

The best defense

SIR RICHARD OLVER tells Brunswick's **MICHAEL HARRISON** that a crisis, such as the one BAE Systems faced over its Saudi arms deal in 2004, can be an opportunity to institute fundamental change

SIR RICHARD OLVER IS SITTING BACK, LEGS crossed, in his office in Stirling Square, an anonymous, modernist building tucked discreetly between two of London's more iconic landmarks, The Mall and the gentleman's clubland of St. James's. He is contemplating the nature of crisis. With his white hair, owlish features and wire-rimmed glasses, Olver could quite easily pass for an Oxford don. Indeed, he has the requisite intellectual heft and gift for deconstructing an argument, though he has led nothing like a sedate life among the groves of academe. For the past decade he has held down one of the toughest and most demanding corporate jobs: Chairman of BAE Systems, the world's third biggest defense contractor and Britain's largest manufacturing company.

In February 2014, he retired from that post to devote more time to his other commitments, which include advising UK Prime Minister David Cameron and a clutch of blue-chip companies, plus indulging his various passions: sailing, ballet, the fine arts, and five grandchildren.

Busy as he is now, life at BAE was hardly dull. While there, Olver led the company through a number of perilous crises – from a six-year Serious Fraud Office (SFO) investigation into allegations of bribery and corruption in some of BAE's most important overseas markets, to the squalls that followed BAE's failed attempt in 2012 to merge with EADS, which would have created a global defense and aerospace leader – a project championed by Olver. Along the way, he has had to deal with any number of issues, ranging from the difficult decision in late 2013 to end naval ship-building in Portsmouth, Britain's Royal Navy hub on England's south coast, to the closure of armored vehicle and aircraft production sites in the north.

Though they can cause painful disruption, especially for the people directly affected, Olver believes that some crises can be cathartic. This was especially true, he recalls, of the one that engulfed BAE in 2004, when the company was accused of using a slush fund to pay millions of pounds in bribes to facilitate the Al-Yamamah arms-for-oil deal with Saudi Arabia. →



PORTRAIT: SAM KERR, DEBUT ART

RICHARD OLVER

Sir Richard Lake Olver (universally known as Dick), was born in Woodford Green, Essex, just outside London, in 1947, graduated from City University with a First Class Honors degree in Civil Engineering and joined BP in 1973. His 30-year career at BP culminated in his appointment as Deputy Group Chief Executive in 2003. In July 2004, he became Chairman of BAE Systems, retiring in February 2014. He has held a number of board and advisory positions at companies including Thomson Reuters and HSBC. He is also a member of UK Prime Minister David Cameron's Business Advisory Group.



The Typhoon is a multi-role aircraft that goes from brakes off to takeoff in less than eight seconds and supersonic in under 30

“If you know you need to make changes – maybe radical changes – then a crisis can help,” Olver says. “It is very difficult to get people to change the way they think and do things if it doesn’t appear to them that there is any particular need. We didn’t have a financial crisis or one created by a massive oil leak. We had a crisis of reputation and we needed to do a lot to fix it. Over the 10 years [since the crisis], we’ve changed everything.”

Olver has no doubt that today BAE is a better, more robust and more prosperous business thanks to the company’s root-and-branch reform of its ethical codes and the sea change in corporate culture that followed.

Progress is not just a matter of doubling the share price under his tenure; it goes deeper and further than that. “We have a company where there has been a real change in the way business is done. People glibly talk about culture change, but we have had real change. This company today is thoughtful about what it does at every level, whether it’s relationships with individuals, relationships with countries, or relationships with ministries and prime ministers. We clearly are only prepared to do business our way. We may have to walk away from some business – and we have – but my view is that in the medium- and long-term it’s a competitive advantage.

“Do we sometimes, with nearly 85,000 people, have somebody do something silly?” Olver continues. “Yes. But they don’t stay in the company for more than 10 minutes. We have zero tolerance for anything like that – but what has happened is that we’ve got more revenue, more profit, a higher stock price, and more overseas sales.”

AN AMBUSH AT DAWN

The SFO moved in just a few months after Olver took on the BAE chairmanship in July, 2004. His

gut instinct was to authorize an external review of the company’s ethical policies and business conduct by an independent figure, a “heavyweight,” so he could communicate, both internally and to the outside world, that BAE was alive to concerns about its behavior and determined to change.

He found the heavyweight to take on the review in the shape of Lord Harry Woolf, a former Master of the Rolls and Lord Chief Justice (the top two judicial positions in England). Over breakfast at the Athenaeum Club around the corner from Olver’s office, Woolf agreed to take on the task but only after he had performed some due diligence. Olver recounts the story: “I said, ‘Well, OK, fine. Let me help you with the due diligence.’ He said, ‘No, no, no, you don’t understand. I’m going to do the due diligence on *you*. I’ll call you in a week.’”

Olver not only gave Woolf a free hand to review BAE’s existing ethics regime, but asked him to develop an ethical policy that would serve as the gold standard for British industry, not just the defense sector. The review began in 2007 and crucially Olver committed in advance to publish all of Woolf’s recommendations and to implement them.

The result, he believes, is an ethical standard and a culture that compare favorably with any company anywhere in the world: “We have rewritten every single policy and process. Our code of business conduct is world class – the way in which we vet advisers is world class. I don’t know any corporation that has actually changed as many things as we have changed.”

Isn’t it a bit ripe for a company that is in the defense industry to now parade its ethical standards?

Olver rejects that argument: “My view is the exact opposite. It’s precisely because we are in

“If you know you need to make changes – maybe radical changes – then a crisis can help”

the defense business that we have to make sure that everything we do is to the highest possible standards of business behavior.”

Indeed, he argues that precisely because of its own experience, BAE lobbied for the introduction of the UK Bribery Act, helping to shape the legislation and getting workable guidelines in place. “When the bill did come through, I think we were probably one of very few companies that actually already met its requirements and more,” he adds.

No need to take Olver’s word for it. BAE was ranked fourth out of the 129 defense companies in the latest anti-corruption index compiled by Transparency International, an independent organization that is a leading voice for openness in the fight against global corruption.

The long SFO investigation, which the US Justice Department joined in 2007, was also a reminder to Olver that dealing with a crisis is not just about what you do but also about how you communicate those actions. In December 2006, a seminal event occurred that was to change the course of the SFO inquiry: the Blair government announced that the SFO had been instructed to drop its investigation of the Al-Yamamah deal on “national interest” grounds because it was threatening Britain’s security relationships in an important part of the Arab world, and hence its ability to fight international terrorism.

Yet as Olver points out, the UK Attorney General, Lord Goldsmith, had concluded that the investigation was doomed to failure and that there was no case to answer. In fact, a judicial review that followed stated, “It would be unfair to BAE to assume that there was a realistic possibility, let alone probability, of proving that it was guilty of any criminal offence.”

Olver reflects, “With the SFO, a lot of the fallout that occurred did so because of the language used when the investigation was closed down. Now, had there been a case to answer, then there could easily have been a national security problem. There wasn’t, and if only that had been made clear, then we wouldn’t have received the coverage that we did in the press – for what turned out to be years. So to my mind, it just shows you that the language you use matters hugely.”

BAE is quite used to being treated as a political football – there are undoubtedly still some in UK political circles who regard it as a wholly-owned subsidiary of Her Majesty’s Government, some three decades after it was privatized.

The Type 45 Destroyer protects forces against threats from enemy aircraft and missiles. It is also used to counteract piracy and smuggling, and in disaster relief and surveillance

Take the decision, in November 2013, to cease warship-building in Portsmouth and consolidate it in two shipyards in Clydeside, Scotland. Olver says BAE had a solid commercial case for its actions – the bulk of the jobs and skills are in Scotland, while Portsmouth had not built a complete large warship “for probably a century or two.”

If that episode sparked political machinations, it was nothing compared to the uproar that greeted Olver when the news leaked in September 2012 that BAE was contemplating a merger with its European rival, EADS. This polarized politicians, pundits, →



BAE SYSTEMS

FINANCIAL PERFORMANCE

YEAR	SALES	PROFIT*
2004	£13.2bn	£1bn
2005	£12.6bn	£0.9bn
2006	£13.8bn	£1.2bn
2007	£15.7bn	£1.4bn
2008	£18.5bn	£1.9bn
2009	£22bn	£2.2bn
2010	£22.3bn	£2.2bn
2011	£19.2bn	£2bn
2012	£17.9bn	£1.9bn
2013	£18.2bn	£1.9bn

EMPLOYEES

UK	33,300
US	31,500
Other	19,800

R&D SPEND

2013	£1.1bn
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* UNDERLYING EBITA

SOURCE: BAE SYSTEMS
(FINANCIAL YEAR ENDS DECEMBER 31)

SHARE PRICE (UK PENCE)



financial analysts, the media – even whole nations – in a way that few previous corporate mergers had. It is safe to say that coverage of the story will not have pride of place in Olver’s scrapbook.

In the UK, the populist *Daily Mail* and the sober and serious *Financial Times* led the charge, pouring ordure on the merger day after day. Even when the deal was abandoned, the attacks continued. Neil Woodford of Invesco, BAE’s biggest shareholder and an uncompromising opponent of the merger, called for a change in leadership at the company, accusing Olver of having presided over a “lost decade” for BAE investors.

Olver is unrepentant and dismisses the reaction the deal provoked in some quarters. “I think it’s incredibly clear to everybody – and I mean *everybody* – that it was actually the right thing to do,” he says. “It would have created arguably the world’s most capable and competent aerospace and defense company. You would have had a

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Named after the Celtic god of thunder, the Taranis is an unmanned combat stealth aircraft

strong balance sheet, hugely able people, fantastic R&D, fantastic technology – it would have been an economic powerhouse which could have been the best in the world.”

He also points out that it would have been a fabulous deal for BAE shareholders, who would have owned 40 percent of the combined business. Given the relative performance of the two companies’ share price since, the split would be more like 30/70 if the deal were to have been done at the end of 2013. So, could the deal ever be resurrected? “It’s not on the agenda now,” he says.

The lessons Olver takes from the episode revolve around communications.

He reckons that the fact that the merger was leaked prematurely – in Paris, the *FT* reported – before the two companies had completed their discussions with the British, French and German governments, helped scupper the deal. “Bound by the City Code on Takeovers and Mergers, we could not tell anybody anything which was new information ... So, we were very hampered in what we could communicate to shareholders, which is a pity.” As a result, he says, shareholders were judging the deal on the basis of incomplete and inadequate knowledge. Indeed there is a growing debate in corporate and City circles about these rules which can shackle companies during offer periods.



BAE SYSTEMS

BAE Systems was created in 1999 through the merger of British Aerospace and Marconi Electronic Systems, in response to other defense and aerospace industry mergers in Europe and the US. The company grew through a number of acquisitions, notably of United Defense Industries, the American maker of the Bradley fighting vehicle, in 2005, and Armor Holdings, another US defense firm, in 2007. BAE Systems sold its 20 percent stake in Airbus to EADS in 2006 and in 2008 acquired Detica, a cybersecurity and information intelligence business. Today, BAE Systems focuses on defense, aerospace and security, with approximately 85,000 employees across six continents.

The company traces its history back through two legacy lines that include many well-known industry names

BRITISH AEROSPACE

Formed in 1977 as a nationalized corporation by the Labour government, it was privatized in 1981 by the Thatcher government.

Legacy companies include:

- **Bristol Aeroplane Company**, which made the Bristol biplane (the Boxkite), Bristol Fighter and, during the Second World War, the Bristol Beaufighter. Later, its designs were used in the development of the supersonic Concorde.
- **de Havilland Aircraft Company**, maker of the famous Moth series of biplanes – including the Gipsy Moth, Tiger Moth, Cirrus Moth – and the

OUT OF THE FIRING LINE

As he retires from the corporate front line, Olver reflects on how perceptions of BAE have changed. At the November 2013 Confederation of British Industry conference, he took part in a debate about trust and reputation alongside Sir Philip Hampton, Chairman of Royal Bank of Scotland, and Sam Laidlaw, CEO of energy company Centrica. “Had it been three or four years ago, we’d have had everything thrown at us,” he says.

As it turned out, his co-speakers took most of the flak for banking failures and sky-high energy prices, culminating in Laidlaw publicly volunteering to give up his bonus for the year. “Then a lady stood up in the audience and started her question by saying, ‘I’d like to congratulate BAE Systems on its diversity policy’ ... So, instead of assertions about inappropriate behavior or bad reputation, she was actually congratulating us on our attitude to women in business.”

Olver says it is part of “the leadership obligation” for companies to take public positions on issues such as workforce diversity, climate change, and supply chain labor practices, and to communicate those positions effectively. But he argues, also, that it is important to take stands on positions that may be unpopular. For example, he says, “If we want Britain to be a good home for multinational

More than 14,000 Hawker Hurricanes (below) were built and it was the most prolific fighter in the Battle of Britain



companies, or we want to attract the best multinational people to lead our companies, getting too hair-shirt about the remuneration issue is probably not wise. What we need is strong clear thinking, remuneration committees that set the tone and levels with rigor and discipline, but in a way that’s appropriate for the corporation.”

How does Olver see the covenant between business and the public? “I do think it’s very fragile and companies in all sectors are vulnerable. We all need to pay attention and make sure that we not only rebuild trust but raise it to a higher level – I think we’ve got some way to go.”

And so, what is Olver’s advice to all those companies now facing challenges to their reputations, such as those he has confronted over the past decade? What would he say to his counterparts at, say, GlaxoSmithKline, or security firm G4S? “Crikey, that’s a big ask. The most difficult thing to do, but the most important, is to decide on your values and your standards of business behavior and drive to embed them throughout the whole organization. And prepare for a long journey.” ♦

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Comet, the first commercial jet airliner.

- **Hawker Siddeley**, which produced probably the most important aircraft in the Battle of Britain, the Hawker Hurricane, which accounted for more enemy aircraft strikes than all other fighters combined, including the Spitfire.
- **Scottish Aviation**, which built aircraft including the Bulldog training plane.
- **Royal Ordnance**, the UK munitions maker, bought from the taxpayer in 1987.
- **Rover Group**, bought in 1988 from taxpayer, subsequently sold to BMW of Germany in 1994.

MARCONI ELECTRONIC SYSTEMS

The company was the defense arm of The General Electric Company of the UK (not

related to GE of the US) and was known as GEC-Marconi until 1998, when it changed its name and was merged the following year with British Aerospace to form BAE Systems.

The company’s history dates back to the late 19th century and the invention of wireless telegraphy by physics Nobel Prize-winner Guglielmo Marconi. Among the legacy companies’ most important contributions was the development of radar, which gave the RAF an enormous advantage in the Battle of Britain.

As Marconi grew through acquisitions later in the century, its legacy companies built or provided important components in a number of military and civilian systems, including the Astute Class submarines, the Boeing 777, the Royal Navy’s Type 23 Frigates and the Brimstone air-to-ground missile system.

The Bradley Fighting Vehicle is an integral part of the US Army’s Armored Brigade Combat Team. It was designed to combine the weapons and equipment of an armored personnel carrier, a tank destroyer and a fire support and scout vehicle

