STATEMENT OF ANGELA B. STYLES

TESTIFYING ON BEHALF OF THE DEFENSE INDUSTRY INITIATIVE ON BUSINESS ETHICS AND CONDUCT

BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS SUBCOMMITTEE ON CONTRACTING AND WORKFORCE DECEMBER 9, 2015

CHAIRMAN HANNA, CONGRESSMAN TAKAI, AND MEMBERS OF THE SUBCOMMITTEE, I appreciate the opportunity to appear before you today as the Coordinator of the Defense Industry Initiative on Business Ethics and Conduct ("DII") to discuss ways to empower small businesses to comply with the multitude of requirements they are required to follow as contractors in the federal marketplace.

DII is a nonpartisan, non-profit 501(c)(3) association of U.S. defense companies who are committed to a culture and practice of ethics and integrity in all business dealings with the United States Department of Defense. In 1986, the Chief Executive Officers and senior officials of 18 defense contractors (please see Attachment A for a list of founding Signatories) led by Jack Welch from General Electric voluntarily met to create DII and draft self-governance principles. Mr. Welch and the other pioneering defense contractors were guided by the "The President's Blue Ribbon Commission on Defense Management" for defense contractors to improve the defense acquisition process through greater self-governance. By July 1986, 32 major defense contractors had pledged to adopt DII's core principles. Today, 76 defense contractors – including both small and large businesses – are Signatories to the DII principles (see current list of DII Signatories at Attachment B):

We, the members of the Defense Industry Initiative on Business Ethics & Conduct (DII), affirm our commitment to uphold the highest ethical standards in all our business dealings with the government, as expressed through the following principles:

(1) We shall act honestly in all business dealings with the U.S. government, protect taxpayer resources, and provide high-quality products and services for the men and women of the U.S. Armed Forces.

(2) We shall promote the highest ethical values as expressed in our written codes of business conduct, nurture an ethical culture through communications, training, and other means, and comply with and honor all governing laws and regulations.

(3) We shall establish and sustain effective business ethics and compliance programs that reflect our commitment to self-governance, and shall encourage employees to report suspected misconduct, forbid retaliation for such reporting, and ensure the existence of a process for mandatory and voluntary disclosures of violations of relevant laws and regulations.

(4) We shall share best practices with respect to business ethics and compliance, and participate in the annual DII Best Practices Forum.

(5) We shall be accountable to the public, through regular sharing and reporting of Signatory activities in public fora, including <u>www.dii.org</u>. These reports will describe members' efforts to build and sustain a strong culture of business ethics and compliance.

As part of its mission, DII provides resources and assistance to help train hundreds of thousands

of defense-industry employees in ethics and compliance, with DII's website providing free

access to ethics training, instructional videos, and webinars on emerging ethics issues for

defense-industry companies. DII also holds regular meetings and conferences to share best

practices. As well, DII mentors suppliers and new firms in how to comply with the laws and

regulations that govern U.S. defense companies.

<u>Small Businesses in the Federal Marketplace Lack Resources to Develop</u> <u>Compliance Programs</u>

In an ideal world, all businesses that participate in the federal marketplace would have the wherewithal to understand and comply with all of the obligations that go hand-in-hand with federal contracting. This is not an ideal world. The scope and complexity of regulations faced by contractors are enough to regularly challenge even the largest federal contractors with robust compliance and ethics programs. With less resources (measured both by money and manpower) and less experience with government contracting, the hurdles faced by small businesses in even setting up compliance programs are monumental. As a result, the federal government is undoubtedly contracting with small businesses that do not know the full extent of the laws, regulations, or provisions with which they are supposed to comply (let alone understand them), are not monitoring their compliance against these requirements, and have no process to voluntarily disclose violations to the appropriate authorities.

Although there are numerous federal government agencies, centers, and offices that work with small businesses engaged in federal contracting, DII has *extensively* searched and has not found government sources that provide guidance to small businesses to aid in the adoption of codes of conduct or the establishment of broader compliance and ethics programs. Some offices, like small business development centers, which are administered by the Small Business Administration, provide management assistance to current and prospective small business owners, but have been statutorily tasked only in general terms with providing counseling and technology development for complying with environmental, energy, health, safety, and other federal, state, and local regulations. 15 U.S.C. § 648(c)(3)(H).¹ The statutes underlying other similar programs, like the Procurement Technical Assistance Centers and the Department of Defense "DoD" Office of Small Disadvantaged Business Utilization (also known as the DoD Office of Small Business Programs), do not speak to helping ensure small business compliance with laws at a high-level like this, let alone the establishment of ethics and compliance programs.

The Small Business Act provides that "Services provided by small business development centers shall include, but shall not be limited to - (h) maintaining current information concerning Federal, State, and local regulations that affect small businesses and counsel small businesses on methods of compliance. Counseling and technology development shall be provided when necessary to help small businesses find solutions for complying with environmental, energy, health, safety, and other Federal, State, and local regulations." 15 U.S.C. § 648(c)(3).

DII's Past and Current Outreach to Small Businesses

Because federal resources for assisting small business with ethics and compliance programing appears to be woefully lacking, DII recently undertook several significant initiatives to provide ethics and compliance resources to small business contractors. In 2014, DII published a Model Code of Conduct for suppliers, which I have provided to the Subcommittee as Attachment C. DII learned from a 2013 survey of its Signatories that such a code would be a helpful resource when dealing with supply chain integrity issues. DII's Model Code of Conduct includes such topics as compliance with laws, human rights, employment practices, anticorruption, conflicts of interest, and information protection. For those already with a supplier code, this Code is a benchmarking tool. For Signatories as well as small suppliers without a code of conduct, the Code is capable of being adopted for use as-is or as a foundation to the creation of a new supplier code of conduct. Ideally, this Code will come to serve as common core code with company specific addenda and achieve the ultimate objective of limiting the number of codes flowed to common suppliers.

DII also undertook in 2014 to provide a Supplier Toolkit. The Toolkit's purpose is to provide helpful tips and guidance on how to put together an effective ethics and compliance program, support suppliers in becoming compliant with Federal Acquisition Regulation 52.203-13 Contractor Code of Business Ethics and Conduct requirements, engage the supplier community in the ethics discussion, and strengthen the defense industry. The Supplier Toolkit can be found on our website at www.dii.org

Following the publication of DII's Model Code of Conduct and Supplier Toolkit, multiple suspension and debarment offices from agencies across the federal government invited DII to discuss difficulties faced by small businesses in understanding and complying with their

obligations as federal contractors. As a result of these meetings, DII has committed to provide additional resources specifically developed with small businesses in mind. To that end, DII has recently published a webinar on small business issues on its website; I have also provided today as Attachment D to my testimony the slides for this webinar.

Finally this spring, DII plans to launch a robust Small Business Toolkit, which will touch upon the following four features of a compliance program:

- Structure and organization of a compliance program DII will provide examples of various models that can be used in building a compliance program;
- Code of conduct, policies & procedures DII will develop models of the types of policies that small businesses which contract with the government should consider implementing;
- Training and communications DII will publish sample training videos and other communications;
- Monitoring and auditing DII will provide templates for small businesses to use to monitor the effectiveness of their compliance programs.

DII is also developing a mentor-protégé program for ethics and compliance issues that will provide names of companies and individuals that small contractors can contact as a resource. DII is taking these steps in furtherance of its mission to help improve the defense acquisition process through greater self-governance and will be analyzing how best to conduct outreach to make these resources more broadly available to non-Signatory small businesses.

In Conclusion

Given the scarcity of federal government resources dedicated to helping small businesses establish ethics and compliance programs, DII has committed to creating and making available resources to help small businesses understand and comply with federal contracting requirements. We are certainly hopeful that these education and training efforts can be done in coordination with our Department of Defense and Small Business Administration colleagues. The small business advocates can play an important role in helping to ensure that small businesses have ethics and compliance programs and provide guidance on the resources available to develop them. Together, the public and private sectors should ensure that small businesses have the resources and tools to wisely, legally and ethically perform contracts for the federal government. This concludes my prepared remarks. I am happy to answer any questions you may have.



HOUSE COMMITTEE ON SMALL BUSINESS Witness Disclosure Statement Required by House Rule XI, Clause 2(g)

Your Name: Angela Styles 1. Are you testifying on behalf of a Federal, State, or Local		
1. Are you testifying on behalf of a Federal, State, or Local	YES	NO
Government entity?		
2. Are you testifying on behalf of an entity other than a Government		
entity?	YES 🖌	NO
3. Other than yourself, please list what entity or entities you are repre	senting:	
Defense Industry Initiative on	Busin	ess Etha
DEFENSE LIGOUNITY LIGHTER OF		induct
4. Please list any offices or elected positions held or briefly describe y capacity with the entities disclosed in question 3.	our represe	entational
Coordinator		:
(For those testifying on behalf of a Government entity, ignore these que	stions below)
(For mose resulting on behalf of a Government enary, ignore mess que	suons belon	,
since January 1, 2013: None		
b) If you are testifying on behalf of a non-governmental entity, please or contracts (including subgrants or subcontracts) and the amount an received by the <u>entities listed under question 3</u> since January 1, 2013, the entities' revenues in the year received:	d source (a	gency)
None		
6. If you are testifying on behalf of a non-governmental entity, does it have a parent organization or an affiliate who you specifically do	YES	NO
not represent? If so, list below:		\mathbf{X}
Signature: Angle B Style Date: 12	17/15	

Defense Industry Initiative ON BUSINESS ETHICS AND CONDUCT

ORIGINAL SIGNATORIES (1986)

Aeronca Inc. Allied-Signal, Inc. American Telephone & Telegraph Co. **Burroughs** Corporation E-Systems, Inc. Eaton Corporation **FMC** Corporation Ford Aerospace & Communications Corp. **General Dynamics Corporation** General Electric Company Goodyear Aerospace Corporation **Grumman** Corporation Hercules Inc. Hewlett-Packard Company Honeywell Inc. **Hughes Aircraft Company IBM** Corporation Lockheed Corporation Martin Marietta Corporation McDonnell Douglas Corporation Northrop Corporation Parker Hannifan Corporation PneumoAbex Corporation **Raytheon** Company **Rockwell International Corporation** The Boeing Company The Singer Company Sperry Corporation TRW, Inc. Textron Inc. United Technologies Corporation Westinghouse Electric Corporation

D Defense Industry Initiative ON BUSINESS ETHICS AND CONDUCT

SIGNATORIES

3M Company ACC Health Advanced Electronics Company Aerojet Rocketdyne "A GenCorp Company" Aerospace Corporation, The Agiltron AgustaWestland North America Inc. Allfast Fastening Systems, Inc. Alliant Techsystems, Inc. Applied Research Associates, Inc. AT&T Government Solution **BAE** Systems Boeing Company, The **Booz Allen Hamilton** BWX Technologies. Inc. **CFM** International Chugach Alaska Corporation **CNA** Corporation Concurrent Technologies Corporation **Curtiss-Wright Corporation** Day & Zimmermann, Inc. Decypher Technologies Ltd. Delex Systems, Inc. DRS Technologies, Inc. DynCorp International LLC **EADS** North America EG&G Technical Elbit Systems of America **Engility Corporation Esterline Corporation** Exelis Inc. Frequency Electronics, Inc. General Dynamics Corporation General Electric Company Georgia Tech Research Institute Harris Corporation Health Net Federal Services, LLC Honeywell International, Inc.

Humana Government Business, Inc. Huntington Ingalls Industries IAP Worldwide Services **IBM** Corporation Institute for Defense Analyses (IDA) Intel Federal Leidos Lockheed Martin Corporation ManTech International MCR. LLC Mission Essential Personnel MTS Systems Corporation Natel Engineering Company North Florida Shipyards Northrop Grumman Corporation Orbital ATK Parker Hannifan Corporation PGBA, A Celerian Group Company Ouantech Services, Inc. Raytheon Company Rockwell Collins, Inc. SAIC SAP National Security Services, Inc. **SENTEL** Corporation Serco Inc. Siemens Government Services, Inc. Sodexo Federal Services, Inc. Solers. Inc. SRA International, Inc. Supreme Group USA, LLC Teledyne Technologies Incorporated Textron Inc. United Technologies Corporation **URS** Corporation Vectrus Corporation Williams International Wisconsin Physicians Serv. Ins. Corporation Woodward, Inc

ATTACHMENT C

Defense Industry Initiative MODEL SUPPLIER CODE OF CONDUCT



The members of the Defense Industry Initiative on Business Ethics and Conduct (DII) (hereinafter "we") are committed to upholding the highest standards in all our business dealings with the U.S. Government, protecting taxpayer resources, and providing high-quality products and services for the men and women of the U.S. Armed Forces and their allies. Complying with all laws and regulations and ensuring fair competition are fundamental to this commitment.

This Supplier Code of Conduct expresses the expectations we hold for suppliers throughout the aerospace and defense industry.

General Disclaimer

This Supplier Code of Conduct is in no way intended to conflict with or modify the terms and conditions of any existing contract. In the event of a conflict, suppliers must first adhere to applicable laws and regulations, then the contract terms, followed by this Supplier Code of Conduct.

I. Compliance with Laws

We expect our suppliers to maintain full compliance with all laws and regulations applicable to their business. When conducting international business, or if their primary place of business is outside the United States, suppliers must comply with local laws and regulations.

A. Maintain Accurate Records

We expect suppliers to create accurate records, and not alter any record entry to conceal or misrepresent the underlying transaction represented by it. All records, regardless of format, made or received as evidence of a business transaction must fully and accurately represent the transaction or event being documented. When a record is no longer needed to conduct current business, records should still be retained based on the applicable retention requirements. Suppliers performing as US Government contractors (whether direct or indirect) must comply with the requirements in FAR 4.703. Suppliers that are performing or fulfilling a US Government role in their prescribed work must comply with the records requirements of the affected agency and any relevant National Archives and Records Administration (NARA) requirements that apply to that agency.

II. Human Rights

We expect our suppliers to treat people with respect and dignity, encourage diversity, remain receptive to diverse opinions, promote equal opportunity for all, and foster an inclusive and ethical culture.

A. Child Labor

We expect our suppliers to ensure that illegal child labor is not used in the performance of work. The term "child" refers to any person under the minimum legal age for employment where the work is performed.

B. Human Trafficking

Suppliers must adhere to regulations prohibiting human trafficking, and comply with all applicable local laws in the country or countries in which they operate. Suppliers must refrain from violating the rights of others and address any adverse human rights impacts of their operations. Suppliers must educate employees on prohibited trafficking activities, discipline employees found to have violated the law or rules, and notify the contracting officer of violations and action taken against employees. Specifically, suppliers will be prohibited from the following in all contracts.

- Destroying, concealing, or confiscating identity or immigration documents;
- Using misleading or fraudulent tactics in recruiting;
- Charging employee recruitment fees or providing inadequate housing based on local standards, laws and directives;
- Failing to provide employment contracts and other documentation in the employee's native language;
- Failing to provide return transportation upon the end of employment for employees brought to the country for the purpose of working on a U.S. government contract or subcontract; and
- Failing to interview and protect employees suspected of being trafficking victims.

III. Employment Practices

A. Harassment

We expect our suppliers to ensure that their employees are afforded an employment environment that is free from physical, psychological, and verbal harassment, or other abusive conduct.

B. Non-discrimination

We expect our suppliers to provide equal employment opportunity to employees and applicants for employment, without regard to race, ethnicity, religion, color, sex, national origin, age, military veteran status, ancestry, sexual orientation, gender identity or expression, marital status, family structure, genetic information, or mental or physical disability, so long as the essential functions of the job can be competently performed with or without reasonable accommodation.

C. Substance Abuse

We expect our suppliers to maintain a workplace free from illegal use, possession, sale, or distribution of controlled substances.

IV. Anti-Corruption

A. Anti-Corruption Laws

Our suppliers must comply with the anti-corruption laws, directives and/or regulations that govern operations in the countries in which they do business, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act.



We require our suppliers to refrain from offering or making any improper payments of money or anything of value to government officials, political parties, candidates for public office, or other persons. This includes a prohibition on facilitating payments intended to expedite or secure performance of a routine governmental action like obtaining a visa or customs clearance, even in locations where such activity may not violate local law. Personal safety payments are permitted where there is an imminent threat to health or safety.

We expect our suppliers to exert due diligence to prevent and detect corruption in all business arrangements, including partnerships, joint ventures, offset agreements, and the hiring of consultants.

B. Illegal Payments

Our suppliers must not offer any illegal payments to, or receive any illegal payments from, any customer, supplier, their agents, representatives or others. The receipt, payment, and/or promise of monies or anything of value, directly or indirectly, intended to exert undue influence or improper advantage is prohibited. This prohibition applies even in locations where such activity may not violate local law.

C. Anti-Trust

Our suppliers must not fix prices or rig bids with their competitors. They must not exchange current, recent, or future pricing information with competitors. Our suppliers must refrain from participating in a cartel.

D. Gifts/Business Courtesies

We expect our suppliers to compete on the merits of their products and services. The exchange of business courtesies may not be used to gain an unfair competitive advantage. In any business relationship, our suppliers must ensure that the offering or receipt of any gift or business courtesy is permitted by law and regulation, and that these exchanges do not violate the rules and standards of the recipient's organization, and are consistent with reasonable marketplace customs and practices.

E. Insider Trading

Our suppliers and their personnel must not use material, non-publicly disclosed information obtained in the course of their business relationship with us as the basis for trading or for enabling others to trade in the securities of our company or those of any other company.

V. Conflict of Interest

We expect our suppliers to avoid all conflicts of interest or situations giving the appearance of a potential conflict of interest in their dealings with our company. We expect our suppliers to provide notification to all affected parties in the event that an actual or potential conflict of interest arises. This includes a conflict between the interests of our company and personal interests or those of close relatives, friends or associates.

VI. Information Protection

A. Confidential/Proprietary Information

We expect our suppliers to properly handle sensitive information, including confidential, proprietary, and personal information. Information should not be used for any purpose (e.g., advertisement, publicity, and the like) other than the business purpose for which it was provided, unless there is prior authorization from the owner of the information.

B. Intellectual Property

We expect our suppliers to respect and comply with all the laws governing intellectual property rights assertions, including protection against disclosure, patents, copyrights, and trademarks.

C. Information Security

Suppliers must protect the confidential and proprietary information of others, including personal information, from unauthorized access, destruction, use, modification and disclosure, through appropriate physical and electronic security procedures. Suppliers must comply with all applicable data privacy laws. Suppliers shall assure extension of this requirement to all sub-tier sources they employ.

VII. Environment, Health, and Safety

We expect our suppliers to operate in a manner that actively manages risk, conserves natural resources, and protects the environment. We expect our suppliers to apply environmental management system principles in order to establish a systematic approach to the management of risks/hazards and opportunities associated with the environment, including potential risk from regulatory non-compliance, reputational loss, and opportunities for business growth through operational and product stewardship.

We expect our suppliers to comply with all applicable environmental, health and safety laws, regulations, and directives. Suppliers should protect the health, safety, and welfare of their people, visitors, and others who may be affected by their activities.

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VIII. Global Trade Compliance

A. Security

When applicable, suppliers are encouraged to implement practices and procedures to ensure the security of their supply chains in accordance with the Customs-Trade Partnership Against Terrorism initiative of the United States Department of Homeland Security.

B. Import

We expect our suppliers to ensure that their business practices are in accordance with all applicable laws, directives and regulations governing the import of parts, components, and technical data.

C. Export

We expect our suppliers to ensure that their business practices are in accordance with all applicable laws, directives and regulations governing the export of parts, components, and technical data.

D. Anti-Boycott

Our suppliers must not participate in, cooperate with, or further the cause of any unsanctioned foreign economic boycott, in accordance with the 1977 Export Administration Act and the 1976 Tax Reform Act.

E. Conflict Minerals

Suppliers must adhere to federal laws and regulations requiring reporting companies to make specialized disclosure and conduct due diligence concerning their use of conflict minerals that may have originated in the Democratic Republic of the Congo (DRC) or an adjoining country. Conflict minerals include cassiterite, columbite-tantalite, gold and wolframite, or their derivatives (tantalum, tin, and tungsten). Under the Securities Exchange Act of 1934, reporting companies that manufacture or contract to manufacture products that contain conflict minerals must conduct due diligence on the source and chain of custody of the applicable conflict minerals, and file a report with the SEC by May 31, 2014. We expect our suppliers to develop due diligence processes to meet our obligations to ensure that all products are responsibly manufactured.

IX. Quality

Suppliers must take due care to ensure their work product meets our company's quality standards. We expect our suppliers to have in place quality assurance processes to identify defects and implement corrective actions, and to facilitate the delivery of a product whose quality meets or exceeds the contract requirements.

A. Counterfeit Parts

We expect our suppliers to develop, implement, and maintain methods and processes appropriate to their products to minimize the risk of introducing counterfeit parts and materials into deliverable products. Effective processes should be in place to detect counterfeit parts and materials, provide notification to recipients of counterfeit product(s) when warranted, and exclude them from the delivered product.

X. Ethics Program Expectations

A. Whistleblower Protection

We expect our suppliers to provide their employees with avenues for raising legal or ethical issues or concerns without fear of retaliation. We expect our suppliers to take action to prevent, detect, and correct any retaliatory actions.

B. Consequences for Violating Code

In the event of a violation of any of the above expectations, we may pursue corrective action to remedy the situation. In the case of a violation of law or regulation, we may be required to report those violations to proper authorities. We reserve the right to terminate our relationship with any supplier under the terms of the existing procurement/purchasing contract.

C. Ethics Policies

Commensurate with the size and nature of their business, we expect our suppliers to have management systems in place to support compliance with laws, regulations, and the expectations related to or addressed expressly within this Supplier Code of Conduct. We encourage our suppliers to implement their own written code of conduct and to flow down the principles of a code of conduct to the entities that furnish them with goods and services.

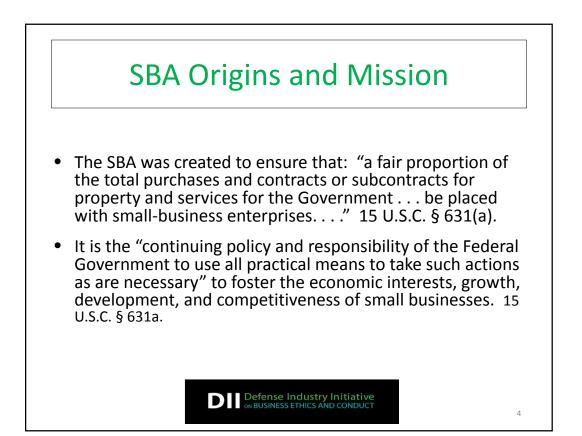
For questions/comments about the Code, please visit the Defense Industry Initiative website: <u>www.DII.org</u>. Send an email by selecting "Contact Us" under the "About Us" section.

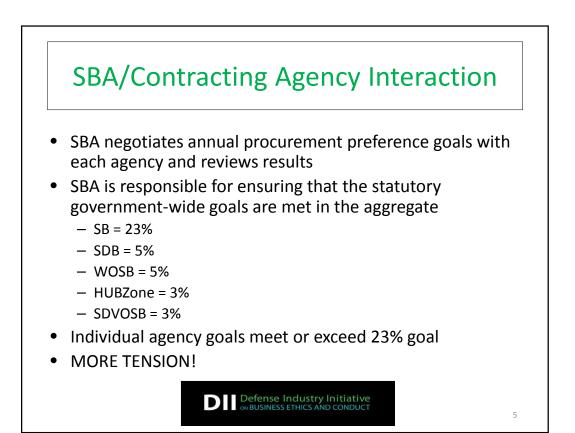
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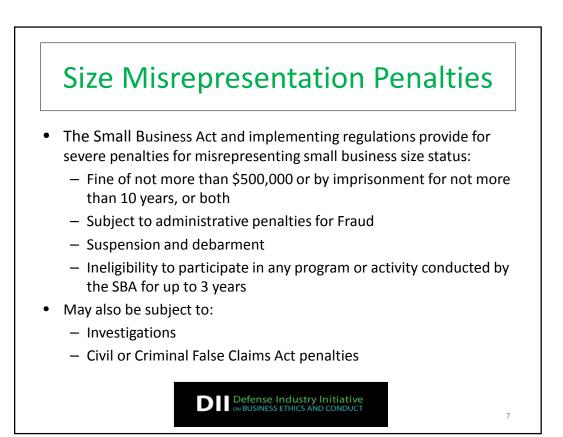




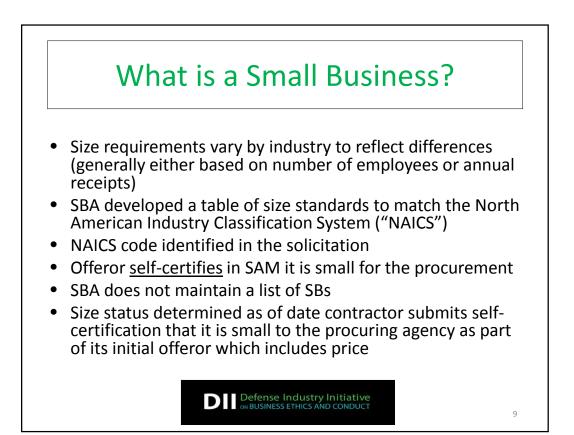


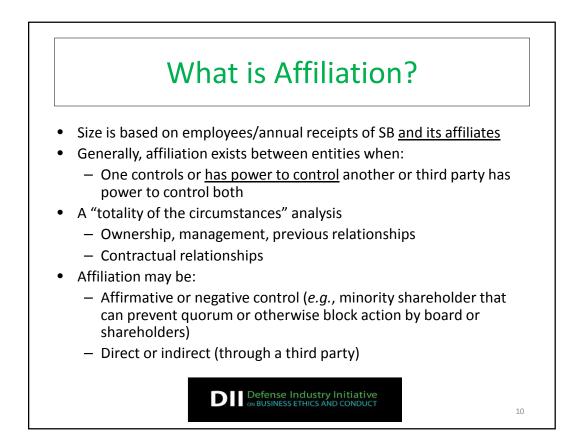


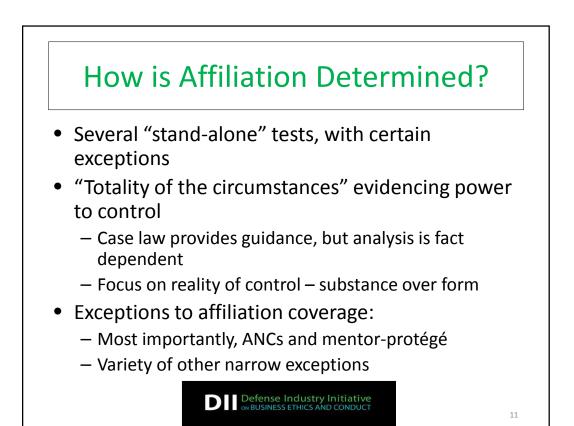


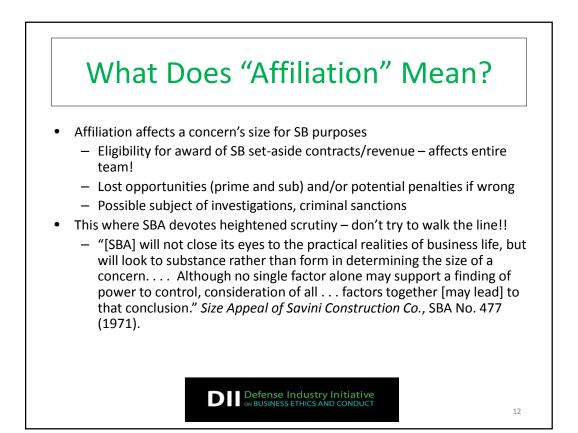


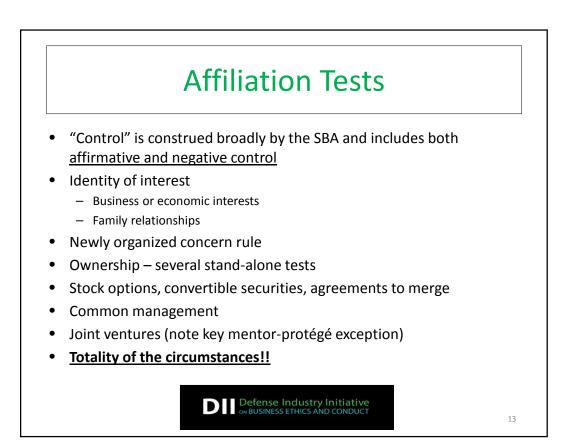


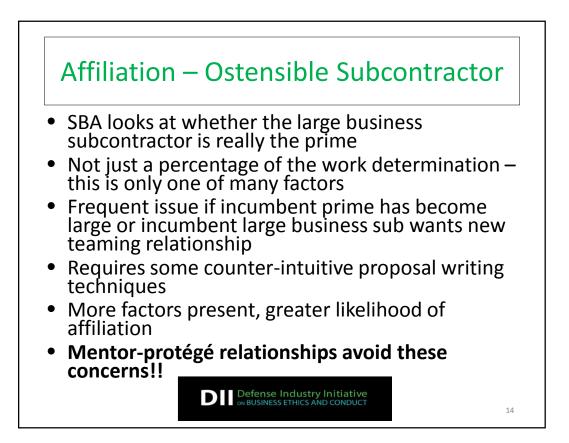


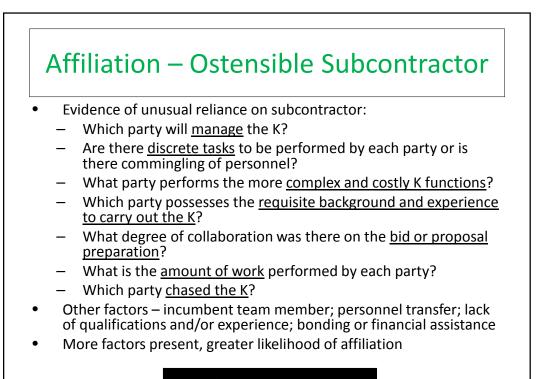




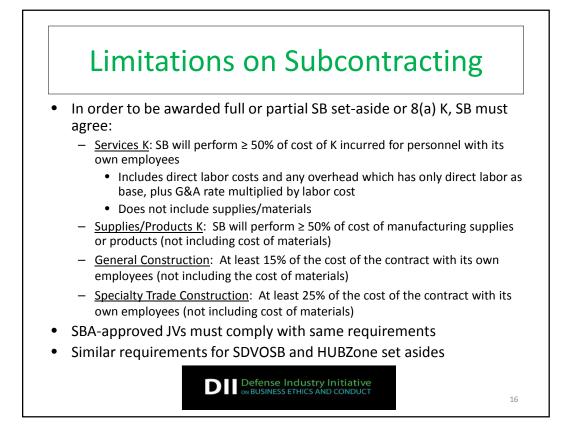


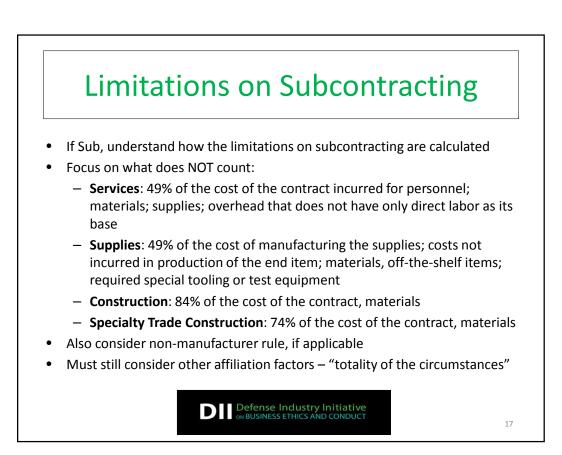


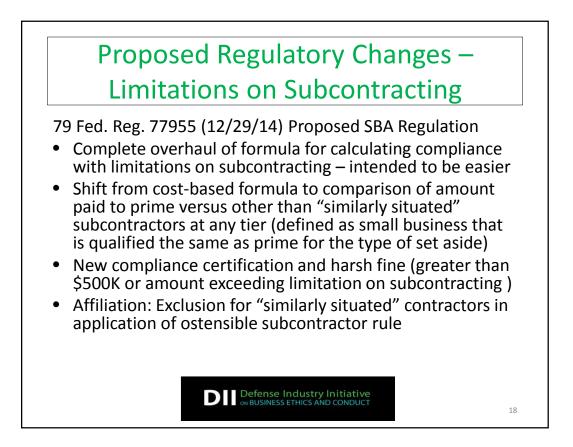


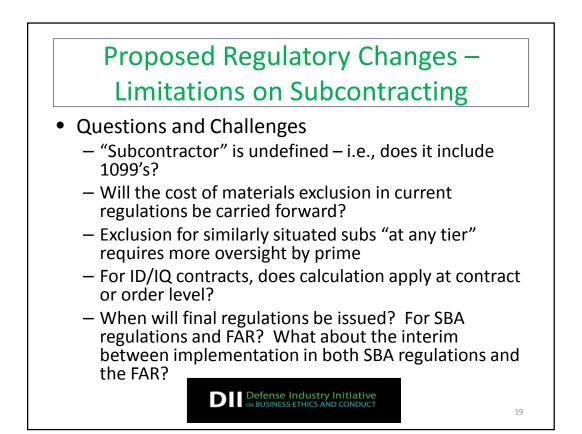


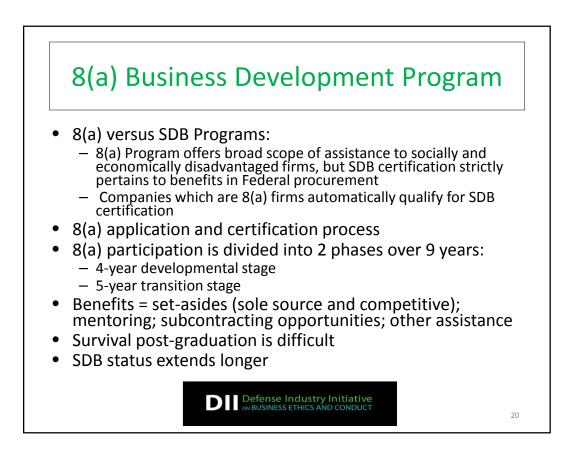
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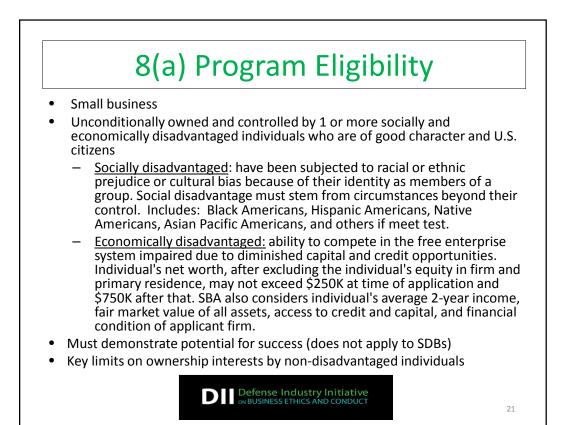




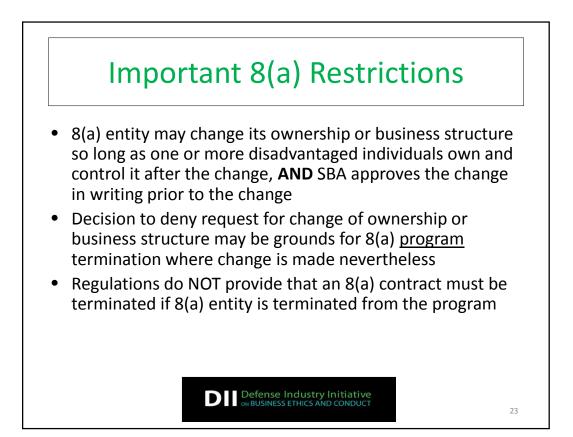


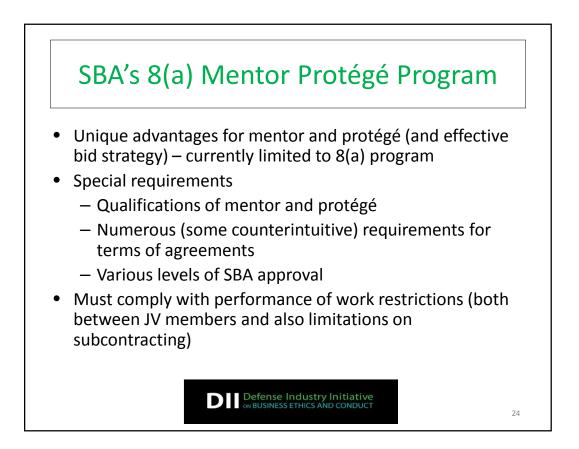














- SBA's M-P Program as affiliation exception for JVs; large business can have shared responsibilities as prime contractor
- JV qualifies as small and 8(a) on set-asides and for subcontracts (can be used to meet subcontracting goals)
- Ability to form multiple JVs to exceed regulatory limit of 3 awards in 2-year period
- Mentor can have up to 40% equity interest in Protégé
- Assistance provided under M-P agreement is exempt from affiliation
- Mentors generally limited to 1 Protégé; prohibited from more than 3; multiple Protégés cannot be competitors
- Protégé benefits from true mentorship, increase awards due to JV combined capabilities

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