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## Lockheed Martin Strategic Audit

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*LOCKHEED MARTIN*  
*Strategic Audit*



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## **Abstract**

This case study explores Lockheed Martin, a global leader in defense contracting. Our team performed a strategic audit using the theories of strategic management. Our research was pulled from various sources, including Lockheed Martin's website, SEC filings, related news articles, and relevant industry analysis. The goals of this case study revolved around collecting data and performing analysis to evaluate Lockheed Martin's potential for competitive advantage in the airplane and parts manufacturing industry.

Some of the various analyses performed on Lockheed Martin include firm analysis, industry analysis, internal analysis, external analysis, competitive dynamics, business-level strategy, corporate-level strategy, and exploring their strategic decision-making process. We produced a comprehensive strategic audit of Lockheed Martin's operations by performing the analyses above. We deeply explored Lockheed Martin's core competencies and how it leverages its resources and capabilities. In addition to conducting research on Lockheed Martin, we also performed an analysis of one of Lockheed Martin's closest competitors, Raytheon Technologies. Our strategic audit of Lockheed Martin concluded that Lockheed Martin's superior intellectual property, brand reputation, corporate structure, and competitive advantage will allow it to maintain its prominence and success in this industry long into the future.

**Key Words:** Lockheed Martin, Defense Contracting, Airplane Manufacturing, Strategic Audit, Case Study, Strategic Management

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## **Executive Summary**

### ***Introduction***

Lockheed Martin is a cutting-edge defense contractor formed from the merger of the Glenn L. Martin Company and the Lockheed Aircraft Company in 1995. Lockheed Martin's main business areas are *Aeronautics, Missiles & Fire Control, Rotary & Mission Systems*, and *Space*. It operates in various industries, including Aircraft, Engine & Parts Manufacturing in the U.S.

### ***External Analysis***

Macroeconomic factors that have substantial impacts on Lockheed Martin's operations are the *Political* and *Technological* factors. Political happenings such as increased support for defense spending or increased global conflicts (such as the conflicts in Ukraine or Israel) increase Lockheed Martin's profit potential. The Company also must remain on the front lines of new technology to offer the most innovative products. Lockheed Martin is mainly affected by the Intensity of Competitive Rivalry of Porter's Five Forces as competitors fight for market share.

### ***Internal Analysis***

Lockheed Martin's resources are its intellectual property, expert workforce, and relationships. Its capabilities include producing world-class defense solutions, pitching and securing government contracts, and developing new technologies solutions. Lockheed Martin deploys its resources and capabilities to win government contracts and generate sustained sources of revenue.

### ***Performance***

Lockheed Martin has a lower market share than industry competitors, but it also has a higher profit margin and earnings per share (EPS), which indicates Lockheed Martin makes more money per sale and is working towards gaining market share. Raytheon Technologies (RTX) operates similarly to Lockheed Martin but has struggled recently. The outstanding success of the Company's F-35 fighter jet program shows that Lockheed Martin is poised for future success.

### ***Business-Level Strategy and Corporate-Level Strategy***

Lockheed Martin uses a focused differentiation business-level strategy, focusing on providing substantial value to a small number of customers, like the U.S. government. Lockheed Martin's multidivisional organizational structure complements its unrelated diversification corporate-level strategy. Under this structure, each business segment is managed as if it is its own business.

### ***Conclusion***

Lockheed Martin is an innovative defense contractor that expertly deploys its resources and capabilities in the Aircraft, Engine & Parts Manufacturing industry. It coordinates its business and corporate-level strategies to overcome external pressures and provide new defense solutions. By focusing on the customer and continuous research and development, Lockheed Martin has positioned itself to continue its impressive growth.

## **Introduction**

### ***History***

Lockheed Martin (the Company) is an aerospace, defense, cyber-security, and advanced technologies company formed from two companies founded in 1912. On August 16, 1912, Glenn L. Martin established the Glenn L. Martin Company in Los Angeles, California. Martin founded the business after taking inspiration from Orville Wright and designing a new type of airplane. On December 19, 1912, Allan and Malcolm Lockheed founded the Alco Hydro-Aeroplane Company, later renamed the Lockheed Aircraft Company. This company focused on building seaplanes that would break various speed and distance records (Lockheed Martin Corporation, 2023c).

Fast forward to March 15, 1995, the two companies merged and created one of the largest defense contractors in the world. The company is based in North Bethesda, Maryland. Lockheed contributed many products focused on in-atmosphere-flight: the SR-71 Blackbird, the F-117 Nighthawk, the F-16 Fighting Falcon, and the Trident missile. Martin contributed products more focused on space: the Titan rocket, Space Shuttle External Tank, and various space landers. (Lockheed Martin Corporation, 2023c).

Additionally, on April 22, 1996, Lockheed Martin acquired Loral Corporation for its defense electronics and system integration businesses. In 2001, Lockheed Martin won the contract to build the F-35 Lightning II.

Today, the F-35 is the world's most advanced multi-role fighter aircraft and makes up much of Lockheed Martin's revenue. The Company won various large contracts with NASA to build capsules for space missions (Lockheed Martin Corporation, 2023c).

Lockheed Martin was and remains one of the largest defense contractors in the world and remains on the cutting edge of aerospace, defense, and cyber-security technologies.

### ***Long-Term Goals***

Lockheed Martin's long-term goals are articulated throughout its 2022 Annual Report (Lockheed Martin Corporation, 2022a). One current goal is to understand customer priorities and provide superior performance, advanced technology solutions, and services at an affordable cost. This is especially important in the current times as there have been significant budget pressures and competition from new startups and non-traditional defense contracts. As a result, they are emphasizing customer relations more strongly to know their needs and focusing on maintaining current customers, potentially at the risk of losing new prospects.

Another goal is to hire and retain top talent out of college and through internship programs. They actively gauge employee satisfaction to ensure the effectiveness of their people strategy. Another way they try to achieve this goal is through their pay-for-performance philosophy while offering training to further development and leadership opportunities.

Lastly, Lockheed Martin strives to maintain a broad variety of products, so a potential budget cut in one area or contract will not be detrimental to the company's success. This will influence

leaders' decision-making processes by focusing on areas of growth or expansion to remain resilient against budget pressures.

## **Industry**

### ***Lockheed Martin's Main Industry***

Lockheed Martin is a well-diversified company that competes in many different industries. These include but are not limited to: "Aircraft, Engine & Parts Manufacturing in the US," "Space Vehicle & Missile Manufacturing in the U.S.," "Global Military Aircraft & Aerospace Manufacturing," "Radar & Satellite Operations in the U.S.," "Autonomous Underwater Vehicle Manufacturing in the U.S.," and "Scientific Research & Development in the U.S." A significant portion of Lockheed Martin's revenue is derived from its F-16 Fighting Falcon, F-22 Raptor, and F-35 Lightning II programs, with most of these sales going to the United States government. Because of this, Industry 33641a - Aircraft, Engine & Parts Manufacturing in the U.S. will be explored further. This industry generated approximately \$323.1 billion in 2022 (Seiler, 2023).

### ***Profit Potential of the Industry***

According to the IBISWorld Report for Aircraft, Engine & Parts Manufacturing in the U.S., the industry's revenue growth from 2018 to 2023 was 3.7% (Seiler, 2023). The projected growth from 2023 to 2028 is 2.6% (Seiler, 2023). The slowing of growth is primarily due to difficult economic conditions such as high inflation, difficulties in supply chains, and general uncertainty of markets.

Although growth will slow, 2.6% revenue growth for this industry is still very healthy. The continued growth is due to various factors:

1. As military and civilian jets grow more technologically advanced, airlines and governments have incentives to update outdated models with newer ones, such as Lockheed Martin's F-35 Lightning II fighter.
2. The conflict in Israel as well as the conflict between Ukraine and Russia have made many NATO members consider purchasing more military equipment from U.S. manufacturers.
3. Although exporting military products is made very difficult by stringent regulations, the U.S. government typically permits sales of these aircraft to foreign governments aligned with the interests of the U.S.

Even with growth slowing down in coming years, the future for Lockheed Martin and the aircraft, engine, and parts manufacturing industry will continue to thrive.

### ***Concentration of the Industry***

Concentration is low in the Aircraft, Engine & Parts Manufacturing industry in the U.S. As shown in **Appendix 1**, five major players control 33.0% of the market (Seiler, 2023). The degree of concentration suggests that competition is high between players. This is due to the constant battle to ensure continuous revenue by winning multi-year government contracts.



## The Company

### *Business Model (Major Segments)*

Lockheed has four major business segments that generate most of its revenues. The four segments are *Aeronautics, Missiles & Fire Control, Rotary & Mission Systems, and Space*.

The most profitable business segment for Lockheed Martin is their Aeronautics division. They describe Aeronautics as the “research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies.” Along with the projects they can declare, they also have multiple contracts with the U.S. government for various classified programs. The most profitable sector within aeronautics is the F-35 sector. The F-35 program makes up 27% of the company's net sales and 66% of net sales in the aeronautics segment. Another segment that does well for the aeronautics division is the Advanced Development Programs (ADP), which focuses on “unmanned and manned aerial systems and next-generation capabilities for air dominance, hypersonics, intelligence, surveillance, reconnaissance, situational awareness, and air mobility” (Lockheed Martin Corporation, 2022a). This helps Lockheed in keeping its division relevant in a constantly changing environment.

The second segment that Lockheed Martin focuses on is Missiles & Fire Control. Missiles & Fire Control consists of “air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics; fire control systems; mission operations support, readiness, engineering support, and integration services; manned and unmanned ground vehicles; and energy management solutions” (Lockheed Martin Corporation, 2022a). Like Aeronautics, Lockheed Martin also has classified contracts with the U.S. government. Some programs included in this segment are missile defense programs, the Javelin program, and Special Operations Forces Global Logistics Support (SOF GLASS.) Two programs included in missile defense are the Patriot Advanced Capability-3 (PAC-3) and Terminal High Altitude Area Defense (THAAD.) The Javelin program produces and maintains the Javelin missile, an anti-tank and multi-target precision weapon. SOF GLSS provides logistics support to special operations of the U.S. military.

The third segment is Rotary & Mission Systems. This division “designs, manufactures, services and supports various military and commercial helicopters, surface ships, sea and land-based missile defense systems, radar systems, sea and air-based mission and combat systems, command and control mission solutions, cyber solutions, and simulation and training solutions” (Lockheed Martin Corporation, 2022a). They also have classified contracts with the U.S. government. Various departments included in this sector are Sikorsky helicopter programs, Command, control, communications, computers, cyber, combat systems, intelligence, surveillance, and reconnaissance (C6ISR) programs, and Training and logistics solutions. Helicopters produced by this department include BLACK HAWK®, Seahawk® and CH-53K King Stallion heavy lift helicopters, Combat Rescue Helicopter (CRH), and the VH-92A helicopter. The C6ISR provides an air operations center for the Ballistic Missile Defense System for the U.S. Government and undersea combat systems programs largely serving the U.S. Navy. The training & logistics division provides sustainment services and programs that provide simulators and associated training to U.S. military and foreign government customers.

The final segment of Lockheed Martin's business is Space. The Space program focuses on the "research and design, development, engineering and production of satellites, space transportation systems, and strategic, advanced strike, and defensive systems" (Lockheed Martin Corporation, 2022a). They also have classified contracts for the U.S. government. Some of the departments included in this segment are missile warning capability programs, the Trident II D5 Fleet Ballistic Missile, Orion Multi-purpose Crew Vehicle, Hypersonics, and GPS III. Space Based Infrared System (SBIRS) and Next Generation Overhead Persistent Infrared (Next Gen OPIR) comprise the missile warning sector. Orion is a spacecraft for NASA utilizing new technology for human exploration missions beyond low earth orbit. The GPS III program is working towards modernizing the GPS satellite system for the U.S. Space Force.

### ***Lockheed Martin Values***

Lockheed Martin's mission statement is, "We solve complex challenges, advance scientific discovery, and deliver innovative solutions that help our customers keep people safe." Each of the three parts of the mission statement is consistent with the company's business model. Among other challenges, Lockheed Martin is at the front end of innovation for military vehicles, weaponry, and space travel. This demonstrates their dedication to solving complex challenges. They advance scientific discovery through researching, designing, and upgrading advanced military aircraft. Finally, the introduction and innovation of unmanned vehicles shows the firm's commitment to keeping people safe. The company has both air and ground vehicles that are unmanned. This innovative tech will also help keep people out of potentially dangerous situations. Along with this mission, the company operates under three core values:

- Do what's right,
- Respect others,
- Perform with excellence.

These values guide how the company operates and makes decisions. In addition, Lockheed Martin has an Ethical Code of Conduct that contains the policies on seven primary topics:

- Our Values (Introduction)
- We Lead with Integrity
- We Respect Others
- We Demonstrate Accountability
- We Conduct Business Fairly
- We Care About Our Work Environment
- We Promote Good Corporate Citizenship

The code details proper conduct for employees at all levels of the company in each area (Lockheed Martin Corporation, 2023a).

### ***Top Management***

James Taiclet is the chairman, president, and chief executive officer for Lockheed Martin. Taiclet became a director on the Lockheed Martin board in January 2018, president and CEO in June 2020, and chairman in March 2021. Before joining Lockheed Martin, Taiclet was chairman, president, and CEO of American Tower Corporation. American Tower's market capitalization

grew from \$2 billion to over \$100 billion under Taiclet. Taiclet began his career as an officer and pilot in the Air Force. He earned bachelor's degrees in engineering and international relations at Air Force before earning a master's degree from Princeton (Lockheed Martin Corporation, 2023b).

Frank St. John has served as the chief operating officer for Lockheed Martin since June 2020. St. John joined the executive team in January 2018, but has worked for Lockheed Martin for over 35 years, gradually serving in roles of increasing responsibility. Most notably, St. John served as the executive vice president of Rotary and Mission Systems (RMS) at Lockheed Martin; this \$16 billion entity employs 34,000 individuals worldwide. St. John earned both his bachelor's and master's degrees in electrical engineering at the University of Central Florida (Lockheed Martin Corporation, 2023b).

Jesus "Jay" Malave serves as the chief financial officer for Lockheed Martin. In 1997, Malave joined United Technologies Corporation and held roles of increasing responsibility until eventually serving as the vice president and chief financial officer of Carrier Corporations, a subunit of UTC. In June 2019, Malave joined L3Harris Technologies as senior vice president and chief financial officer. Malave earned a bachelor's degree in mathematics from UConn, a master's in accounting from Hartford, and a Juris Doctor from UConn's School of Law (Lockheed Martin Corporation, 2023b).

The rest of the executive leadership team is shown in **Appendix 2**.

## **External Analysis**

### ***PESTEL Analysis***

The firm is optimistic about the future of the industry environment. In his letter to shareholders, President James Taiclet stated (Lockheed Martin Corporation, 2022a):

Looking to 2023 and beyond, we continue to anticipate growth over the long-term. Demand for Lockheed Martin platforms and systems is strong in the United States and abroad with significant sales opportunities ahead. However, it will take time for these opportunities to transition into contractual agreements and to be reflected in our financial metrics. With residual pandemic impacts and supply chain challenges continuing, we now expect sustained growth to return in 2024. By keeping our existing programs sold, winning new business, and taking advantage of emerging opportunities, we will continue to successfully navigate a challenging business environment as well as strengthen our future growth and leadership.

The PESTEL Framework can be applied to Lockheed Martin to identify some of its opportunities and threats. For example, the Political environment represents an opportunity for the company to grow. There will always be a need for governments to be equipped with military vehicles. Times of increased need, such as wars, can be unpredictable. As a result, as long as the company stays at the forefront of innovation, the demand for its products will exist. In addition, the continued technological innovation of unmanned vehicles represents an opportunity for Lockheed. These vehicles are likely to be the future of military warcraft because they would be able to accomplish the same tasks as manned vehicles without putting human lives at risk. Thus, the implementation

of unmanned military vehicles going forward is an opportunity for the company to continue to grow and remain one of the top competitors in the industry.

On the other hand, environmental regulations represent a threat to Lockheed Martin's business operations. The company's products use lots of fuel and natural resources in their production and use, so environmental regulations could potentially be a limiting factor to some technologies. Also, the company's products likely have a negative effect on global warming. In the 2022 Annual Statement, the company noted that, "Our operations are subject to and affected by various federal, state, local and foreign environmental protection laws and regulations regarding the discharge of materials into the environment or otherwise regulating the protection of the environment." This excerpt also demonstrates how the legal environment can be a threat. The company operates in a highly regulated area of business and is subject to many rules and regulations that can restrict some desired business operations.

### ***Porter's Five Forces***

**Threat of New Entry:** The threat of new entry to the Aircraft, Engine, & Parts Manufacturing in the U.S. market is quite low. The first reason is a very high barrier to entry regarding both capital needed (i.e., cost to build a plane or defense system) and legal regulations that put heavy restrictions and requirements that new companies have to meet. Another reason for a low threat of new entry is the brand image of Lockheed Martin, Raytheon, Boeing, and Northrop Grumman, which makes it very hard to compete for a new business. One final reason for a high barrier to entry is the existing contracts with governments and other companies, which make it hard for new companies to find a space to compete.

**Threat of Substitutes:** The threat of new substitutes in the market was low but is starting to increase in the present day. As previously mentioned, the industry is still very highly regulated, making it more difficult for substitutes to be present than in other industries. However, commercial companies have started to enter the industry with software opportunities that were not previously available and thus are offering a different product that companies could choose over current options. Another new substitute is military drones, a significant substitute that reduces both soldier requirements and the risk of life while still accomplishing the mission, a new alternative to previous industry options.

**Power of Suppliers:** When analyzing the Five Forces that affect the aircraft industry, it is important to look at the power of suppliers to understand Lockheed's business decisions accurately. One power the industry has over its suppliers is that the U.S. government heavily subsidizes the R&D of military aircraft. Because the U.S. willingly pays to help develop aircraft, it greatly reduces the cost to individual firms, meaning the suppliers have less power. One power that suppliers have over the industry is the fact that flight times are increasing for all aircraft. Increased fly time increases wear and tear, increasing the need for parts and putting power in the suppliers' hands. Another power that suppliers have over the industry is the fact that there is a low concentration in parts manufacturing as manufacturers focus on one or a few specialized parts. This allows parts manufacturers to hold more power over firms at Lockheed's level because there aren't substitutions for the producers of the final product.

**Power of Buyers:** The power of buyers has significant swings that both positively and negatively affect the industry as a whole. One loss of power of buyers is due to the Russian invasion of Ukraine and the current conflict in Israel. NATO has seen a dramatic increase in defense spending. This increase in spending reduces the power of buyers because they are willing to spend more on defense, which gives firms like Lockheed more pricing flexibility. While some real-world happenings reduce the power of buyers, some current events increase the power of buyers. For example, because the industry relies on U.S. government contracts, the large swings in the military budget can lead to increased pressure on revenues and profits. Because the firms in the industry cannot predict the budget, they must maintain competitive pricing for their aircraft and other services.

**Intensity of Competitive Rivalry:** The competition amongst each firm is fierce with how few big players there are. This intense rivalry is partly due to the extreme reliance on government contracts. If a firm fails to win contracts, it will not succeed in this industry. Competitors are constantly implementing strategies of decreasing costs and increasing product quality to win jobs from other competitors. This leads to a competitive, cutthroat industry as firms fight for government contracts and market share.

## **Internal Analysis**

### ***Resources and Capabilities***

Lockheed Martin possesses a unique variety of resources. Its most notable aeronautics division includes high-profile aircraft such as the F-35, C-130, F-16, and F-22. Lockheed Martin holds inventory, including helicopters, space systems, missiles, and air defense systems. The 2022 balance sheet shows that nearly 60% of Lockheed's current assets are contract assets; these reflect contracts held primarily with the U.S. government that produce steady revenue streams for the company (Lockheed Martin Corporation, 2022b). The immense goodwill reflected in the financials depicts the intellectual property and resources obtained through acquiring other companies.

Lockheed Martin also benefits from its wide variety of capabilities. First, it has a strong relationship with the U.S. government, allowing it to secure the contracts that produce such a steady line of revenue. The strength of this relationship can be attributed to Lockheed Martin employees, who continuously innovate new ideas through research and development. Lockheed Martin also has a strong relationship with its suppliers, which ensures that it can gather parts and assemble inventory efficiently. Pair this with the notable amount of PPE displayed on the company's balance sheet, and there is no question that Lockheed can produce products quickly. The success of Lockheed Martin is dependent on these numerous capabilities.

### ***VRIO Framework***

Lockheed Martin has distinguished itself from the rest of the Aircraft, Engine, & Parts Manufacturing industry by providing ground-breaking aeronautical innovations. A major reason for Lockheed Martin's success is due to its resources and capabilities being valuable, rare, inimitable, and organized.

**Valuable:** Lockheed Martin's services create exceptional value for its customers. The U.S. government, friendly foreign governments, and other customers all value Lockheed Martin's

ability to design contract pitches, utilize its supplier relationships, and utilize its extraordinary employee workforce to design and create defense solutions.

**Rare:** Few firms in the industry possess the same resources and capabilities as Lockheed Martin. Relationships with governments and suppliers are challenging to build, and Lockheed Martin has leveraged these capabilities to win over many government contracts and become an industry leader.

**Inimitable:** The ability to create an airplane is not specific to Lockheed Martin, but the ability to develop state-of-the-art defense solutions is exclusive to Lockheed Martin. Through its wide array of intellectual property and acquired government contracts, Lockheed Martin is one of few firms that can fulfill the U.S. government's unique defense needs. Lockheed Martin's unique research and development work also leads to groundbreaking innovations, exclusive to Lockheed Martin.

**Organized:** Lockheed Martin's organizational design dramatically assists in its ability to capture the value it creates. The four business divisions are each responsible for producing specific products or services, which increases Lockheed Martin's ability to employ resources where necessary to take advantage of its talented workforce and create exemplary solutions.

### ***Core Competencies***

Lockheed Martin's core competency is a combination of one of its best capabilities and one of its best resources. They can turn their research and development, which is a strength, into physical and intellectual property in the form of aircraft and patents, respectively. This ability to bring two parts of the equation together to form an even better outcome is nothing new to Lockheed Martin. It is rooted in the company's foundation when Martin Marietta and Lockheed Corp. merged to form a stronger and faster-growing company.

One way this is shown is by the number of patents Lockheed Martin has been granted. Management continues to file and get patents granted, as they have more than 6,800 active patents. Lockheed Martin's management team's decision to continue to file for patents signals they know their biggest competitive advantage lies in this area. In 2021, they were granted more than 300 new patents (Insights; Gate, 2022). This is also shown in the proxy statement, where top management shares that one of their largest achievements in 2022 was increasing company-funded research and development and capital investments. They continue to pour resources into R&D and capital investments to maintain a competitive advantage over others in the market.

### ***SWOT Analysis***

There are many ways that Lockheed Martin uses their internal strengths to take advantage of external opportunities. One strength Lockheed Martin uses to exploit external opportunities is paying for their R&D through funds and negotiated contracts. By leveraging their own and their customers' coffers, Lockheed can fund more R&D projects, which benefits the company to attack new opportunities in the market. Another strength Lockheed Martin has to take advantage of is maintaining a highly skilled workforce. Human capital is the most expensive and valuable asset any company has, so effectively and efficiently investing in it is vital to any company's success. Lockheed Martin leverages this strength by investing in technology for workforce

management and maintaining a “respectful, challenging, supportive, and inclusive working environment” (Lockheed Martin Corporation, 2022a).

While strengths can be used to take advantage of opportunities, they can also reduce the impact of external threats. One strength that Lockheed Martin utilizes to minimize the effects of the supply chain issues is their long-term contracts and friendly relationships with suppliers. This strength allows Lockheed to weather disruptions better by locking in lower prices, which makes it more competitive in the marketplace. This strength was illustrated through the locking in aluminum and titanium. While the market saw spikes in pricing due to the pandemic, Lockheed was able to purchase at lower prices, which kept its costs down. Another strength that Lockheed possesses is its strong relationships with its competitors. While Lockheed directly competes with companies like Raytheon and Northrop Grumman, at the end of the day, they are all on the same team - providing a superior product mix to their customers. Even if Lockheed were to lose a contract to a competitor, there would be a great chance that Lockheed would become a subcontractor for a competitor. This is a significant aspect of the industry because it allows firms to gain a spillover effect of knowledge, leading to a “tide raises all boats” phenomenon.

Internal weaknesses can prevent the firm from taking advantage of potential external opportunities. Lockheed is subject to a wide variety of laws and regulations that can restrict some opportunities that the company may want to pursue. Lockheed overcomes this by providing the best possible products that stay within the boundaries set by these rules. In addition, by staying within the legal scope of all its operations, Lockheed avoids the threat of punishment or legal action against it from government entities or other sources.

External threats can also become a reality due to internal weaknesses. For example, Lockheed Martin heavily relies on the U.S. Government for its business. This presents the external threat of the government choosing to buy from competitors and having the ability to terminate contracts for convenience. This means that they can terminate contracts that they hold for Lockheed’s products at any time without cause or penalty if they are unsatisfied or want to purchase from another company. To overcome this, Lockheed spends great amounts of time and resources in research and development to make sure that it stays on the frontline of innovation and technology and ensures that the demand for its products does not diminish. Another threat that Lockheed is facing is the power of suppliers. One strength of suppliers over firms like Lockheed is that suppliers typically specialize in only a few parts. When companies specialize in a few parts, they have more power over producers like Lockheed. One way that Lockheed can counter this threat is by building strong relationships with the suppliers of the intermediary parts. Because it is impossible to manufacture all intermediate parts of an aircraft in-house, it is vital to leverage relationships with intermediary suppliers to ensure keeping low costs to provide the best value to the governments that purchase from Lockheed Martin.

## **Performance**

### ***Expectations***

Overall, Lockheed Martin is performing at the expectations it set for itself.

In the 2022 Letter to Shareholders, the Company stated that it was positioned for a bright future. One quote from the letter shows how they are performing at their high expectations: “Each of

Lockheed Martin's four business areas achieved key successes in 2022" (Lockheed Martin Corporation, 2022a). In the letter, Lockheed discusses how each business segment brought success to the overall firm. For example, Lockheed announced that their Orion exploration spacecraft successfully completed a 25.5-day journey and splashed down off California's coast. While they succeed now, they have also set themselves up for greater success. They emphasized in their 2022 Annual Report: "Our human capital efforts were focused on continuing to accelerate the transformation of our technology for workforce management through investments in upgraded systems and processes and continuing to increase our agility to meet the quickly changing needs of the business, all while maintaining a respectful, challenging, supportive and inclusive working environment" (Lockheed Martin Corporation, 2022a). Human capital is a significant resource that can create a competitive advantage for a company, so investing in creating a strong workforce will benefit the Company for decades to come.

### ***Evaluation***

Lockheed Martin is primarily focused on customer satisfaction. Because of the nature of the business, which is based mainly on contracts, ensuring the customers behind these contracts are pleased is of utmost importance. The U.S. and other foreign governments are extremely satisfied with Lockheed Martin and its delivery of F-35 jets. Because of Lockheed Martin's exceptional customer satisfaction and the quality of its products, the governments of Switzerland, Finland, Germany, Greece, the Czech Republic, and Canada all sent new requests to Lockheed Martin and the U.S. government to purchase F-35 jets in 2022 (Lockheed Martin Corporation, 2022a). This success builds upon the Company's mission of helping its customers keep people safe. The mission statement is primarily built around providing quality solutions to their customers and thus providing high customer satisfaction.

Lockheed Martin also stated that sales of \$66 billion, \$3.4 billion invested in research and development, and a 7% increase in its shareholder dividend are metrics that show it is reaching its current goals and working towards its future growth (Lockheed Martin Corporation, 2022a).

**Key Performance Indicator:** According to Moody's Investor Service, the largest performance metric in the aerospace and defense sector is leverage and coverage (Moody's Investor Service, 2021). Lockheed Martin's main focus on customer satisfaction ties in with this by having a strong market share, or coverage, which allows them to be successful. It also assists them in having a loyal customer base, which allows them to leverage their connections. In Moody's report, it also mentions financial policy as one of the other biggest indicators. Lockheed Martin focuses more on customer relationships, but as mentioned before, this directly results in a strong financial portfolio for Lockheed Martin.

### ***Competitive Advantage***

Lockheed Martin currently has a lower market share in the Aircraft, Engine & Parts Manufacturing industry. Its 5.19% market share lags behind Raytheon Technologies Corporation (11.4%), The Boeing Company (9.30%), and Ge Aviation UK (6.13%) (Seiler, 2023).

However, Lockheed Martin has two main advantages over its competitors: profit margin and earnings per share (EPS). Lockheed Martin's profit margin of 14.08% far exceeds that of Raytheon (11.70%), Boeing (9.50%), and Ge Aviation (8.28%) (IBISWorld Report). Additionally, Lockheed Martin has an EPS of \$21.74 compared to Raytheon's \$3.52 and



Boeing's -\$8.30 (Lockheed Martin Corporation (LMT), 2023b; Raytheon Technology Corporation (RTX), 2023; The Boeing Company (BA), 2023).

Although Lockheed Martin does not hold the largest market share in this industry, it generates more profit for each sale, and Lockheed Martin's EPS shows that it is creating more shareholder value than its competitors. Lockheed Martin's stock price has continued to trend upward through the COVID-19 pandemic, showing an improvement in its competitive position. See **Appendix 3** for the most recent five years of Lockheed Martin's stock performance. Lockheed Martin's competitive strategies are thriving and setting the Company up for success well into the future.

### ***Compensation Incentives***

**Appendices 4** and **5** depict the compensation system used by Lockheed Martin in 2022. Note that LTI stands for Long-Term Incentive. Total compensation for select executives is shown in **Appendix 4**. The percentage value of each salary aspect is compared to the total salary in **Appendix 5**.

The only guaranteed salary aspect for each member of the top management team is base salary. For example, Mr. Taiclet was only guaranteed 8.72% of his total salary in 2022 (Lockheed Martin Corporation, 2022a). However, his LTI is fixed for three years, from 2022 to 2024. This LTI was established based on prior company performance. Although it is fixed for the next three years, this is not considered to be guaranteed income under Lockheed's compensation system.

This compensation plan is consistent with the overall firm-level expectations. As shown by **Appendix 5**, over 90% of President Taiclet's salary is incentive-based. Thus, as the firm's performance meets and exceeds its goals and expectations, Taiclet receives more compensation. This plan ensures that Taiclet and all company executives are incentivized to make decisions that will help the company grow and succeed.

## **Competitive Dynamics**

### ***Mission Statement and Values***

Lockheed Martin's mission statement is, "We solve complex challenges, advance scientific discovery and deliver innovative solutions that help our customers keep people safe" (Lockheed Martin Corporation, 2023a). A key competitor in Lockheed Martin's industry is Raytheon (RTX). Raytheon's mission statement is, "To be the most admired defense and aerospace systems company through our world-class people, innovation and technology" (RTX, 2023). Both companies mention innovation in their mission statements, showcasing the importance of continuous improvement. One interesting difference is that Lockheed Martin focuses on what they can do for the customer. Lockheed Martin emphasizes assisting its customers in keeping people safe, while Raytheon focuses on their company's internal resources, capabilities, and world-class people.

Lockheed Martin has three central values: Do What's Right, Respect Others, and Perform With Excellence (Lockheed Martin Corporation, 2023a). Raytheon has five core values: Trust, Respect, Accountability, Collaboration, and Innovation (RTX, 2023). A significant similarity between Lockheed Martin's and Raytheon's values is respect. This value helps both companies create a workplace culture built around people respecting one another. Although worded differently, another similarity is about doing the right thing and having accountability. Raytheon

and Lockheed Martin have values promoting an ethical and admirable culture focused on integrity.

### ***Resources***

Lockheed Martin and Raytheon have very similar resources from a broad perspective. Both companies thrive on aerospace aircraft and defense systems. Lockheed Martin and Raytheon offer unique aircraft options that define their industry position. Also, both companies are divided into different business units. These business units encompass products such as missiles, tracking devices, aeronautics, and even space. Raytheon prefers to focus more on missiles and tracking devices than Lockheed Martin. Both hold a significant number of patents that allow them to have a competitive advantage within the nuances of the aerospace industry. The intellectual property that wins government contracts is often the most coveted resource in this industry.

### ***Similarities Between Lockheed Martin and Raytheon***

Product and geographic markets must be considered when comparing Raytheon and Lockheed Martin. When looking at each firm's product market, there is an overlap with the companies. Raytheon's 2022 Annual Report states, "Raytheon Missiles & Defense provides the industry's most advanced end-to-end solutions to detect, track and engage threats" (Raytheon Technologies, 2022). This compares to the Missiles & Fire Control's (MFC) description in Lockheed's 2022 Annual Report: "MFC provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics; fire control systems; mission operations support, readiness, engineering support and integration services; manned and unmanned ground vehicles; and energy management solutions" (Lockheed Martin, 2022a).

There is considerable overlap in each segment's end mission. However, these companies do not always compete in the same product market. One example is the Aircraft, Engine & Parts Manufacturing industry. Raytheon states that their Pratt & Whitney subdivision "designs, manufactures and services the world's most advanced aircraft engines and auxiliary power systems for commercial, military and business aircraft" (Raytheon Technologies, 2022). In contrast, Lockheed Martin's Aeronautics division "is engaged in the research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies" (Lockheed Martin, 2022a). The main difference is that Lockheed produces the aircraft body and specs, while Pratt & Whitney focuses on the engines for the aircraft.

Additionally, Raytheon and Lockheed Martin compete in similar geographic markets. According to Raytheon's 2022 Letter to Stockholders, the sales make-up of Raytheon by location is "61% United States; 17% Europe; 12% Asia Pacific; 5% Middle East and North Africa; 5% Other" (Raytheon Technologies, 2022). Lockheed Martin breaks down its revenue as "73% ... from the U.S. Government ... (including 64% from the Department of Defense (DoD)), 26% were from international customers (including foreign military sales)... and 1% were from U.S. commercial and other customers" (Lockheed Martin, 2022a). Both Lockheed Martin and Raytheon rely on U.S.-based business, with Lockheed Martin being more reliant on U.S. business.

Comparing the overlap of product and geographic markets assists in analyzing the level of competition between Lockheed Martin and Raytheon Technologies. Lockheed Martin views

companies like Raytheon as fierce competitors, as listed in their 2022 Annual Report, “Raytheon Technologies are some of our primary competitors. Key characteristics of our industry include long operating cycles and intense competition” (Lockheed Martin, 2022a). Although there is fierce competition for government contracts, once they are secured, Lockheed Martin and Raytheon rely on each other as suppliers for critical parts. Lockheed Martin acknowledges the role competitors play in its success: “We often collaborate with our competitors through teaming arrangements in efforts to provide our customers with the best mix of capabilities to address specific requirements” (Lockheed Martin, 2022a).

The nature of the industry and long-term contracts are another reason for the fierce competition between Lockheed Martin and Raytheon. As Gabriel Seiber points out in the IBIS World Report for Aircraft, Engine & Parts Manufacturing in the U.S.(Seiler, 2023):

These [long-term] contracts lead to a higher portion of demand being serviced by one company, and the technological equipment and expertise needed to fulfill top-shelf contracts further perpetuates the differences between large and small manufacturers, increasing market concentration.

Increasing market concentration escalates the pressure of competition between the few firms that control the industry, pitting Lockheed Martin and Raytheon as direct competitors.

### ***Comparison to Industry Standards***

Compared to industry standards, Raytheon’s performance is right at industry standards. Raytheon discusses a disappointing prior year performance in its 2022 Letter to Stockholders. They acknowledge that “Despite these many challenges, this past year confirmed that our focused portfolio, our superior technical capabilities, and our talented workforce are unmatched across commercial aerospace and defense markets” (Raytheon Technologies, 2022). The IBIS World Report for the Aircraft, Engine & Parts Manufacturing in the U.S. industry confirms below-average performance for Raytheon in the past few years. The report supports Raytheon’s claim of being an unmatched supplier, holding an 11.6% market share. While Raytheon holds the highest market share, they have lost 8.8% market share over the last four years, allowing companies like Lockheed Martin to catch up and reduce Raytheon’s power (see **Appendix 6**). As seen in **Appendix 7**, Raytheon has seen a smaller change in profit margin than the industry average for the last three years (Seiler, 2023). Although Raytheon’s market share is declining, its power as a supplier helps it perform at industry standards.

### ***Reasons for Outperformance***

Lockheed Martin is outperformed when competitors, like Raytheon, secure major long-term contracts that Lockheed Martin is pursuing. A variety of factors might cause this. For example, Raytheon is more specialized in electronics and defense, while Lockheed Martin's strength is its aircraft. If a contract revolves more around electronics and defense, Raytheon might be better suited to fulfill it.

Lockheed Martin is almost exclusively a defense contractor, while Raytheon is more diversified. 35% of Raytheon's business is commercial aviation, and 65% is defense (Sloan, 2022). If, for example, the government decreases defense funding, Lockheed Martin might feel the effects

more than Raytheon. However, the opposite is true as well. Increases in government defense funding would boost success for Lockheed Martin more than Raytheon. Although there are scenarios in which Lockheed Martin is outperformed, Lockheed Martin is well-suited to take advantage of current market conditions to be an industry leader.

For Lockheed Martin to outperform Raytheon, one external factor that could play a key role is the political environment and the needs of governments worldwide. For example, the conflict between Ukraine and Russia and the conflict in Israel may increase demand for Lockheed Martin's products. It is worth noting Israel is a major buyer of F-35 jets from Lockheed Martin. This could also drive demand for Raytheon's products, so for Lockheed Martin to outperform its competitor, it must distinguish itself. An essential internal factor to the Company's success is available technology. As previously mentioned, both companies have unique aircraft and other technology. Thus, for Lockheed Martin to outperform Raytheon, it needs to make products that can meet the needs of its customers better than other competitors. Lockheed Martin must stay on the frontline of technologies like unmanned vehicles and innovative fighter jets to stay competitive.

### ***Strategic Decisions Across the Industry***

Two of Lockheed Martin's direct competitors recently made difficult strategic decisions. These decisions have impacted the industry and made companies reconsider their current strategic positions.

Boeing (BA) ceased production of its 747 "jumbo jet" and celebrated the delivery of its last unit on January 31, 2023 (Spaeth, 2023). The 747 was colloquially known as the "Queen of the Skies." It was one of Boeing's most recognizable products. Boeing cited high production costs and low demand as the reasons for the shutdown of the 747 program.

Raytheon (RTX) announced the closure of its Dallas facility in September 2023 (Carlisle, 2023). This was part of a more extensive reorganization of Raytheon's business endeavors from four major business units to three. Raytheon cited declining business and budget cuts as the primary causes of the closure.

Strategic closures have become more common in the industry; companies like Boeing and Raytheon have normalized these closures, leading industry competitors to re-evaluate their plants' profitability. Even Lockheed Martin announced the closure of its Middle River plant in 2021 (CBS Baltimore, 2021). Significant investments were made in these three factories, but these companies viewed the costs of running the facilities as detrimental to their long-term success.

These factory closures have not had much impact on market share as Raytheon's 11.4% market share and Boeing's 9.3% market share still lead the industry (Seiler, 2023). The goal of these closures was to increase future profitability, and the full effects of the closures are still unclear.

## **Business-Level Strategy**

### ***Differentiated Products***

Lockheed Martin has differentiated products compared to its competitors. Much of this differentiation can be viewed through the legal frame of the PESTEL external analysis tool. Intellectual property rights and protections are provided to competitors in the aircraft, engine and parts manufacturing industry, including Lockheed Martin, in its efforts to develop next-generation defense capabilities for the United States and its approved allies. Another aspect of the legal frame is long-term contracts signed with the United States government. These contracts allow only Lockheed Martin to produce the contracted end product. These legal protections in the industry ensure that Lockheed Martin can reap the benefits of all its research and development performed in its Skunk Works division.

### ***Strategic Positioning***

Lockheed Martin does not pursue a cost-leadership position in this market. As a producer of top-of-the-line military vehicles, its products come at a very high cost. The United States Government and other affiliated governments want the highest quality vehicles to defend themselves and are willing to pay a premium. Thus, Lockheed Martin and its competitors in the defense industry offer technologically advanced products at high price points.

### ***Key Customers and Appeal***

Lockheed Martin uses a very focused approach to the market. Their product is not something the majority of consumers across the globe are willing or able to buy. Therefore, Lockheed Martin must have a narrow focus to provide a product that the limited number of buyers are willing to purchase.

According to Lockheed Martin's About Us page, "the majority of Lockheed Martin's business is with the U.S. Department of Defense and U.S. federal government agencies" (Lockheed Martin Corporation, 2023a). Included in this, they provide aircraft to all five branches of the United States armed forces spanning 40 countries. Although they provide aircraft to different branches across numerous countries, this does not broaden their scope as it is all within the United States military. Lockheed Martin's scope is slightly broadened through small amounts of sales to other governments or large commercial companies. Because of the products they offer, the market is naturally segmented as many products are unique to specific customer needs. Lockheed Martin appeals to these customers with products that are extremely technologically advanced and very difficult to emulate.

### ***Generic Business-Level Strategy***

Based on Lockheed Martin not pursuing a cost-leadership position and Lockheed Martin having a very focused approach to the market, Lockheed Martin is using a focused differentiation business strategy. Instead of providing low-cost aircraft to the generic market, Lockheed Martin produces state-of-the-art fighter jets for a narrow scope of customers at high prices. The Company precisely targets the defense market with the correct strategy. The United States government and other "friendly" governments value protecting their citizens and interests above all else. As a result, these customers seek the highest quality products and will pay whatever the cost is to acquire them. Lockheed Martin excels at appealing to, satisfying, and fulfilling the needs of these customers through its advanced aircraft and defense technologies.

### ***Analysis of Chosen Business-Level Strategy***

National defense is a central focus for Lockheed Martin's customers, and it will continue to be a focus in the future. If Lockheed Martin can satisfy the needs of its customers, it will experience success from contracts with repeat customers. For example, the historic success of Lockheed Martin's F-35 Lightning II program will likely lead to new projects with the United States government and other foreign governments. These contracts revolve around highly specialized products and create long-term revenue streams for the company. However, if Lockheed fails to satisfy its customers, future contracts may be won by industry competitors. If competitors are better suited to produce highly specialized products, they will secure the long-term contracts essential for success in this industry. As a result, Lockheed Martin must stay on the cutting edge technologically. Lockheed Martin's focused differentiation approach has led to great success, but the Company must continue to satisfy customers and advance its technology to remain at the forefront of the industry.

## **Corporate-Level Strategy**

### ***Value Chain***

The Aircraft, Engine, & Parts Manufacturing industry has been the major industry focused on in this paper, and its value chain follows that of a traditional manufacturing company (Rothaermel, 2021, p. 312):

Stage 1: Raw Materials

Stage 2: Intermediate Goods and Components

Stage 3: Final Assembly and Manufacturing

Stages 4 and 5: Marketing, Sales, After-Sales Service, Support

Stages 4 and 5 are one aspect of Lockheed Martin's value chain that differ from other manufacturing firms. Lockheed Martin receives a majority of its revenues from government contracts. This means that marketing and sales must happen before the production process so that contracts can be won. Because of this, Lockheed Martin's value chain in practice is:

Stage 0: Marketing and Sales

Stage 1: Raw Materials

Stage 2: Components and Intermediate Goods

Stage 3: Final Assembly Manufacturing

Stage 4: After-Sales Services and Support

Lockheed submits a bid to the US government to secure a contract. Once the contract is secured, the manufacturing process can begin. The raw materials stage involves purchasing high-end materials to manufacture aircraft and engine parts. The next stage is getting components and intermediate goods. This stage is unique in this industry because competitors regularly supply key components to each other. In final assembly manufacturing, Lockheed Martin puts all the parts together and produces the final product. After the product has been manufactured and delivered, after-sales support assists with necessary training and logistics for Lockheed Martin's customers.

### ***Vertical Integration***

Lockheed Martin is vertically integrated, but they do not control every aspect of their value chain. Lockheed Martin controls final assembly manufacturing, some intermediate component manufacturing, and after-sales service and support. Other elements of the value chain are outsourced to other firms.

For the most part, all elements of Lockheed Martin's value chain are completed in the United States, such as the acquisition of materials and construction of the final product. However, marketing, sales, after-sales service, and support functions occur globally, wherever Lockheed Martin's customers are located.

Lockheed Martin maximizes its value chain by minimizing raw material input costs. One way that Lockheed Martin lowers production prices is by locking in suppliers of raw materials to long-term contracts. These contracts ensure Lockheed Martin can always access fairly priced raw materials. Also, Lockheed Martin produces some intermediate components in-house or purchases them via other firms in the industry. Overall, Lockheed Martin strives to maximize its value chain by providing superior technology to the end customer, keeping costs reasonably low, and ensuring their end product does not suffer.

### ***Diversification Strategy***

Lockheed Martin pursues an unrelated corporate diversification strategy through its four business segments. An unrelated diversification strategy occurs “When less than 70% of its revenues come from a single business and there are few, if any, linkages among its businesses” (Rothaermel, 2021, p. 323). Some of Lockheed Martin’s divisions operate in similar industries, but each division essentially functions as separate business units. Revenue breakdown by division is as follows: Aeronautics, 41%; Rotary and Mission Systems, 24%; Missiles and Fire Control, 17%; and Space, 17% (Johnston, 2023). Many of these business divisions share linkages, while some operate separately.

Although Lockheed Martin practices unrelated diversification, some divisions rely on outputs from other divisions. For example, the Aeronautics division produces aircraft that utilize infrared sensor systems made by Missiles and Fire Control (MFC). The system development tactics used by MFC are also valuable to the Space division, where they are used for navigation, mission command, and strike and defense systems for space innovation. The Rotary and Mission Systems (RMS) area focuses more on research, intelligence, and utilizing data; this work aids in producing tangible and intangible products in the other three business segments (Lockheed Martin Corporation, 2023e).

Just as Lockheed Martin houses four related business areas, it also operates in four separate but related industries. These industries are: Aircraft, Engine & Parts Manufacturing in the US; Autonomous Underwater Vehicle Manufacturing in the US; Global Military Aircraft & Aerospace Manufacturing; and Space Vehicle & Missile Manufacturing in the US. Also, in addition to serving clients in the United States, Lockheed Martin offers services to numerous countries in Europe, Asia Pacific, and the Middle East. The same products and services that are offered in the United States are offered to other countries as well.

Through unrelated diversification, Lockheed Martin hopes to create value for its customers by meeting multiple needs. National defense requires a wide variety of military vehicles and equipment. By specializing in various areas of defense craft, the Company serves as a one-stop shop that can fulfill the variety of needs governments have.

### ***Mergers and Acquisitions (M&A)***

Lockheed Martin performed one significant acquisition in the past five years, occurring in 2020. The Hypersonics Division of i3 Verticals, Inc. (IIIV) was acquired on October 1st for an undisclosed amount. According to Lockheed Martin's news release, this acquisition would allow Lockheed Martin to "expand capabilities for customers across several mission areas and national security needs, while also allowing for more integrated solutions" (Lockheed Martin Corporation, 2020). Although not directly stated, this division of i3 was a competitor that offered software and engineering that could be used as an alternative to Lockheed Martin. Lockheed Martin also attempted to acquire Aerojet Rocketdyne (AJRD) on December 20th, 2020. They had agreed to buy Aerojet Rocketdyne for \$4.4 billion, hoping to improve efficiency, speed, and cost reduction. However, on February 13th, 2022, the U.S. Federal Trade Commission filed a lawsuit to block the acquisition, and it was then terminated (Lockheed Martin Corporation, 2022c).

Lockheed Martin's stock price was \$383.28 on September 30th, 2020, and fell to \$350.13 one month following the acquisition of i3 (Lockheed Martin Corporation (LMT), 2023b). i3's stock price on September 30th was \$25.25, falling to \$20.63 one month after the acquisition announcement. The following few months saw strong growth to \$35.21 in February of 2021 (i3 Verticals (IIIV), 2023). Since the acquisition was for an undisclosed amount, it is difficult to determine if Lockheed Martin paid a premium for i3.

The acquisition has been a success as it has allowed Lockheed Martin to continue to seek advancements, especially in their hypersonics portfolio. Additionally, Lockheed Martin gained valuable insight from industry experts at i3.

## **Corporate Governance; Organizational Structure and Controls**

### ***Board of Directors - Composition and Members***

The Board of Directors for Lockheed Martin comprises thirteen members. Twelve of these members are independent of the firm. James Taiclet serves as both the CEO and the Chairman of the Board. Daniel Akerson serves as the Independent Lead Director. **Appendix 8** lists the various Committees of Lockheed Martin and the relevant experience of each member, many of whom occupied high-profile roles such as President, CEO, or Chairman in the past (Lockheed Martin Corporation, 2023b). The firms that members worked at before Lockheed Martin vary drastically, illustrating each member's unique experiences and perspectives.

### ***Major Stockholders***

The largest stakeholders of Lockheed Martin include State Street Corporation, Vanguard Group Inc., and Blackrock Inc. State Street Corporation holds 37,901,333 shares as of June 29, 2023, making them the largest holder of Lockheed stock. Lockheed Martin's largest mutual fund holders are Vanguard Total Stock Market Index Fund, Vanguard 500 Index Fund, and Income



Fund of America Inc. Vanguard Total Stock Market Index Fund holds 7,893,636 shares as of June 29, 2023 (Lockheed Martin Corporation (LMT), 2023c).

There is a moderate degree of employee ownership. Lockheed Martin advertises stock options as an employee benefit, which increases employee ownership in the Company (Lockheed Martin Corporation, 2023f). 76.10% of shares are held by institutions, leaving 24.90% of shares held by individuals (Lockheed Martin Corporation (LMT), 2023c). Compared to a competitor like Raytheon (RTX), Lockheed Martin has a larger percentage of shares owned by individuals (Raytheon Technology Corporation (RTX), 2023). This means individual investors, including employees, have a larger voice in the decisions of the Company, which leads to greater employee buy-in to the Company's future success.

### ***Recent Shareholder Vote***

Seven issues were brought forward for shareholder vote in the firm's 2023 Proxy Statement. None of the issues raised areas of concern for the governance of the firm in the future. See **Appendix 9** for details on the issues that were voted on and the results of the votes (Lockheed Martin Corporation, 2023d).

### ***Organizational Structure***

James Taiclet is at the top of the organizational structure as the CEO. CFO Jay Malave and COO Frank St. John are at the next leadership level. Also, at this level, there are a variety of leaders, including CCO Dean Acosta, CIO Yvonne O. Hodge, and CHRO Chris Wronsky. These leaders fulfill necessary functions for the company, such as communications, assurance, and human resources. Below that level are the Executive Vice Presidents of each business division. These leaders are Greg Ulmer of Aeronautics, Tim Cahill of Missiles and Fire Control, Stephanie C. Hill of Rotary and Mission Systems, and Robert Lightfoot of Space (Lockheed Martin Corporation, 2023b).

This organizational structure is defined by the typical multidivisional (M-Form) structure, where "Each SBU is operated ... independently, and each is led by a CEO (or equivalent general manager) who is responsible for the unit's business strategy and day-to-day operations" (Rothaermel, 2021, p. 433). This structure works well with Lockheed Martin's unrelated diversification strategy. It allows each division to focus on specific goals while still having an overarching direction from the C-Suite executives. Since the products provided by each division vary greatly, giving the Executive Vice Presidents the ability to lead the division down a successful path is crucial, as the various divisions may have different needs. Since Lockheed Martin has low responsiveness and doesn't alter products for different regions, adding another layer of division for domestic and international business would not benefit the company's strategic goals.

### ***Internal Control Systems***

Lockheed Martin employs a robust enterprise risk management program (ERP). Lockheed Martin states (Lockheed Martin Corporation, 2022a):

Our enterprise risk management program includes threat detection and cybersecurity mitigation plans, and our disclosure controls and procedures address cybersecurity and

include elements intended to ensure that there is an analysis of potential disclosure obligations arising from security breaches. We also maintain compliance programs to address the potential applicability of restrictions on trading while in possession of material, nonpublic information generally and in connection with a cybersecurity breach.

This ERP covers various topics and ensures Lockheed Martin remains protected from cyber-attacks, information leakage, or other risks.

Additionally, Lockheed Martin employs a variety of input and output controls in its operations. Input controls define expected behavior for employees. Lockheed Martin has an Employee Code of Conduct that helps explain proper behavior for employees, the Board of Directors, and anyone representing the Company (Lockheed Martin Corporation, 2023g). Output controls define expected results for employees. Lockheed Martin's M-Form structure helps the employees of each division know the overall goals and revenue targets for their division.

In the 2022 Annual Report, Lockheed Martin's management stated their internal controls over financial reporting are operating effectively. Ernst & Young (EY), Lockheed Martin's external auditor, issued an unqualified opinion, agreeing with management's assessment of internal controls operating effectively (Lockheed Martin Corporation, 2022a).

## **Recent Strategic Decision**

Recently, Jim Taiclet, Lockheed Martin CEO, spoke with CNBC about a new strategic initiative to invest in digital defense systems. Currently, he views the armed forces and national defense as having outdated systems. There is an urgent need to update and bring the defense sector into the present-day of technology. Lockheed Martin has entered into strategic alliances with Microsoft, Intel, and Nvidia to assist in this process. Taiclet also mentioned how investing in new defensive systems is just as important as continuing to produce offensive systems such as aircraft and missiles. Digital defense systems will be critical to the future of military contracting (Coleman, 2023).

In addition to providing Lockheed Martin with an additional path to generate revenue, digital defense systems are essential to the future defense of countries. Cybercrime continues to skyrocket, and attacks against government agencies increased by 40 percent from Q1 to Q2 of 2023 (Poireault, 2023). As technology continues to evolve, these attacks will increase further, and governments must update their software to defend themselves from these threats properly.

Lockheed Martin's partnering with leading technology companies to influence positive change in the defense sector is an excellent strategic decision. It is an initiative that will ultimately help the bottom line of Lockheed Martin in the future, but it also addresses a glaring need of the U.S. and other governments. By helping usher in a new era of cutting-edge digital defense systems, Lockheed Martin can continue its mission of helping its customers keep people safe.

## **Conclusion**

Lockheed Martin possesses many unique and valuable resources and capabilities that help separate it from other firms in the Aircraft, Engine & Parts Manufacturing industry. Through its

business-level strategy of focused differentiation and its corporate-level strategy of maximizing its value chain through partial vertical integration, Lockheed Martin meets customer needs and overcomes industry and macroeconomic pressures. Through calculated strategic management and focusing on the customer and continuous innovation, Lockheed Martin is set to continue its impressive growth and remain a leader in cutting-edge defense solutions.

## Appendices

### *Appendix 1*

Industry Concentration (Seiler, 2023)

<b>Major Players</b>	<b>Market Share</b>
Raytheon Technologies	11.4%
Boeing	9.3%
GE Aviation UK	6.1%
Lockheed Martin	5.2%
Textron	1.0%
<b>Total</b>	<b>33.0%</b>
Other small firms	67.0%

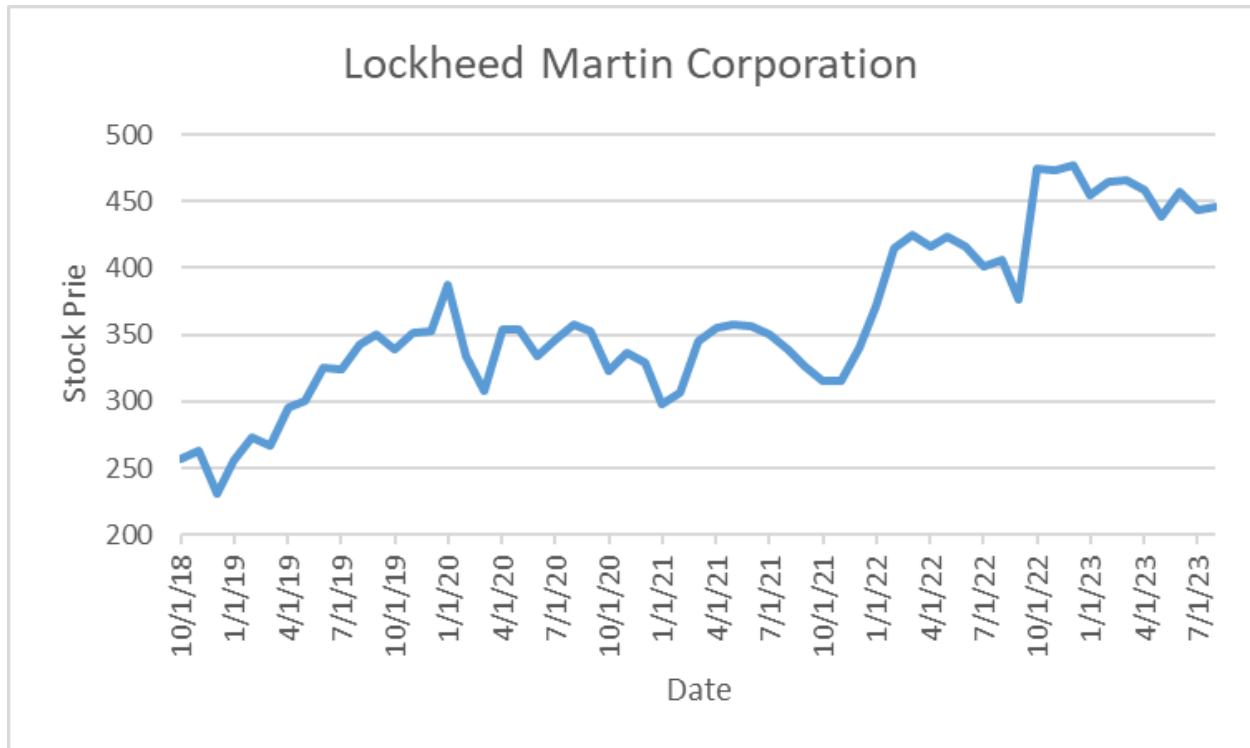
**Appendix 2**

Additional Members of the Executive Leadership Team (Lockheed Martin Corporation, 2023b)

<b>Executive Name</b>	<b>Title/Position</b>	<b>Segment</b>
Dean Acosta	Senior Vice President	Chief Communications Officer
Tim Cahill	Executive Vice President	Missiles and Fire Control
Stephanie Hill	Executive Vice President	Rotary and Mission Systems
Yvonne Hodge	Senior Vice President	Enterprise Business and Digital Transformation and CIO
Maryanne Lavan	Senior Vice President	General Counsel and Corporate Secretary
Robert Lightfoo	Executive Vice President	Space
Leo Mackay, Jr.	Senior Vice President	Ethics and Enterprise Assurance
Rodney Makoske	Chief Engineer and Senior Vice President	Engineering and Technology
Shelly O'Neill Stoneman	Senior Vice President	Government Affairs
Mark Stewart	Senior Vice President	Corporate Operations
Greg Ulmer	Executive Vice President	Aeronautics
Michael Williamson	Senior Vice President	Global Business Development & Strategy
Chris Wronsky	Senior Vice President	Chief Human Resources Officer

**Appendix 3**

Lockheed Martin Stock Performance, 2018-2023 (Lockheed Martin Corporation (LMT), 2023b)



**Appendix 4**

Executive Compensation: Total Compensation (Lockheed Martin Corporation, 2022a)

<b>Executive</b>	<b>Base Salary</b>	<b>Annual Incentive</b>	<b>Annual LTI</b>	<b>Total</b>
Taiclet	\$1,751,000	\$3,326,900	\$15,000,000	\$20,077,900
Malave	\$960,000	\$1,104,000	\$12,000,000	\$14,064,000
St. John	\$1,000,000	\$1,500,000	\$6,000,000	\$8,500,000

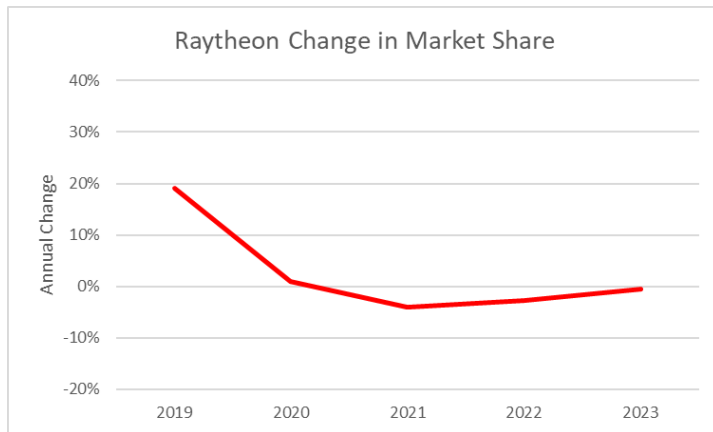
**Appendix 5**

Executive Compensation: Base Salary Compared to Long-Term Incentive (Lockheed Martin Corporation, 2022a)

Executive	Percentage of Total Salary		
	Base Salary	Annual Incentive	Annual LTI
Taiclet	8.72%	16.57%	74.71%
Malave	6.83%	7.85%	85.32%
St. John	11.76%	17.65%	70.59%

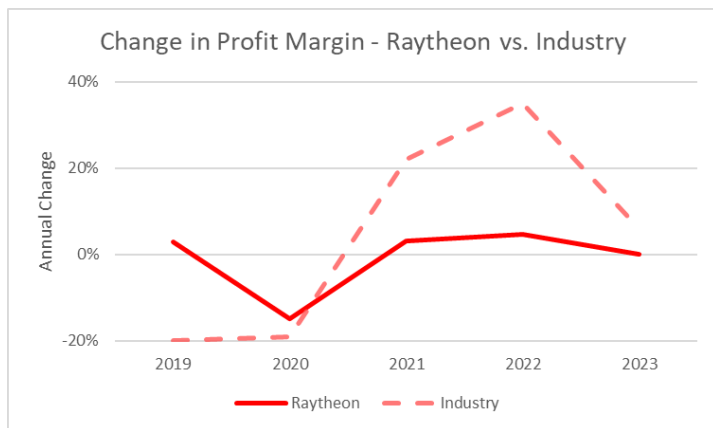
**Appendix 6**

Change in Raytheon Technologies Market Share, 2019-2023 (Seiler, 2023)



**Appendix 7**

Raytheon Technologies Change in Profit Margin vs. Industry, 2019-2023 (Seiler, 2023)



**Appendix 8**

Table of Committees and Members (Lockheed Martin Corporation, 2023b)

<b>Audit</b>		<b>Classified Business &amp; Security</b>	
Thomas Falk (Chairman)	Retired Chairman, Kimberly-Clark Corporation	Joseph Dunford (Chairman)	Retired U.S. Marine Corps General
David Burritt	President and CEO, United States Steel Corporation	Bruce Carlson	Retired U.S. Air Force General
James Ellis	Retired President and CEO, Institute of Nuclear Power Operations	John Donovan	Retired CEO, AT&T Communications
Ilene Gordon	Retired Chairman, President and CEO, Ingredion Incorporated	James Ellis	Retired President and CEO, Institute of Nuclear Power Operations
Patricia Yarrington	Retired Vice President and CFO, Chevron Corporation	Jeh Johnson	Partner, Paul, Weiss, Rifkind, Wharton & Garrison LLP
<b>Management Development &amp; Compensation</b>		<b>Nominating &amp; Corporate Governance</b>	
John Donovan (Chairman)	Retired CEO, AT&T Communications	Daniel Akerson (Chairman)	Former Vice Chairman of The Carlyle Group
Thomas Falk	Retired Chairman, Kimberly-Clark Corporation	David Burritt	President and CEO, United States Steel Corporation
Ilene Gordon	Retired Chairman, President and CEO, Ingredion Incorporated	Bruce Carlson	Retired U.S. Air Force General
Vicki Hollub	President and CEO, Occidental Petroleum Corporation	Joseph Dunford	Retired U.S. Marine Corps General
Debra Reed-Klages	Retired Chairman, President and CEO, Sempra Energy	Vicki Hollub	President and CEO, Occidental Petroleum Corporation
Patricia Yarrington	Retired Vice President and CFO, Chevron Corporation	Jeh Johnson	Partner, Paul, Weiss, Rifkind, Wharton & Garrison LLP
		Debra Reed-Klages	Retired Chairman, President and CEO, Sempra Energy



**Appendix 9**

## Summary of Issues Voted on by Shareholders (Lockheed Martin Corporation, 2023d)

<b>Issue</b>	<b>Decision</b>	<b>Outcome</b>
Election of 13 Director Nominees	FOR each Director Nominee	Each of the 13 director nominees was approved.
Advisory Vote to Approve the Compensation of our Named Executive Officers (Say-on-Pay)	FOR	Proposed compensation of named executive officers was approved on an advisory basis.
Advisory Vote on the Frequency of Future Votes to Approve the Compensation of our Named Executive Officers	FOR One Year	Proposed frequency for futures votes on compensation of executive officers. Options included every One, Two, or Three years. Stockholders voted to maintain the frequency of “One Year”
Ratification of the appointment of Ernst & Young LLP as Independent Auditors for 2023	FOR	The Audit Committee appointed Ernst & Young LLP, an independent registered public accounting firm, as the independent auditors to perform an integrated audit of the Company’s consolidated financial statements and internal control over financial reporting for the year 2023.
Stockholder Proposals as described in the proxy statement, if properly presented (Proposals 5-7)	AGAINST	Stockholder proposals about requiring an independent chairman, issuing a human rights assessment report, and issuing a plan to reduce emissions. All stockholder proposals were rejected.

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