

May 2022

Raytheon Technologies Corporation: An Analysis of Leadership, Ethics, and Social Responsibility

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Recommended Citation

Monterio, Jarett (2022) "Raytheon Technologies Corporation: An Analysis of Leadership, Ethics, and Social Responsibility," *Journal of Global Awareness*: Vol. 3: No. 1, Article 7.

DOI: <https://doi.org/10.24073/jga/3/01/07>

Available at: <https://scholar.stjohns.edu/jga/vol3/iss1/7>

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Abstract

The purpose of this analysis is to examine Raytheon Technologies Corporation (RTC) in the context of its leadership structure, ethical issues and practices, stakeholder relationships, and position within the social responsibility realm. Undertaking an analysis of an aerospace and defense company such as RTC is perhaps timelier than ever. We live in a world of increasing global competition and confrontation. Simultaneously, we are experiencing unprecedented technological development. Combined, this has created a situation where the boundaries of conventional warfare have been redrawn. The questions of what appropriate offensive and defensive tactics are and how governments, and increasingly private sector companies, utilize new technology to achieve superiority do not have definitive answers. RTC is one of the largest aerospace and defense companies in the world operating in this new age. Therefore, examining RTC in terms of its leadership practices, ethical positions, and social responsibility efforts will help to illuminate how both the company and society are working through these uncharted waters.

Keywords: Raytheon Technologies Corporation (RTC), leadership, ethical issues, social responsibility, stakeholder relationships

Introduction

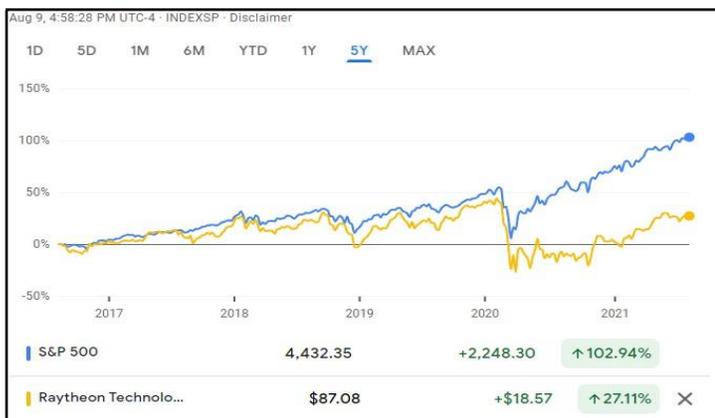
RTC is a multinational aerospace and defense company headquartered in Waltham, Massachusetts, that originally began as Raytheon Company in 1922 (Amir & Weiss, 2016). In 2020, Raytheon Company merged with Connecticut-based United Technologies to form RTC (Kilgore, 2020). Currently, RTC is comprised of four business segments, including Collins Aerospace, Pratt & Whitney, Raytheon Intelligence & Space, and Raytheon Missiles & Defense. RTC performs research and develops products and technology, including aircraft engines, avionics, aerostructures, cybersecurity, guided missiles, air defense systems, satellites, and drones.

Per RTC's 2020 10-K, the company provides these advanced systems and services to commercial, military, and government customers. RTC is publicly traded on the

NYSE with 2020 net sales of approximately \$56B (MSN Money, 2021). As of 2021, RTC had approximately 181,000 employees, 46,000+ patents, and 60,000+ engineers and scientists (RTC Proxy Statement, 2021). Below, Tables 1, 2, and 3 highlight RTC’s share price relative to the S&P 500. RTC has generally followed the same trajectory as the S&P 500. RTC has risen and fallen in line with the S&P 500; however, the strength of recovery for the S&P 500 has been greater since the COVID-19 decline in early 2020. Generally, the S&P 500 has outperformed RTC in terms of overall return over the past five years

Table 1

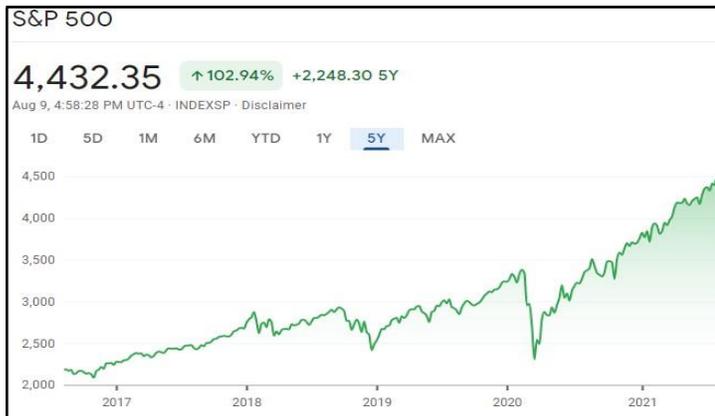
5-Year Comparison of S&P 500 vs. RTC Returns



Source: Google Finance (August 9, 2021)

Table 2

S&P 500 5-Year Price



Source: Google Finance (August 9, 2021)

Table 3

RTC 5-Year Price



Source: Google Finance (August 9, 2021)

The following paper will begin by identifying and analyzing the leadership and governance structure of RTC. Next, the company's ethical posture and approach to stakeholder relations will be discussed. Lastly, RTC's efforts in the social responsibility arena will be considered.

Leadership and Governance

The company is currently led by Chairman and CEO Gregory J. Hayes, with oversight from a 14-member Board of Directors (RTC Corporate Governance, 2021). RTC espouses a foundation of core values that include trust, collaboration, respect, innovation, and accountability. The company leaders appear to want to lead with transparency and fairness. For example, the latest Proxy Statement for the company explained that top executive management voluntarily agreed to a salary cut in the wake of the Covid-19 pandemic, even in the face of increased sales. Actions like these from senior leadership signal to those below that all employees are doing their part in times of uncertainty.

All of the executive management and members of the Board have impressive experience and backgrounds. A review of the latest Proxy Statement revealed a section that highlighted the skills and expertise of each Board member. RTC specifically values expertise in government, technology and innovation, international markets, risk management and oversight, finance, industry experience, and senior leadership experience. "Evidence indicates that there are certain core traits which significantly contribute to business leaders' success" (Kirkpatrick & Locke, 1991). It is not a coincidence that RTC makes it a point to highlight and advertise their leader's traits. "Effective leadership skills can help leaders to gain the trust of employees, making other tasks easier to operate because the employees trust their leaders" (Hao & Yazdanifard, 2015). Therefore, it is in the company's interest to hire well-qualified effective leaders to build confidence among the employees and the greater public.

It is also important to look beyond who sits on a Board and what skills they bring to the table. Various factors play a role in determining the efficacy of a Board. For example, the level of individual member involvement, how much equity members have in the company, age, Board independence, and size all play a part. RTC maintains a robust Board oversight system, including strong corporate governance

guidelines and a separate director independence policy (RTC Corporate Governance, 2021).

However, there is also a much more human element that must be considered. At the end of the day, a Board is made up of people, and people need to work together for the good of the company. “What distinguishes exemplary boards is that they are robust, effective social systems” (Sonnenfeld, 2002). Trust, honesty, and openness to dissent are critical pieces of a healthy Board environment. “The highest-performing companies have extremely contentious boards that regard dissent as an obligation and that treat no subject as undiscussable” (Sonnenfeld, 2002). RTC must strive to maintain a Board environment that values openness, trust, and supports strong communication with all its stakeholders.

Ethics and Stakeholder Relations

In the broadest sense, ethics refer to the “choices and judgements about acceptable standards of conduct that guide the behavior of individuals and groups” (Thorne et al., 2011). Within a business, what is ethical is shaped by the principles and values put forth by the business. A company is made up of individuals from various backgrounds who inform their ideas of what is right and wrong. To overcome the natural disagreement that will arise regarding ethical issues, a company must develop its own set of ethical standards. This creates a common set of ethics that all stakeholders can relate to and be held accountable for.

As previously discussed, the foundation of RTC is its core values of trust, collaboration, respect, innovation, and accountability. These core values form the basis for RTC’s comprehensive Code of Conduct. The Code of Conduct spells out responsibilities, mechanisms to deal with ethical issues, and appropriate ways of conducting business as an international arms dealer in a global society. One of the more interesting sections within the Code of Conduct is titled “Can Versus Should” (RTC Code of Conduct, 2020). The section discusses the difference between doing something because you can, compared to if you should, in the interest of the company and stakeholders.

The “Can Versus Should” dilemma is perhaps the greatest ethical issue a company like RTC faces. To reiterate, RTC is primarily in the business of making weapons

and developing technologies that are ultimately used for defense. To further complicate matters, RTC sells these weapons and technologies around the world. As an international arms manufacturer, RTC is subject to strict arms and export control measures. The world is not black and white. An enemy of one country can be the friend of another. RTC must balance its duty of loyalty to the U.S. while also pursuing business decisions in the best interest of its stakeholders. Both of RTC's predecessor companies (Raytheon Company and United Technologies) have had to pay millions of dollars in civil penalties in the past because of violations of U.S. export control laws. In one instance, United Technologies sold software to China that China used to develop its first modern military attack helicopter (Shalal-Esa, 2013).

The incident is clearly an example of "can't," but there have been many examples in RTC's past where, by law, the company could sell arms or technology to a certain end-user. However, society has questioned if they should. For example, there have been instances where the Saudi Arabian government has utilized precision missiles manufactured by RTC in conflicts that have resulted in the deaths of innocent lives. Specifically, hospitals and other non-combatant structures have been hit (Wilcken, 2018). In this example, RTC legally may have had the authority to sell to the Saudis, but some may question if RTC should have.

Additionally, some question if RTC has an ethical responsibility for how their products are ultimately used. Ethical issues are constantly arising for an international arms manufacturer such as RTC. In a world with ever-changing geopolitics, what is acceptable today, could be considered taboo tomorrow. RTC must be vigilant in reviewing its internal control policies, especially when it comes to controlling its supply chains and making every effort to know their customer on the end-user side.

Highlighting supply chains and end-users naturally leads to a discussion regarding stakeholder relations. Stakeholders are "people to whom the organization is responsible because they have a stake or claim in some aspect of a company's products, operations, markets, industry, or outcomes" (Thorne et al., 2011). In the case of RTC, all the traditional stakeholders appear to be valued by the company, including employees and shareholders. Yet, suppliers, consumers, and governments, particularly the U.S. government, are tremendously important.

Stakeholder orientation is “the degree to which a firm understands, and addresses stakeholder demands” (Thorne et al., 2011). Based on an extensive review of RTC’s reporting documents and policies, it appears the company has a strong stakeholder orientation.

To support this claim regarding stakeholder orientation, let us first consider employees. RTC does an amazing job at clearly stating the value it places on employees at all levels. The company has an incredible employee benefits program and has invested over \$1B in advancing the education of its workforce. RTC has an active leadership development program and diversity, equity, and inclusion program. Furthermore, numerous organizations have recognized RTC as a top employer, including Women Engineer Magazine, the U.S. Dept. of Labor, U.S. Veterans Magazine, LGBTQ Human Rights Campaign Foundation, and the Hispanic Association on Corporate Responsibility.

For a company that manufactures weapons and develops technology that can end lives, whom you procure your supplies from, and whom you sell your end products to are uniquely important. Suppliers are a critical component in RTC’s business model, and they take this seriously. It is important to know your suppliers and how they are providing you with those supplies. Not knowing these critical business components can cause ethical/legal issues to arise, as well as supply chain security issues. If these risks manifest, they can inevitably lead to reputational management issues and decreased profits. RTC has developed a comprehensive “Supplier Code of Conduct” and published a “Conflict Minerals Policy Statement” (RTC Corporate Governance, 2020). Both documents play an equally important role in establishing what the relationship between RTC and its suppliers should be, and what the company is doing to ensure conflict minerals are not a part of their manufacturing process.

Lastly, governments are major stakeholders for RTC. RTC is acutely aware that a large portion of its revenue comes from U.S. government contracts. Moreover, RTC is a U.S.-based company and has an ethical, moral, and legal obligation of loyalty and commitment to the welfare of the U.S. over another foreign power. RTC must balance that with the fact that it sells arms and technology to other foreign governments. Although there are export control laws, the lines are not always that clear. It is a delicate balance of profit maximization while also maintaining the

highest ethical standards and loyalty to the well-being of the U.S.

Social Responsibility

Recognizing RTC's obligation to put U.S. interests above those of other foreign powers opens the door to the much larger topic of social responsibility. In simplest terms, social responsibility is "the adoption by a business of a strategic focus for fulfilling the economic, legal, ethical, and philanthropic responsibilities expected of it by its stakeholders" (Thorne et al., 2011). Much debate has been had on whether companies have an obligation to be socially responsible in the first place, or in some cases, if it is even legal for companies to pursue these goals at the expense of profits.

Perhaps, social responsibility and profit maximization do not have to be mutually exclusive. Framed slightly differently, "the social responsibility of business is to create value for stakeholders. The stakeholder approach aims to create a new narrative about business — a new story — that enables great companies to make our communities and our lives better through the creation of stakeholder value, rather than simply profit to shareholders" (Freeman & Elms, 2018).

Breaking up the definition of social responsibility into its components delivers great insight. First, social responsibility should be strategic. What a company pursues should reflect its values and ideally create a feedback loop of positive input. Meaning the sweet spot of a strategically sound social responsibility campaign is one that benefits both the company and society at large. Equally important is the need for social responsibility to have a stakeholder orientation. As previously discussed, everything done by a company should be with stakeholders in mind. Social responsibility is no exception. RTC holds social responsibility in high regard. Two of its greatest efforts include its Connect Up program and a strong commitment to the environment and sustainability.

RTC has developed the Connect Up program, which is a "10-year, \$500 million-dollar commitment to foster connections that advance lifelong learning, support military families and veterans, and lift up our local communities" (RTC Connect Up Fact Sheet, 2020). The program establishes strategic partnerships with organizations focusing on military veterans and families and those that support the next-generation STEM workforce. This program is strategic for RTC because not

only it is developing partnerships with the community but also fostering potential future employees. Overtime, the Connect Up program and consistent positive interactions with community stakeholders will build social capital for RTC. “Like financial and intellectual capital, social capital facilitates and smoothes internal and external transactions and processes” (Thorne et al., 2011).

In addition to Connect Up, RTC has undertaken a large commitment to being environmental stewards and sustainable operators. For almost a decade, RTC has continuously made strides in environmental sustainability through its Environment Health and Safety (EHS) program. Since 2015, RTC has reduced greenhouse gas emissions by 15%, water consumption by 23%, hazardous waste by 22%, and implemented eight additional renewable projects since 2019 (RTC Environment, 2020). The company aims to reduce greenhouse gases and water consumption by another 10% by 2025. Improvements to worker safety have also been seen. Since 2015, the total recordable injury rate has been reduced by 39%, high ergonomic risks by 78%, and 61 sites are OSHA VPP Star-certified (RTC Health and Safety, 2020). Through both the Connect and EHS programs, RTC has and aims to continue to strive to be socially responsible corporate citizens.

Conclusion

The purpose of this analysis was to examine RTC in the context of its leadership structure, ethical issues and practices, stakeholder relationships, and position within the social responsibility realm. We found that RTC has a strong vertical leadership structure with clearly defined values and a competent Board of Directors. The corporate culture and tone of the organization are set at the top, as evidenced by the company's publications. As a leading multinational arms and defensive technology manufacturer, RTC occupies a unique ethical landscape. It must do what is best for its stakeholders but also balance U.S. legal requirements in the form of export and arms controls. The company does an excellent job of recognizing the difference between can and should. However, we saw at least one instance where the ethical and moral dilemmas of dealing arms can be very hard to navigate.

RTC takes its responsibility to stakeholders seriously. It appears to be aware of who the primary and secondary stakeholders are and sets strategy and engagement appropriately based on these differences. Other than employees, RTC has

recognized the exceptional importance that suppliers, consumers, and governments, in particular the U.S. government, play in its business model. The stakes can be literally life and death.

Finally, RTC is taking real strides to be a good corporate citizen. We highlighted the Connect Up and EHS programs, both of which are building social capital through strategic social responsibility. RTC is poised to continue to be a world leader in its field.

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