

**Transparency International UK**

**Ethical Business Conduct in  
BAE Systems plc**

**Analysis of the  
Recommendations  
of the Woolf Committee**

**TI's 'Defence against Corruption' team**

**May 30, 2008**

## Introduction

The Woolf Committee recently published its conclusions on the way forward on Business Ethics at BAE Systems plc (BAES). Transparency International UK's defence team has reviewed these recommendations and we have also compared them with the detailed submission made by TI (UK) to the Woolf Committee in October 2007.<sup>1</sup>

The purpose of this review is to offer proposals to BAES and to the Ministry of Defence on ways that they might follow up the Woolf recommendations so as to have most effect. It is in the common interest of BAES, the MOD and the UK Government that they take the opportunity of the Woolf report to raise standards and help to address the UK's battered reputation in the field of addressing corruption.

## Conclusions and recommendations

TI has already broadly welcomed the findings of this review<sup>2</sup>. We are pleased to see that a substantial number of TI (UK)'s recommendations have been taken up and, if implemented fully by BAES, the Woolf Committee's proposals should lead to a significant raising of BAES' standards of business conduct.

We see the following recommendations as having the most potential for change:

- The company must adopt the principle of openness and transparency (Rec 2)
- Rigour in the evaluations around offsets (Rec 12)
- The banning of all facilitation payments (Rec 13)
- Rigorous application of the Compliance Programme through the supply chain and with partners (Rec 15)
- Insistence on a pro-active approach to the evaluation of allegations of bribery and transparency in their disclosure (Rec 18)
- Widespread training, particularly for senior BAES staff (Rec 20)
- Pro-active leadership role across the industry and with NGOs (Rec 21)
- Independent external audit within three years, including of the 'Al Salam' contract with Saudi Arabia, and regularly thereafter (Rec 23).

We make proposals in this report on ways BAES can respond to these and the other recommendations so as to strengthen the effectiveness of their implementation. Energetic leadership of these changes from the BAES Board is now the critical success factor. BAES has begun to make significant change, and this momentum now needs to be stepped up.

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<sup>1</sup> Available on the website, [www.transparency.org.uk](http://www.transparency.org.uk), and on the website of TI's Defence programme, [www.defenceagainstcorruption.org](http://www.defenceagainstcorruption.org)<sup>1</sup>.

<sup>2</sup> See Press Release of May 6 on the same websites

There are three areas that, in our view, the Committee did not address sufficiently that are critical to the credibility of the BAES position:

- There should have been a stronger statement requiring disclosure of advisers. To call only for a ‘general presumption’ of disclosure (Rec 11) is much weaker than we believe is necessary, and detracts from what was otherwise a good set of recommendations on advisers. We suggest BAES goes further than the Woolf Recommendation and responds with a clear readiness to disclose on all advisers.
- There is a disconnect between the reliance placed by the Woolf Committee on the Non-Executive Directors to oversee the company's compliance, contrasted with their failure to have undertaken the role hitherto. All the recommendations of recent years have emphasised the vital role NEDs must play in corporate governance, and the Woolf Committee notes this. But it is impossible to expect the current NEDs to perform this role on their record. Therefore, BAES should either replace the current NEDs in order to appoint NEDs that inspire objective confidence on the basis of proven track record, or require all the NEDs to undergo ongoing training in the multiple requirements of integrity/ compliance and associated leadership behaviours.
- The Woolf Committee was well aware that the ‘elephants in the room’ are the Saudi contracts and the ongoing investigations. Whilst we understand the Committee’s reasons for not following up further with either Al Yamamah or the other ongoing investigations, we do believe that the integrity and transparency of the new ‘Al Salam’ contract and its related industrialisation contracts is at least as critical. The Committee has enquired to some degree about this, for example on the pricing of the new contract in comparison with purchases made by the RAF. However, this is woefully short of what is required for restoring confidence in the business conduct of BAES and the damaged reputations of the UK and Saudi Arabia governments.

BAES and the UK Government, with their Saudi counterparts, should work together to achieve much greater disclosure and oversight of the new contract and the related – much larger - industrial cooperation contracts.

In comparison with the TI’s published standard, the “Business Principles for Countering Bribery”, the Woolf Committee did not cover several other important areas, notably control of political donations, travel expenses, sponsorship, internal communication with staff and stakeholder consultation.

### ***UK Government and MOD***

We believe that parallel change is also required at the Ministry of Defence and elsewhere in Government, e.g. BERR. Whilst the implications for the UK Government were not part of the Woolf Committee’s remit, the Committee did make several references to the need for change and made a number of observations. Change at MOD is important, and we propose four specific areas for action. Such action can build on changes already underway, such as the break-up of DESO, and the updating of the Defence Industrial Strategy:

- ***Engagement between the MOD and BAES:*** Despite arguments over projects and overruns, this relationship is widely perceived as being overly cosy and full of potential conflicts of interest. MOD has multiple different relationships with the BAES and it is easy for these to become – or to be perceived as - too close. This is quite probably not corrupt, just unacceptably cosy: for example, in using BAES people to develop pilot projects, it can be easy to leave them in place whilst the commercial arrangements are being developed. Some cleaning up has happened here already, through the break-up of DESO. The MOD should build on this and do a full review of the many ways it engages with BAES and the defence industry: set out guidelines on what is permissible in each environment, and, for example, review engagement with BAES and other defence companies annually in the MOD Audit Committee.
- ***'Revolving doors':*** There should be stronger controls and visibility around the movement of civil servants, senior officers and executives between the MOD/Armed Forces/ UK government and BAES. The committee clearly thought this was an area of concern, but did not make any recommendation (Also in Section 3.61). As part of the process of restoring confidence in BAES and the UK, we have proposed that no such transfers be allowed for a period of some years. At the least, we suggest the names and numbers involved be reported annually, e.g. by industry to the MOD and/or BERR.
- ***Government to government contracts,*** as in the current contracts with Saudi Arabia and Kuwait: There is a need for much greater clarity on the business conduct implications of government contracts. Yet there is only a passing reference to this in the body of the Woolf report (Section 3.61). The MOD should investigate this thoroughly and be explicit on what is to be expected in all future government export contracts.
- Finally, in welcoming the suggestion that BAES takes pro-active initiatives in the area of integrity in defence, we think that the MOD should similarly propose and participate in collaborative projects, to help re-establish the UK's reputation.

We call upon the MOD and BERR to consider these points in their own analysis of the Woolf recommendations. They can build on work already started, like the DESO changes.

## Detailed Commentary on the Recommendations and comparison with TI(UK)'s proposals to the Woolf Committee.

The recommendations that we see as the more significant have the Woolf Recommendation number shown in **bold**. Reference to “CRC” is to the Corporate Responsibility Committee at BAES.

	<b>ASPIRATION OF THE COMPANY</b>
Lord Woolf Rec 1	The Board of Directors should decide and communicate the Company's strategic aspiration and intention to be a leader in standards of ethical business conduct among global companies.
Comment	<p>This is an easy thing to say, but no-one will believe words without external evidence of improvement</p> <p>There are plenty of international surveys of which companies are seen as leaders in the field of business conduct performance. BAES should monitor these and periodically publish the findings as they relate to BAES' perceived relative standing.</p> <p>BAES could commission their own more detailed surveys of BAES performance against a basket of other companies seen as being good in this field. We suggest the following basket of companies for comparison: Lockheed Martin, Boeing, Raytheon, Thales, General Electric, Motorola, Shell, BP, RTZ, Anglo American, ABB, Glaxo Smith Kline.</p>
TI(UK)	<i>“We suggest BAES consider a programme of work across the senior levels of the organisation to shift the culture of the organisation”</i>

	<b>OPENNESS AND TRANSPARENCY</b>
Lord Woolf <b>Rec 2</b>	The Company should be an advocate of its own ethical standards and must adopt the principle of openness and transparency. All ethical business conduct policies and procedures must be publicly available and easily accessible. The Company should be open about the actions it has undertaken to investigate allegations of unethical behaviour and about the outcomes.
Comment	<p>To become a company of ‘openness and transparency’ will be a major cultural change at BAES. Whilst this will only be made evident through specific actions, it is a shift that needs to be carefully tracked by BAES, so that leadership and staff have some idea whether they are making progress or not.</p> <p>We know that BAES has instituted company staff opinion surveys. These surveys need to be tailored so as to give maximum insight into progress on developing a culture of openness. The Board and the CRC should regularly review them and the results should be made available to the public, perhaps via the CR annual report.</p> <p>BAES, as part of the response to this recommendation, could engage more with the national civil society, and promote the use of transparency tools in defence sales with interested governments, such as “Defence Integrity</p>

	Pacts”.
TI(UK)	<p>Did not address openness point directly. Indirectly referred to by the following: <i>“We suggest that BAES position itself as a leader in the European industry by proposing to governments that tender documents (including price, programme, specification, contractors, sub contractors, agents, JV partners) be published on the web (Para 72)”</i></p> <p>Re the investigations point: <i>“We also suggest the following: BAES should consider adopting a policy of being pro-active in this area, and being ready to disclose its findings to authorities, as apart of its commitment to high integrity.</i></p> <p><i>BAES should adopt a policy of ‘zero tolerance’ within each of the subsidiaries. For example, through the firing of senior officials in divisions with a problem, regardless of whether the senior individual had any knowledge of the event. We have passed to your Committee an explanation of how this policy operates at GE.</i></p> <p><i>BAES should change to its policy in respect of the investigation of allegations and suspicious circumstances. Report all suspicious circumstances to the Audit Committee; be proactive in carrying out such investigations. Give the audit committee the power to call for all such investigations as it sees fit.</i></p> <p><i>BAES should change the policy of not reporting the results of such investigations to the national authorities to one of disclosure unless there are overriding reasons not to. The audit committee should formally sign off all the latter decisions. (Para 71)”</i></p>

	<b>A GLOBAL CODE OF ETHICAL BUSINESS CONDUCT</b>
Lord Woolf Rec 3	The Company should develop, publish and implement a global code of ethical business conduct. The Board should ensure the proposed global code is comprehensive and reflects the high standards of ethical business conduct consistent with the aspiration and intention to become a leader among global companies.
Comment	<p>The key outcome will be the Code and the date for producing it. We suggest that BAES commission external commentary on the quality of the Code. BAES should plan a formal review of the Code after three years to see, with staff, how useful or otherwise it has been.</p> <p>The CR Report should review performance against the Code, item by item, each year.</p>
TI(UK)	<p>Addressed indirectly: <i>“We suggest that BAES do a detailed review of how their programme aligns with the TI principles and detailed guidance and engage with the private Sector Programme at TI in reviewing the resulting report together (Para 54)”</i></p> <p>And: <i>“BAES should consider starting a rigorous programme to cascade its requirements into its many subcontractors. This would include, inter alia,</i></p>

	<i>sign off by the subcontractors, requirements for audits by the sub contractors and on the subcontractors, whistle blowing facilities so that the sub contractor staff can phone the BAES hotline directly, and training programmes comparable to the BAES ones (Para 62)”</i>
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	<b>ROLE OF THE BOARD OF DIRECTORS</b>
Lord Woolf Rec 4	The Board should develop its increasingly proactive role in ensuring high standards of ethical business conduct in all the Company’s activities. It should be a standing item on its agenda. There should be an explicit assessment of ethical and reputational risks in all business decisions taken by the Board. Board members should themselves be exemplars of the standards set out in the global code and receive regular briefings on emerging issues in business ethics.
Comment	This is an important point in the practical running of the company, but will be relatively invisible outside of it. This is another Recommendation that will only be evident externally through other more specific actions.
TI(UK)	<p>We did not address this directly. Our proposal was as follows:  <i>“We suggest the following ways to strengthen governance:</i></p> <ul style="list-style-type: none"> <li>• <i>One of the Board members of the audit committee should have the specific responsibility for overseeing the risk of bribery and corruption</i></li> <li>• <i>Make clear the importance of business conduct for the next 5 years or so by making it a fixed 50% of the agenda of the Audit Committee, or relevant Board Committee. Whichever Committee it is, it should contain both outsiders and the external auditors</i></li> <li>• <i>Similarly, make business conduct monitoring a significant percentage of the internal audit programme.</i></li> <li>• <i>Strengthen the compliance function within the operating units with both staff and an external consultant, so that it is capable of an extended role in monitoring compliance and following up allegations.</i></li> </ul> <p><i>Strengthen the central compliance function. It is widely perceived externally as being weak and defensive. A strong, respected head of compliance should be recruited/appointed, with a personal responsibility to pursue compliance. Consider making the Head of this group responsible to the Audit Committee only, reporting regularly on status (Para 51)”</i></p>

	<b>ROLE OF THE CORPORATE RESPONSIBILITY COMMITTEE (CRC)</b>
Lord Woolf Rec 5	The Board Corporate Responsibility Committee (CRC) should have primary responsibility for oversight and reporting on standards of ethical business conduct and the management of reputational risk. This role should be performed as the Audit Committee performs its task of managing financial risk.
Lord Woolf Rec 6	The Company’s Internal Audit function should ensure that ethical business conduct and the management of reputational risk is specifically assessed in all audit reports and the results, and progress made against

	<p>recommendations, provided to the CRC. The additional skills and resources required for Internal Audit should be provided to achieve this. The CR and Audit Committees should hold at least one joint meeting a year to decide on the preparation of the annual internal audit programme.</p>
<p>Comment</p>	<p>The CRC already has this responsibility. The role of the Chairman of this Committee is the deciding factor in its effectiveness. There is now a new Chairman, who has the chance to show that this Committee is a key part of the culture change; both by leading the change and by changes in their own behaviours. He could, for example, convene meetings of stakeholders, like the meeting that the Woolf Committee held, to inform him and give feedback on progress to date. It would be good to see a strong account of the CRC's new way of working in the annual CR report.</p> <p>Non-Executive Directors, who are present on the CRC, can do a lot to demonstrate a new way of working and the progress it makes. They need to – there is no visible external evidence that this has been the case in the past.</p> <p>Our main concern is the disconnect between the reliance placed by the Woolf Committee on the Non-Executive Directors to oversee the company's compliance, contrasted with their failure to have undertaken the role hitherto. There is no commentary on the feedback from current NEDs in the report.</p> <p>All the recommendations of recent years have emphasised the vital role NEDs must play in corporate governance, and the Woolf Committee notes this. But it is impossible to expect the current NEDs to perform this role on their record. Therefore, BAES should either replace the current NEDs in order to appoint some that inspire objective confidence on the basis of proven track record, OR require all NEDs to undergo extensive and ongoing training in the multiple requirements of integrity/compliance and associated leadership behaviours.</p> <p>The sixth recommendation is welcome: proof will be in the content of the audit programme. The number of integrity related audits and the number of follow up investigations that are mounted should be enumerated in the CR report</p>
<p>TI(UK)</p>	<p><i>“We suggest the following ways to strengthen governance:</i></p> <ul style="list-style-type: none"> <li>• <i>One of the Board members of the audit committee should have the specific responsibility for overseeing the risk of bribery and corruption</i></li> <li>• <i>Make clear the importance of business conduct for the next 5 years or so by making it a fixed 50% of the agenda of the Audit Committee, or relevant Board Committee. Whichever Committee it is, it should contain both outsiders and the external auditors</i></li> <li>• <i>Similarly, make business conduct monitoring a significant percentage of the internal audit programme.</i></li> <li>• <i>Strengthen the compliance function within the operating units with both staff and an external consultant, so that it is capable of an extended role in monitoring compliance and following up</i></li> </ul>

	<p><i>allegations.</i></p> <p><i>Strengthen the central compliance function. It is widely perceived externally as being weak and defensive. A strong, respected head of compliance should be recruited/appointed, with a personal responsibility to pursue compliance. Consider making the Head of this group responsible to the Audit Committee only, reporting regularly on status (Para 51)”</i></p>
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	<b>THE ROLE OF SENIOR EXECUTIVES</b>
Lord Woolf Rec 7	Members of the senior executive team and heads of business units have both a personal and collective responsibility to demonstrate high standards of ethical business conduct and to achieve effective implementation of the global code. Both should be reflected in their performance appraisals and in the variable element of their remuneration.
Comment	<p>We did not specifically suggest business conduct as an element of variable pay: it’s a good suggestion.</p> <p>BAES could disclose aggregate figures about the variable pay outcome each year on business conduct, for example in the CR report.</p>
TI(UK)	<p><i>“We suggest BAES consider a programme of work across the senior levels of the organisation to shift the culture of the organisation. Your Committee will be taking submissions from others on the ways in which a culture can be shifted across an organisation. We make the following specific suggestions for your consideration:</i></p> <ul style="list-style-type: none"> <li>• <i>Incorporate business conduct practice as a major component of the leadership development programmes that BAES will have for its senior executives</i></li> <li>• <i>Establish a community of the top 100 or so BAES executives and use this community as the leading force behind a business conduct and leadership behaviour programme for senior executives. This community may well exist already, in which case the work of that community could be adapted to fit this activity (Para 46)”</i></li> </ul>

	<b>THE ROLE OF SENIOR EXECUTIVES</b>
Lord Woolf Rec 8	There should be a senior executive, supported by a sufficiently resourced team, reporting to the CEO and with direct access to the Chair of the CRC, who has responsibility for the programme to ensure and assure there are high standards of ethical business conduct across the Company.
Comment	<p>It is an important point and addresses one of BAES’ most obvious organisational weaknesses. We understand that BAES has the recruitment of such a person in hand.</p> <p>We expect this person to take a high public profile, eg in conferences, interviews and the like, in setting out what the company is doing, the progress they are making against the plans, and engaging in public debate.</p>
TI(UK)	<i>“The CEO should have a nominated responsible director for anti-corruption observance. Besides the normal responsibilities, he/she should operate the process required to support the six monthly sign off. He/she should have a dotted line reporting chain direct to the audit committee. We</i>

	<i>suggest that the senior individual be the Finance Director or the Commercial Director. There should be an experienced compliance officer in every operating unit (70)”</i>
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	<b>DECISION-MAKING IN THE COMPANY</b>
Lord Woolf Rec 9	The Company should develop formal processes to ensure business decisions are only taken following an explicit consideration of ethical and reputational risks. Where such risks are identified, the process should ensure any decision to proceed is taken at the appropriate level, and should include ratification by the Board.
<i>TI(UK)</i>	<i>Did not address</i>
Comment	Useful point, but very much internal to the company These processes should be available for inspection

	<b>REVIEW OF KEY ETHICAL POLICIES AND PROCEDURES</b>
Lord Woolf Rec 10	Policies and procedures in areas of potential ethical risks should be regularly reviewed, with particular attention to the areas of greatest risks. The planned programme of reviews by the company should ensure a consolidated and comprehensive suite of policies consistent with the global code, provide employees with a clear pathway to understanding how the company’s standards of ethical conduct can be applied in day to day business situations.
Comment	This seems to be premature, and much too early an acknowledgement of success by the company in this area. This is the substance of a company compliance programme: such programmes are hard work, requiring constant effort and re-tuning. Whilst BAES has clearly started down this road, much more robust, regular assessments of progress is required, both internally and externally.
<i>TI(UK)</i>	<i>Did not address directly</i>

	<b>SELECTION, APPOINTMENT AND MANAGEMENT OF ADVISERS</b>
Lord Woolf Rec 11	The Company should ensure that the new process for selection, appointment and management of advisers is fully codified and integrated into the mandatory policy and procedures of the operational framework, and that appropriate guidance and training in the process is provided to all relevant employees. This should make explicit: <ul style="list-style-type: none"> <li>• A requirement to undertake face-to-face interviews, involving a company lawyer, as part of the due diligence process with all advisers whose activities require the interaction with potential customers;</li> <li>• A general presumption that the identity of such advisers will be made known to potential customers; and</li> <li>• Endorsement by the Board of the adviser panel’s recommendations and their explicit approval of any decision to make an appointment contrary to the panel’s advice.</li> </ul>

<p>Comment</p>	<p>BAES have already done most of the first bullet point about due diligence The second one ‘a general presumption that the identity of advisers will be made known’ is an improvement, but is much weaker than it should be: see comment in Conclusions.</p> <p>The lack of any specific requirement on pulling together the payments for the CRC or Audit Committee is also disappointing. BAES should be instituting this at the earliest opportunity.</p>
<p>TI(UK)</p>	<p>This focus on advisers is welcome. However, the soft focus on disclosure of identity - “a general presumption that the identity will be made known” - is very disappointing.</p> <p>TI was specific in its proposal regarding reporting to the Board: : “BAES should change its policy in relation to the use of agents and advisers. <i>Inter alia</i>, to consider the following:</p> <ul style="list-style-type: none"> <li>• <i>Conduct face to face due diligence with all agents and intermediaries by a qualified lawyer to defined minimum standards</i></li> <li>• <i>BAES should require all due diligence on agents around the world to be done by a central due diligence unit</i></li> <li>• <i>Specify a demanding frequency of repeat face to face due diligence, for example at least every two years</i></li> <li>• <i>Reduce the total number of agents and intermediaries</i></li> <li>• <i>Standardise the nature of the contract that the company has with the agent, and to standardise the terms of payment and to subject the contract to regular review (Para 66)</i></li> </ul> <p><i>BAES should disclose the details of the agent’s identity and basis of engagement to any purchasing government and to their associated oversight organisations. (Para 66)”</i></p> <p>And further:</p> <p><i>“We believe a high integrity company will be conducting periodic reviews of all payments across the company to agents and intermediaries, and we recommend that the overall record of such payments should be disclosed to the audit committee. (Para 67)</i></p> <ul style="list-style-type: none"> <li>• <i>We suggest that BAES should consider using their external auditors to routinely review all new contracts for payments to agents and intermediaries</i></li> <li>• <i>BAES should consider using their external auditors to report annually on all payments to all agents and intermediaries, including their contracts and payments, and reporting regularly on this to the audit committee.</i></li> <li>• <i>BAES should consider following up the six monthly sign offs by Business Heads with sample audits that review whether the sign-offs were complete.</i></li> </ul> <p><i>BAES should consider periodically (e.g. annually) reviewing all possible ethical policy violations to examine the performance of senior responsible staff in those cases. To discipline them, not just the individual directly implicated, as appropriate. (Para 61)”</i></p>

<b>OFFSETS POLICY</b>	
Lord Woolf <b>Rec 12</b>	Advisers engaged to assist in Offset arrangements in export contracts should be subjected to the same due diligence and approval process as Advisers on the principal export contract. Offset contracts should be subject to a due diligence process requiring an explicit assessment of ethical and reputational risks and be capable of being audited for this. The Company should also be proactive in encouraging greater scrutiny and transparency by governments of the Offset elements of defence contracts.
Analysis	<p>A welcome recommendation. Offsets are a significant source of corruption risk and this risk is widely neglected by the industry. It is helpful to see this spelt out in the Woolf report “ Offsets represent a key area of ethical and reputational risk” (Section 3.45). We welcome their comment in the body of the report that “The level of risk posed by offsets means they should be given priority treatment in the Company’s planned review of policies and procedures” (Section 4.54)</p> <p>BAES should encourage government scrutiny of offset deals, and take a pro-active approach in the industry to a much higher standard of due diligence on the offset or industrial participation investments themselves, not just of the advisers.</p> <p>There should be a specific section in the CR report on offsets.</p>
TI(UK)	<i>“We suggest that BAES take a clear and strong industry-leading stance to tighten up control and oversight over offsets. (Para 75)”</i>

<b>FACILITATION PAYMENTS</b>	
Lord Woolf <b>Rec 13</b>	The Company should continue to forbid facilitation payments as a matter of global policy. While it may not be possible to eliminate such payments immediately in some countries, management and employees in those countries need to be supported to ensure all such payments are reported to senior executives and to the Board, and the means developed to eliminate them completely over time.
Comment	An unexpected recommendation – good news. It will take some years and very specific project management for facilitation payments to be eradicated. BAES should report progress against plan in the CR report
TI(UK)	<i>Did not address</i>

<b>GIFTS, HOSPITALITY AND DONATIONS</b>	
Lord Woolf Rec14	The Company should implement central registers (by individual country) to enable information to be collected and monitored on aggregate spend on gifts and hospitality to individuals and overall to each customer. Aggregate spend by individual country on gifts and hospitality should be reported annually to the CRC. The policy on gifts and hospitality should be circulated to customers, contractors and suppliers and the Company should agree and document acceptable standards and expectations of behaviour with each customer government. A global policy on corporate donations should be developed, consistent with the global code and the policy of openness and transparency.

Comment	Good to see. The big question will be whether it truly covers all the spending, as it seems not to have done to date. A summary could be placed in the CR report
TI(UK)	<i>Did not address</i>

	<b>ACQUISITIONS, JOINT VENTURES AND CONTRACTORS</b>
Lord Woolf Rec 15	The Company should: <ul style="list-style-type: none"> <li>• for all new majority joint ventures require the adoption of its global code and associated policies and procedures, or equivalent standards;</li> <li>• for all new minority joint ventures, mergers and acquisitions, undertake a due diligence assessment of standards of ethical business conduct compared to those of the Company, and ensure to the extent possible that equivalent standards are put in place;</li> <li>• for all new key contractors, require the adoption of its global code and associated policies and procedures, or equivalent standards in all of its collaborative activities; and</li> <li>• for all existing relationships, implement a programme to achieve the above.</li> </ul>
Comment	This is good and welcome. It is a big point with lots of practical implications for the company, especially in its application to subcontractors. BAES should note the number of subcontractors and JVs coming within this scope each year in the CR report.
TI(UK)	<i>“BAES should consider establishing a rigorous process through which all joint ventures have to have standards that are equivalent to or higher than BAES’ own business conduct standards, and that these arrangements are subject to the same level of audit oversight as mainstream BAES units. (Para 64)”</i>

	<b>EMPLOYEE ETHICS LINE</b>
Lord Woolf Rec16	As part of the programme to ensure that equivalent standards are in place for Joint Ventures and with key contractors, the Company should extend to them appropriate access to its ethics helpline.
Comment	Sensible point. The CR report should disclose analysis of calls to the helpline and the number from subcontractors
TI(UK)	<i>“BAES should consider starting a rigorous programme to cascade its requirements into its many subcontractors. This would include, inter alia, sign off by the subcontractors, requirements for audits by the sub contractors and on the subcontractors, whistle blowing facilities so that the sub contractor staff can phone the BAES hotline directly, and training programmes comparable to the BAES ones (Para 62)”</i>

	<b>GOVERNMENT RELATIONS AND LOBBYING</b>
Lord Woolf Rec 17	The Company should ensure an explicit assessment of proposed lobbying positions or campaigns against the values and standards in the global code, and that regular reports on this are submitted to the CRC.
Comment	Gives more importance to the CR Committee: will they pick this up? Comment on it in the CR report?
TI(UK)	<i>Did not address</i>

<b>INVESTIGATION AND DISCIPLINARY PROCEDURES</b>	
Lord Woolf <b>Rec 18</b>	The Company should make explicit its commitment to take a proactive approach to instigating internal investigations into allegations of unethical behaviour and to the disclosure of any material findings to the relevant authorities. Aggregate information on disciplinary actions for unethical behaviour should be included in internal and external publications.
Comment	Very important, this is an area where BAES has been reluctant to go and BAES needs to adopt it strongly. BAES should note in the CR report the number of such investigations carried out each year
TI(UK)	<p><i>“We also suggest the following: BAES should consider adopting a policy of being pro-active in this area, and being ready to disclose its findings to authorities, as apart of its commitment to high integrity. BAES should adopt a policy of ‘zero tolerance’ within each of the subsidiaries. For example, through the firing of senior officials in divisions with a problem, regardless of whether the senior individual had any knowledge of the event. We have passed to your Committee an explanation of how this policy operates at GE. BAES should change to its policy in respect of the investigation of allegations and suspicious circumstances. Report all suspicious circumstances to the Audit Committee; be proactive in carrying out such investigations. Give the audit committee the power to call for all such investigations as it sees fit. BAES should change the policy of not reporting the results of such investigations to the national authorities to one of disclosure unless there are overriding reasons not to. The audit committee should formally sign off all the latter decisions. (Para 71)”</i></p>
<b>SECURITY DIVISION</b>	
Lord Woolf Rec19	Any proposals for the appointment of third parties to provide the Company’s Security Division with information should be subject to the same process (including Panel review) as for advisers. Regular reports on the activities of the Security Division, and compliance with ethical policies and procedures, should be provided to the CRC.
TI(UK)	<i>Did not address</i>
<b>TRAINING</b>	
Lord Woolf <b>Rec 20</b>	A well-resourced training programme, in which every person in the Company participates, should be undertaken as part of the implementation of the global code and revised and repeated at regular intervals. Specific training modules should also be developed for senior executives and business unit leaders. Systems for monitoring these programmes should be developed so that they are able to provide the necessary assurance to the CRC as to their effectiveness.
Comment	BAES has already put in place training for all employees. This is one of the ‘soft’ recommendations where the Woolf Committee knows that the company is already doing this. There should be progress updates to staff and in the CR Report
TI(UK)	Addressed partially in several recommendations, e.g. for senior executives:

	<p><i>“We suggest BAES consider a programme of work cross the senior levels of the organisation to shift the culture of the organisation. Your Committee will be taking submissions from others on the ways in which a culture can be shifted across an organisation. We make the following specific suggestions for your consideration:</i></p> <ul style="list-style-type: none"> <li>• <i>Incorporate business conduct practice as a major component of the leadership development programmes that BAES will have for its senior executives</i></li> <li>• <i>Establish a community of the top 100 or so BAES executives and use this community as the leading force behind a business conduct and leadership behaviour programme for senior executives. This community may well exist already, in which case the work of that community could be adapted to fit this activity (Para 46)”</i></li> </ul>
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	<b>LEADERSHIP IN COLLECTIVE ACTION BY THE DEFENCE INDUSTRY</b>
Lord Woolf Rec 21	The Company should take a more proactive leadership role in its engagement with the defence industry, governments, NGOs and other external interest parties to develop initiatives that will address the key ethical and reputational issues affecting the defence industry.
Comment	<p>TI is pleased to see this as a recommendation: good companies in other sectors, e.g. mining, do this as a matter of course. It is one of the ways in which BAE can show its change of direction in a concrete, pro-active manner. It should mean that BAES will support transparency tools such as Defence Integrity Pacts, which they appear not to have done up until now.</p> <p>As always, visible action on this point is the test of sincerity</p>
TI(UK)	<p><i>“We suggest that BAES position itself as a leader in the European industry by proposing to governments that tender documents (including price, programme, specification, contractors, sub contractors, agents, JV Partners) be published on the web. (Para 72)”</i></p> <p><i>“We suggest that BAES take an industry leading position by actively supporting the use of Defence Integrity Pacts in international contracts. (Para 73)”</i></p>

	<b>COMMUNICATION</b>
Lord Woolf Rec 22	The Company should be as open and transparent as possible in communicating all of its activities. Where this is not possible the Company should explain the reasons why.
TI(UK)	<i>Did not address this point</i>

	<b>ASSURANCE AND REPORTING</b>
Lord Woolf Rec 23	The Board/CR Committee should commission and publish an independent external audit of ethical business conduct and the management of reputational risk in the Company within three years and at regular intervals thereafter.
Comment	An excellent recommendation. If the company is not serious about reform then this review will be a ‘tick box’ exercise. If it is serious, then it will be an excellent opportunity to do a detailed and honest update on progress

	since Woolf through the eyes of credible external reviewers. This could help significantly in creating confidence in the progress made.
<i>TI(UK)</i>	Addressed in respect of particular points, e.g.: <i>“BAES should consider using their external auditors to routinely review all new contracts ...” (Para 61)”</i> <i>“BAES should consider using their external auditors to report annually on all payments to agents and intermediaries”</i> <i>“We suggest that Questions regarding corruption and bribery should form a significant part of the audit programme of the company at both corporate and operating unit levels.</i> <i>The audit committee should periodically ask the external auditors to review the quality of these internal audits, to assure themselves that the internal audits are operating effectively, with access to the right people and documents. Para (60)”</i>

## Commentary on Woolf Committee ‘Observations’

	<b>Global defence companies</b>
Lord Woolf 1	A global defence company aspiring to high standards of ethical business conduct will have in place policies and procedures, along the lines of those we identify, to effectively manage, audit and report on, the key areas of ethical and reputational risks relating to allegations of bribery and corruption
Comment	No comment

	<b>Global defence companies</b>
Lord Woolf 2	A global defence company aspiring to high standards of ethical business conduct should take an industry leading position by actively developing, supporting and promoting initiatives designed to promote greater transparency in export contracts
Comment	We agree. Very similar to Recommendation 21. In the body of the report they specifically refer to Defence Integrity Pacts and the need for global leadership by companies in such initiatives (Section 3.57)

	<b>Role of UK Government - MOD</b>
Lord Woolf 3	The MOD could expand on its work with the defence industry to review the ethical and reputational risks faced as a result of the interaction between the government and the defence industry. A set of published protocols or a code of conduct could enhance public confidence and trust in both the defence industry and government
Comment	A disappointingly weak observation. There are many ways in which the MOD could and should strengthen its requirements on companies and review its own practices in relation to working with defence companies. See Conclusions section for further comment.
<i>TI(UK)</i>	<i>“We recommend that the following be considered:</i> <ul style="list-style-type: none"> <li>• <i>The UK Government set up a group to review the way in which Government and the Company interact, with a view to putting straight some of the peculiar governance arrangements of the past, thereby strengthening transparency,</i></li> </ul>

	<ul style="list-style-type: none"> <li>• <i>The UK Government commissions work to develop a model government contract for government-to-government arms sales. This work could benefit from the experience of the US Government with ‘Foreign Military Sales’ contracts.</i></li> <li>• <i>The UK Government considers ways to strengthen oversight of, and confidence in, the recently signed contract with Saudi Arabia. One way to do this would be to establish an independent oversight commission, composed of two well reputed institutions, enhanced by independent oversight, in the UK and in Saudi Arabia</i></li> </ul> <p><i>The UK Government finds some way to enable a full enquiry be undertaken of the Al Yamamah contract (Para 25)”</i></p>
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	<b>Role of UK Government - UKTI</b>
Lord Woolf 4	The reputation of the UK, and the global competitiveness of UK defence companies, would be enhanced by a proactive programme developed and promoted by UKTI to encourage the adoption of high standards of ethical conduct by defence companies wishing to export, in particular, in those areas of key ethical risk relating to bribery and corruption.
Comment	We agree. The Committee says there is a “compelling argument” for the UK Government to become more proactive in this area (Section 3.64). We welcome the moves by UKTI in this direction, but they could be bolder: e.g. requiring company adherence to clear and demanding standards, and insisting on company monitoring of those standards and reporting on compliance.

	<b>Reforming UK law on bribery and corruption</b>
Lord Woolf 5	In light of the results of the consultation on the law Commissions proposals for reform of bribery, the government should quickly bring forward the necessary legislative proposals.
Comment	We agree. This has been scandalously slow in progressing.

## TI(UK) Recommendations not addressed in the Woolf Committee report

	<b>EXPORT CREDIT GUARANTEES</b>
Lord Woolf	Did not address this point
TI(UK)	<i>“BAES should consider taking a different approach to its engagement with the Export Credit Guarantee Department on the questions relating to agents. It would be a good example if BAES were voluntarily to exceed the current standards, for example by voluntarily disclosing to ECGD all use of agents and consultants. (Para 68)”</i>

	<b>‘REVOLVING DOORS’</b>
Lord Woolf	Addressed this point with concern but did not make any recommendation (Section 3.61)
Comment	It is disappointing that it was not a recommendation: see conclusions.
TI(UK)	<i>“We suggest BAES and the government consider suspending exchanges, secondment and recruiting of each others’ officials for a period of, say,</i>

<i>five years. (Para 74)</i>
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