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Announcer: Welcome to HII Talking Points, a Huntington Ingalls Industries podcast. Twice a quarter we'll sit down with HII leaders to discuss topics of interest in our company and industry.

Interviewer: My name is Phoebe Richards and today I'm talking with HII president and CEO, Mike Petters, about ethics. We've heard about many ethics violations in the news, so, today I'd like to explore why we value ethics at HII and what its role is in the success of our business. So, to start, at HII we have a robust ethics program that employees hear about all the time, but why is ethics so important to our business?

Mike Petters: Well, thanks, Phoebe, and thanks for having me again today.

Interviewer: Of course.

Mike Petters: We do a lot of things in our business that are really important. We build complex ships, we have lots of functional specialties, we have a lot of craft, we have a lot of business specialties – finance, accounting, those kinds of things – and we really demand expertise in all of those areas. When I get asked, "What's the one thing that keeps me awake at night," it's never in those areas. I'm pretty confident that our welders know how to weld and our accountants know how to do accounting, and we may have some things where we have to go back and fix a mistake or do something like that, but those kinds of things are – that's what we do. We know how to do that. We've seen most of those kinds of issues before and we work our way through those kinds of things. The thing that keeps me up at night is somebody – is that someday somebody somewhere in this organization is going to try to cut a corner because they feel the pressure to do so or they have the opportunity to do it or they have – they can come up with some sort of excuse for why they want to do it, but somehow they put all that together and they say, "Today, I'm going to cut a corner on" – fill in the blank – "I'm going to cut a corner on safety or cost or quality or schedule or something." Those are the things that actually keep me awake and that's why we spend so much time on it because for all of the work that we around making sure that our craft expertise – whatever your craft is – that you have the craft expertise – that alone is – that's not sufficient for us to be successful. We have to do it the right way and our customers are counting on us to do it the right way and our shareholders are counting us to do it the right way. So, we spent a lot of time on it. We talk about it a lot. It's a topic at my staff meeting every month, and, so – and we have some pretty robust discussions about it.

Interviewer: Would you say that ethics violations keep you up at night because it's a problem that takes longer to solve than just a mistake or is it more dire?

Mike Petters: Yeah, I think it's deeper than that. When we formed this company nearly seven years ago, we decided that we wanted to be – as the principal franchise of the company, we wanted to be the Navy's go-to principal partner, and what I would say today – we have a lot more customers than the Navy, but I would say this still applies. We want to be their principal partner. We want to solve our customer's problems. We want to feel their pain. We want to solve their problem. We want them to pick up the phone and call us and say, "Well, I've got this problem." We want to be able to call them and say, "We know you have this problem and here's a solution," and we won't get any of that unless they know that we're solving those problems the right way, and, so, to me, this is as much about the relationship that we have with our other stakeholders, whether – customers are important and in order for that partnership to work they have to know that we're going to do things the right way to get – to accomplish – to solve the problem in the same way our shareholders need to know we're going to do it the right way. We put out all kinds of statements and reports to our shareholders and they absolutely have to have confidence that what we're telling them is actually what's going on, otherwise, we've seen lots of companies who have had errors in accounting, errors in judgment, different kinds of processes, taking credit when they shouldn't have. When you break that bond of trust, whether it's with your customers or with your employees or with your shareholders, you break that bond of trust that you're going to do things the right way, you've really lost the franchise. That's why I stay awake at night. It's not because it's harder. It's because the principal reason that we exist is because we have stakeholders who trust us and when we have an ethics violation, we've betrayed that trust and that risks the franchise.

Interviewer: So, speaking of trust, this year's theme for ethics and compliance is "Always do the right thing," and I would say trust is a big part of that, but with deadlines, financial pressures, the push to cut corners, what's your advice for employees on how to best deal with stresses and choose to always do the right thing, even when it's hard?

Mike Petters: Well, yeah, life is hard and the work is hard and we – and if this were easy, a whole lot of other folks would be doing it. I saw an interview with Joe Madden, who is the manager of the Cubs, and he was talking about his players and they were talking about mistakes and he said, "You know, I can forgive a player for making a physical mistake – running to second base and getting thrown out, trying to be aggressive and not being successful. I can forgive those kind of mental mistakes," he said, "But a mental mistake – those kinds of physical mistakes – a mental mistake, I can't forgive that. If the third base coach puts the sign up to say, 'Stop running at third base,' and you run right through that sign and you're thrown out at home, I can't forgive that," and that was the gist – that's not quoting, but that's the gist of what he was saying is that there's kind of – two kinds of mistakes and what I would tell you is that when I heard him say that, I thought, "You know, that makes a lot of sense to me." I can forgive somebody for being over budget. I can't find a way to forgive somebody for cutting a corner related to safety. So, I think that – I think you just got to kind of keep a frame a reference of "Always do the right thing" means admit that you're over budget or admit that you're late. That's doing the right thing. Always doing the right thing means doing all the

things you need to do to make sure people are safe – to make sure that the quality is what we’re signing our name to – make sure that the time that we put in is the time that we actually put in. That’s always doing the right thing and if we’re not making those kinds of mistakes – if we’re always doing the right thing – then we can find a way to deal with, okay, we’re over budget. I don’t want to be over budget, but that’s not the end of the world. We can deal with that.

Interviewer: Right. So, honesty plays a big role with this as well.

Mike Petters: That’s the central part of it, yeah.

Interviewer: How do you make ethics part of your leadership role?

Mike Petters: Well, like I said, we mention it – it’s a topic of conversation at every staff meeting. We start with a safety moment and then we go to an ethics moment. My staff meets – we have an all-day meeting once a month and we rotate around the room assignments for, “Next month you have the ethics moment,” or, “Next month you have the safety moment,” so, we get a lot of diversity of views and we get a lot of diversity of topics, and typically the ethics moment takes forty-five minutes to an hour to discuss. Even though we’ll kind of allocate only fifteen minutes in the schedule, someone will come in with a really good topic that’s current and in the news and we’ll put that out there and next thing you know you’ve got the whole staff talking about their views of it, what’s the ethical issue at risk, how does that apply to our business, what are we doing in those areas, are we doing enough, should we do more, are we doing too much, and it becomes a much broader issue than just the ethics topic itself but it’s a great way to make sure that we have – at the senior level of the organization we have coherent view of how important ethics is and not only how important ethics is but what is right and wrong. The thing about ethics is sometimes you can have disagreements about whether it’s ethical or not, and, so, we actually hash that out in here before we’re actually confronted with the actual case inside our business.

Interviewer: So, what do you want our managers and leaders and your staff to understand as it relates to ethics at HII?

Mike Petters: Well, a couple of things. First of all, as I said before, the tag line, “Hard stuff done right,” the “done right” part is just as important as the “hard stuff,” and the future of the company depends on our ability to create those partnerships where all of our stakeholders will trust that we’re going to do things the right way. Now, there’s going to be plenty of hard stuff to do out there over the next twenty-five years and they’re going to be a very – it’s going to be a very short list of people that are going to be able to do it and do it the right way and that’s us, and we want to be on that list and we don’t want to ever do anything that’s going to jeopardize our chance to be on that list for any of those customers. So, that’s why doing it right, doing it right all the time, every time, that is actually ensuring the future of the business. So, that’s the first part of it. The second part that I would say is – from a leadership standpoint is – this kind of goes back to some of the things we talked about before – if you care about it, your people will care about it. If your boss cares about it, you care about it. So, to the extent that you can make ethics part of your normal interaction with

your team to let them know how important it is to you as a leader, how important it is to you on whatever team you're in, whether it's a supervisor or a collaborative team or whatever it is, letting people know how important the ethics – how important ethics is to you will help us all to do things the right way. It's not easy to stand up and say, "This is wrong." It's a lot easier to do that in an organization where everybody knows that we value the right way, and, so, as a leader our job is to create a climate where it's not only safe, but expected, that somebody would stand up and say, "This is wrong."

Interviewer: Right. So, what can HII learn from some of the recent ethics violations we've heard about in the news?

Mike Petters: Yeah, it's been – unfortunately, there's been more than we would hope for –

Interviewer: Yes. Yeah.

Mike Petters: – and I would say a little bit of – there's – there are thousands of companies and institutions out there that are behaving ethically every single day and they don't make the news.

Interviewer: Right. We never hear about them.

Mike Petters: We never hear about them, right? So, the only folks that make the news are the ones that trip over their shoelaces on this and whenever you go and look at these cases, you can find some element of what we've already talked about. You can find elements of where people felt like they had too much pressure to do something or they had a chance to do something and they could make it – they could rationalize it and say, "Well, this is what they meant anyway," and, so, we talk about the ethics triangle, the compliance triangle, the fraud triangle, but it's all kind of the same thing. If you have pressure and you have – and you can rationalize it and you have the opportunity, if those three things intersect, you might have a problem. So, from a leadership standpoint, you kind of look at organizations that have something happen to them and you step back and say, "Okay, was there too much pressure in the organization or were their objectives kind of off," and I think in any one of these cases, you can – any one of the ones that's come up in the recent few months, you can kind of look at it and look through the lens of was there too much pressure, is there rationale, and is there opportunity, and you can look through that lens and say, "Okay, well, I can see how that could happen," and it kind of informs you in the way that, "Okay, well, if that could happen there" – the scandal is that these are typically really well-known institutions, whether they're companies are or whatever that – they're well-known institutions that trip up on this. If it could happen to them, it could happen to us. So, are we really – are we, as leaders, really thinking about the balance between doing it the right way and the pressure we're putting on the organization to get it done? Are we thinking about the opportunity we're giving people to make these kinds of decisions? Are we creating rationale for folks to make these kinds of decisions and can we do something different so that they don't do that, and that's why we talk about them. In our staff, we talk about these current cases about, okay, so, what's going on there, and usually it's a mix of those three things – pressure, rationalization, and opportunity.

Interviewer: So, some employees may be afraid of retaliation when they bring something up to their supervisor or call the open line, so, what advice can you give to someone in that situation?

Mike Petters: Boy, this is a problem we're really trying to get at because discipline in one set of lenses is retaliation in another set of lenses, and leaders have to actually create an environment where people feel safe to step up and that means that when somebody steps up that you have to be able to protect them. So, that's our commitment is that when you step up, you get protected, but we have to know. If you don't step up, we'll never know. We've done some training – we've done some things where we've – we're helping our leadership understand how important this is – how important this feedback is – but at the end of the day, we've talked about our mantra for diversity and inclusion is for the least empowered person to confidently contribute, and it's the leader's job to create that environment, and if people in the organization are fearing retaliation then I would say that environment is not being created. It's a failure on the leadership part. So, we take it pretty seriously.

Interviewer: Do you have any advice for people who maybe they want to make that move, but they're just afraid to make that one phone call?

Mike Petters: Yeah. Right, so, there's a range of ways that you can actually report. Beyond talking directly to your supervisor, you can talk to the folks in HR. You have the open line as a resource. You can do that anonymously if you want to do it that way. We take all of those inputs and value all of them. The – yeah, but we also need to know that if you sense and – or fear that there's retaliation, you need to let us know that, too, because we'll step in and make sure that that's not the case. We don't have a choice. Again, that gets back to doing things the right way. We can't possibly do things the right way if people are afraid they're going to be retaliated against. So, that's a charge to the leadership team to make sure that our environment is such that that won't _____.

Interviewer: A good charge for us to end on. So, I appreciate your time speaking with us today.

Mike Petters: You bet. Thanks.

Interviewer: All right. Thanks.

Mike Petters: Good to talk you again.

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Announcer: Thanks for listening to HII Talking Points. This podcast was produced by Huntington Ingalls Industries' corporate communications team. We welcome your feedback and ideas for future podcasts at <http://www.huntingtoningalls.com/podcast>.

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