegg

by Steven Pegg and Adam Turteltaub

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AT: I'm very eager to talk about both your career and Lockheed Martin's compliance program. Let's start with you. You came into this world not from an ethics background. You're an engineer by training and worked in program management and supply chain. How did that help you prepare you for the role?

SP: I agree this wasn't the most conventional route into an ethics role and, being totally honest, was not a role I would ever have imagined being in when I started my career as a flight test engineer at Boscombe Down all those years ago. While there was a logical progression from flight test into program management (PM) and supply chain management (SCM), my move to ethics was not planned. However, after 20 years of various PM and SCM roles, the decision was to either start another PM role or change career direction and get out of my comfort zone. An opportunity to move into an international ethics manager role came along at just the right time. The PM and SCM roles gave me a good knowledge of how the business operated and experience of real-world challenges and pressures that the ethics function was looking for at the time. This prior experience really helped prepare me for the ethics role in two ways: one, I was known by many of the employees and leaders I represented, and two, I had some credibility as I could relate to the very broad range of issues that came to me in the ethics role. Additionally, I was ready for a change and was keen to learn quickly from the excellent training I received on starting the new role—which totally reenergized me.

AT: Can you tell us about the training you received?

SP: Yes, indeed. On joining the ethics function, I received thorough investigation training, as well as training for using our in-house case management system. The investigation training is updated every year, is case study and scenario-based, and all ethics officers are required to take this. In addition, training included key policies, our ethics metrics requirements, and expectations for the role. All ethics officers receive multiple topic-specific training throughout the year and an annual test that must be passed. This was the most comprehensive training I have ever received in my career.

AT: From your experience in the business unit, what do you think ethics officers often don't get about businesspeople?

SP: If you haven't come from a business background, it might be hard to relate to the context of some of the queries ethics receives or even to some of the investigations we conduct in the business. It could be too easy for ethics to apply policies rigidly, whereas, in fact, many of the issues lie in the grey areas of policy. Every issue is unique, so ethics officers need to be able to relate specific facts to events and interpret policy accordingly. There

are instances where exception processes can be applied—depending on the circumstances of the issue and business situation ethics can advise on. Ethics is a resource to assist businesspeople, not a “policing” organization that may be perceived as always saying no.

AT: Is the cure walking a mile in their shoes, or is it something else?

SP: It certainly helps to have had prior business experience in terms of understanding the issues raised, but I believe the cure is to use that prior experience to guide and assist the business by providing accurate and timely advice focused on an in-depth knowledge of policies versus any opinions or judgments.

AT: We have grown to be aware of cultural differences globally. You live on the edge of that, handling ethics for non-US operations for a US-based company with, I would think, a very American focus. How great are the differences, and how can ethics officers help their organizations both respect and adapt to them?

SP: You are right that cultures and expectations vary globally, and you cannot learn about that solely by reading about it. Our ethics program began in the US back in 1995 but looks a lot different now as it has evolved into a global program. We also have part-time local national ethics representatives in many of our non-US locations. From a pure process perspective, the differences between US and non-US are not as great as you might think, and we deliberately do not have separate ethics programs. There are many common elements, such as our common case management system, Lockheed Martin values, code of conduct, and key policies. The differences are more subtle, but the key to success is the use of local national ethics officers and part-time ethics representatives in our non-US locations who understand local culture and can help by being part of the evolution of the ethics program. This includes having international representation on our teams when we update our code or develop new ethics training and scenarios to ensure they work internationally and that translations are accurate. We do, of course, need to adapt some processes and policies—such as investigation notification methods and timescales as well as rights of accompaniment due to local employment and privacy laws. One challenge is to mirror the US levels of speaking up and taking action to resolve concerns in our global locations. We have seen yearly increases in contacts from our non-US employees since we introduced local ethics officers into the business at major international sites. These local officers also visit smaller sites within their regions, thereby building relationships and trust to speak up instead of employees contacting the corporate US helpline. That trust is evidenced by a surprisingly low anonymous contact rate year over year.

AT: In the general public, there can be a great deal of skepticism when you say “defense contractor” and “ethics,” but the opposite is true. Ethics programs have been a part of the defense world longer than in most industries, and we owe things like codes of conduct and anonymous helplines to the defense industry. How does Lockheed Martin structure its ethics program?

SP: The main thing that struck me when I joined Lockheed Martin in 2001 was the real focus on values and integrity in all business dealings. To some degree, the defense industry was forced to be the first to establish ethics programs following the pervasive bribery and large government-funded program cost escalations prior to the establishment of the Foreign Corrupt Practices Act in 1977. CEOs from defense companies like ours were the first to be signatories to groups like the Defense Industries Initiative (DII) and the International Forum on Business Ethical Conduct (IFBEC), aimed at collectively raising the integrity of the sector.

Lockheed Martin’s ethics program is independent of the human resources (HR) and legal departments and has a centralized structure founded upon three values: “Do what’s right, respect others and perform with excellence.”^[1] Our Code of Conduct, as well as our award-winning, annual leader-led, scenario-based ethics awareness training, and our speaking up process are also based on our values. You won’t hear the term compliance mentioned much at Lockheed Martin, but it is implicit in our ethics and business conduct program,

with the latter being the compliance piece. Indeed, we do not have a chief compliance officer, but instead a senior vice president of ethics and enterprise assurance with independent reporting to the CEO and the board of directors. The ethics organization is led by the vice president of ethics and business conduct. All of our ethics officers provide guidance to employees and investigate misconduct; we have a very thorough fact-finding investigative process and annual training for all ethics officers, including obtaining feedback from all reporting parties and subjects on the quality of the investigation process. Employees and external parties can contact ethics to report concerns in a variety of ways, including phone, email, an ethics website, and walk-in to see an ethics officer. We also provide anonymous reporting. All of the ethics team—whether in the US or at non-US locations—are connected by a common case management system and many other tools and resources. Ethics collaborates with many other functions, such as legal, HR, and security. Lockheed Martin also has an active supplier engagement program and provides ethics and compliance training to all our third-party business development consultants who conduct business on our behalf.

AT: Where do ethics programs end and compliance programs begin? Or are they intertwined?

SP: In my view, they are very intertwined, with compliance being a subset of ethics. Ethics goes well beyond complying with policies or laws, and encapsulates our culture of expected behaviors and the way we want to conduct business and ourselves. While you can be compliant with laws and policies, it may not be the right thing to do. Ethics often deals with the grey areas of policies and laws. This is where ethical judgment comes into play. Lockheed Martin would rather walk away from business than conduct it when there is even a hint of impropriety. This is so important to maintain integrity and a sound reputation. Our values and related speak-up techniques are instilled in everyone doing business on our behalf, from induction to annual ethics training and all ethics engagements and communications.

AT: I want to spend some time discussing the *Integrity Minute* video series created by Lockheed Martin.^[2] The company is up to the 57th series of them, which says to me that this is a very popular program. What do you think makes it so popular within the company? Most organizations struggle to get people to watch one video, let alone the hundreds Lockheed Martin has produced—which, I hear, are eagerly awaited by the staff.

SP: You are right that the *Integrity Minute* series is eagerly awaited by many staff, and I think the attraction is that they are very topical, short, and episodic. They also have catchy titles: Series 56 is entitled “Is the Service Good Here?” With two or three series a year, each series usually features three episodes released over a three-week period, so you can either watch them as they come out or binge the whole series once completed. They are not mandatory to view, unlike the annual ethics awareness training and compliance training, and we maintain a back catalog on our ethics website so we can refer to them for use in training or team meetings on specific topics.

AT: One thing I noted is that they aren’t just someone facing a classic ethical dilemma. They’re not, “Should Bob do X or Y.” You take on issues like fitting into the culture of the organization. How does the team determine what will be the focus of each series?

SP: Yes, the *Integrity Minutes* are themed on one or a range of topics and are not solely for ethics and compliance. Some of the series covers topics like diversity and inclusion or safety, to name a couple of examples. Ethics is part of a wider enterprise assurance group at Lockheed Martin, which includes internal audit and enterprise risk and environmental safety, health and sustainability. In addition, ethics collaborates with other functions like HR, security, and legal. Any of these groups can suggest topics for the *Integrity Minute* series. Some focus on prevailing events, like political or social unrest, and others cover topics like considerations when taking on a second job or the challenges military veterans face when adapting to the business workplace. The *Integrity Minutes* are also award-winning. For example, series 56—covering workplace culture and specifically military veterans transitioning to a business environment—won a Gold American Business Award (Stevie). These awards

are judged by over 200 professionals worldwide.

AT: Third parties are a great source of risk these days, and the company has a supplier code of conduct. What's in it, and how was it developed?

SP: Like our wider ethics program, the supplier code of conduct has evolved over time and will continue to evolve to incorporate new legislation and topics. It expresses the expectations we hold for our suppliers and is included in all supplier purchase orders. It covers compliance topics, including anti-corruption, gifts, conflicts of interest, protecting sensitive information, human rights, environmental stewardship, and an expectation that our suppliers will share our core values. There are a lot of parallels between our supplier code and the DII supplier code—which we helped develop—hence why we also offer our suppliers access to the DII Toolkit via our ethics website.

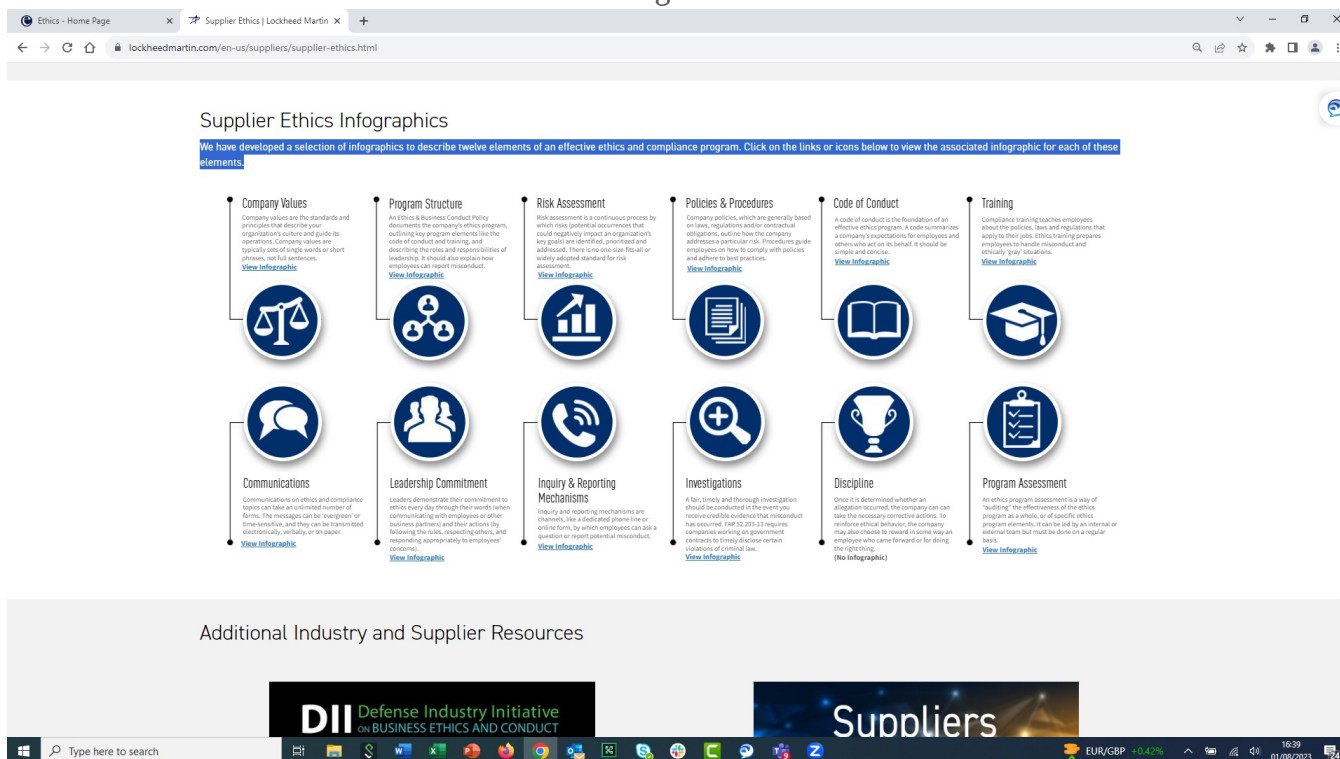
AT: What kind of pushback do you generally get, and how do you overcome it?

SP: There are sometimes concerns about confidentiality of the ethics process or retaliation following speaking up and that ethics is only there to investigate. Hence, a significant part of our role is to engage with our employees via site visits, training, and communications. We want to assure them that confidentiality is at the core of our program, that there is zero tolerance for retaliation, and that 90% of the contacts to ethics are actually for guidance on policy or process and do not require investigation.

AT: Notably, you also offer help to suppliers. What does that entail?

SP: We partner with our global supply chain organization to offer webinars and resources for suppliers to strengthen their ethics programs. Suppliers can also participate in group mentoring workshops we are rolling out this year. Resources include infographics describing the 12 elements of an effective ethics and compliance program per the diagram below (see Figure 1).

Figure 1



In addition, topic-specific supplier resources—such as information on counterfeit parts, conflict minerals, and many other topics—are also available to our suppliers via our supplier ethics webpage.¹³¹ All of this is designed to reduce the collective ethics and compliance risk across our supply chain.

AT:When it comes to ethics, one thing we tend to think is that we have it. What I mean is that we think we have a good sense of what is right and wrong. The reality, though, is that often we don't. Over time, the world sees things that have been okay, and then we realize we are no longer comfortable with them. That includes various forms of discrimination but also business practices such as bribery, which used to be par for the course. How do we get a better sense of the future and avoid the complacency that can lead to falling behind the ethical curve?

SP: I agree there is no room for complacency, which is why our ethics program is constantly evolving to take into account evolving global legislation and emerging worldwide events and topics such as the ethics of artificial intelligence. We can get some of this information from our own research; however, much also comes from engaging with ethics and compliance organizations like the DII, the Ethics & Compliance Initiative, the Association of Certified Fraud Examiners, and the Society of Corporate Compliance & Ethics, where emergent topics are covered at webinars and conferences and benchmark exercises are conducted with our own and other sectors to ensure we are not falling behind the ethical curve. I am fortunate that my organization is willing to adapt the ethics program to such developments to ensure we continue to have a value-adding ethics program.

AT: Thank you, Steven.

¹ Lockheed Martin, “Ethics,” accessed August 21, 2023, <https://www.lockheedmartin.com/en-us/who-we-are/ethics.html>.

² Lockheed Martin, “Integrity Minute,” accessed August 21, 2023, <https://www.lockheedmartin.com/en-us/who-we-are/ethics/integrity-minute.html>.

³ Lockheed Martin, “Why Ethics?” accessed August 21, 2023, <https://www.lockheedmartin.com/en-us/suppliers/supplier-ethics.html>.

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