



Ethics, Culture, and Compliance Network

Directors and ethics & compliance executives discuss key challenges and opportunities

Effective oversight of corporate ethics, compliance, and culture remains a priority for boards. A range of stakeholders—including regulators, law enforcement, and investors—have signaled the importance of culture in driving ethics and integrity and their intentions to hold directors and officers accountable for corporate misconduct. A difficult economy and volatile markets are creating pressures that increase culture risk, and an increasingly politicized and polarized environment only heightens the reputational risks arising from ethical failings.

On March 9, 2023, the Ethics, Culture, and Compliance Network gathered virtually for a peer-to-peer dialogue about key 2022 challenges and accomplishments and 2023 goals with respect to advancing board oversight of corporate culture, ethics, and compliance. *For a complete list of attendees, see the appendix on page 4.* The following themes emerged from the discussion.

Investments in ethics and compliance can drive innovation by encouraging new ideas

“How do you turn compliance from defense into offense? How do you integrate it into your strategy and make it part of the DNA of the organization in a way that fosters growth and the thriving of the organization?” asked one director. One answer can be found at the intersection of a culture of compliance and a culture of innovation. Creating a culture where employees feel comfortable raising concerns about misconduct or other ethical issues can generate positive spillover effects by emboldening employees to speak up about efficiencies, innovations, and improvements.

One director described the challenges of creating a culture where innovation can emerge and spread, emphasizing the particular difficulty boards face in gaining insights into new ideas arising from the organization. *“It seems like we do our best in traditional companies to kill all the curiosity,”* the director said. *“I think it’s particularly endemic at the top of the house, in the sense that boards and senior executives don’t see what happens at the edge—they see the summarized and pasteurized information that works through the system, and a lot of the interesting detail just vanishes. All the interesting stuff happens at the edge, and most executives and boards of directors are just nowhere near the edge. We’ve got to draw that knowledge into the corpus of the corporation.”*

Ethics and compliance programs can contribute powerfully to overcoming this corporate lack of curiosity. One participant said, *“There’s a real intersection between the work that ethics and compliance does and the challenge of promoting innovation. That intersection comes through the concept of psychological safety, which is when a person feels, as an employee or as a member of the team, that it’s okay to come forward with an idea that’s different.”* By clearly communicating the expectation that employees should raise ethical concerns, creating mechanisms for doing so, and responding meaningfully to reports of misconduct, an organization will also encourage employees to share new ideas for improving the business. *“The behavior is the same: someone coming forward and speaking,”* a participant pointed out, whether that means reporting integrity concerns to a hotline, raising an idea for a product innovation, or making suggestions for improving efficiency. In this way, investments in ethics

and compliance initiatives that foster a psychologically safe environment can pay dividends beyond improved corporate integrity.

One compliance leader described a positive change that occurred after making significant investments in their ethics and compliance program: *“We’re starting to see managers and supervisors coming to us to say, ‘I thought we were doing this because we want to prevent corruption, but I’m starting to see people in my data analytics teams come forward with ideas that they have been sitting on for months, and they were just afraid because it was different from the path that we had charted originally or they didn’t want to be an outlier.’”* Another member noted a similar connection: *“We introduced the idea of psychological safety last year through a DEI [diversity, equity, and inclusion] program to promote inclusion, but this year we have plans to bring it to the broader organization as a business tool. It will be part of the way we teach people how to lead teams—to build psychological safety so that you get the best out of your teams.”*

Psychological safety can also counteract board isolation. *“If you’re a board member,”* one participant said, *“there is a layer of senior management between you and the culture of the rest of the company. If there’s not an independent flow of information, if there’s not a sense that people can trust coming forward, then you have all the ingredients for problems that are allowed to fester. So the members of our board are the biggest advocates for psychological safety and for identifying what we might be doing that is an impediment to bringing information forward.”*

Pandemic disruptions combined with a difficult economic climate continue to challenge corporate culture

One director said, *“The pandemic really did reinforce for me the fragility of corporate cultures and the need to make sure that you emphasize and focus on tone at the top, education, and making sure that you are communicating with the workforce.”* Another director pointed out that new ways of working ushered in by the pandemic are making it harder for employees, even senior leaders, to make the right decisions. *“In a world in which we have this mixed way of working at home and from the office, it’s really hard to help people to understand the nuances. The biggest challenge is how, as a board, we help people understand how to apply the training, our expectations about conduct, and the clarity of values to real situations in the moment when people are in many cases operating in isolation.”* The remote work environment can undermine some of the important supports for ethical behavior: *“When you’re operating in a group, there are norms that emerge and there are ways to test ideas and concepts with people about the right thing to do that don’t necessarily easily lend themselves to operating remotely.”*

Operational challenges arising from dislocations caused by the pandemic coupled with broader macroeconomic headwinds are adding to the difficulties. For example, in manufacturing, the resolution of supply-chain difficulties and increased business volume coming out of the pandemic has resulted in longer hours and less flexible work schedules, creating stress in the workforce. Combined with high turnover, which makes it difficult to inculcate cultural values and standards of ethical conduct, this pressure has led to increased misconduct and a resulting spike in hotline calls—which, in turn, has taxed organizations’ capacity to respond effectively to reports. Another director noted how market pressures have contributed to conduct issues in a financial services context: *“The way interest rates have moved in the last year, the people responsible for the trading books had more volatility and more spikes in*

rates than many of them have ever seen in their career. And we had a very senior executive that exhibited discriminatory behavior and created a hostile environment,” which required the CEO and ultimately the board to intervene.

Investments in data and analytics can generate powerful insights into the effectiveness of compliance programs

Multiple participants noted that their organizations routinely track ethics and compliance activities, but they acknowledged that this yields limited insights. One participant said, *“Ethics and compliance programs have been hampered in the past by being overly focused on activities—we may have trained 5,000 people, but did anybody really change their behavior?”* Even widespread adherence to ethics and compliance program activities, such as compliance training or engaging with company codes of conduct, does not guarantee *“that people will make the right choices in real time, where good intentions don’t always equal the right outcomes.”*

Improved use of data and analytics can help ethics and compliance leaders, senior executives, and boards gain greater insight into employee behaviors. One participant said, *“There has been real progress recently toward developing data analytics that are meaningful and focused on understanding the actual experience of people interacting with ethics and compliance. It’s not how many times a policy has been downloaded; it’s about what was actually viewed and applied.”* Boards would benefit from deeper questions such as, *“What questions arose during the training? What topics did employees struggle with? Where did employees spend most of their time?”* Boards need to be aware of how their teams are investing in data analytics, which *“is rapidly becoming not just a nice-to-have but a must-have.”*

This document reflects the network’s use of a modified version of the Chatham House Rule whereby names of network participants and their corporate or institutional affiliations are a matter of public record, but comments are not attributed to individuals, corporations, or institutions. Network participants’ comments appear in italics.

The perspectives presented in this document are the sole responsibility of Tapestry Networks and do not necessarily reflect the views of network members or participants, their affiliated organizations, or LRN. Please consult your counselors for specific advice. This material is prepared and copyrighted by Tapestry Networks with all rights reserved. It may be reproduced and redistributed, but only in its entirety, including all copyright and trademark legends. Tapestry Networks and the associated logos are trademarks of Tapestry Networks, Inc., and LRN and the associated logos are trademarks of LRN.

Appendix: meeting participants



Virginia Addicott
Non-executive director,
CDW and Element Fleet
Management



Michael Bramnick
Senior Vice President-
Administration, Chief
Compliance Officer &
Chief of Staff, NRG
Energy



Jim Byrne
Vice President,
Corporate Ethics and
Business Conduct,
Lockheed Martin



Phyllis R. Caldwell
Non-executive director,
Chemonics, JBG Smith
Properties, Oaktree
Specialty Lending,
Ocwen Financial, and
OneMain Financial



Bill Cameron
Assistant General
Counsel, Exelon



**Marjorie Rodgers
Cheshire**
Non-executive director,
Exelon and PNC
Financial Services



Pat Condon
Non-executive director,
Energy



**Tracy Davis-
Bradley**
Executive Director and
Chief Integrity and
Compliance Officer, U.S.
Department of Veterans
Affairs



Nicole Diaz
Global Head of Integrity
& Compliance, Snap



Andy Dunbar
Senior Vice President
and Chief Compliance
Officer, Herbalife



Antonio Fernández
Chief Ethics and
Compliance Officer,
FirstEnergy



Kathy Hannan
Non-executive director,
Annaly Capital
Management,
Carpenter Technology
Corp, Ginkgo Bioworks,
Otis Worldwide



Phyllis Harris
General Counsel, Chief
Compliance, Ethics, and
Government Relations
Officer, American Red
Cross



Clayton M. Jones
Non-executive director,
Deere and Motorola
Solutions



David F. Levi
Non-executive director,
Las Vegas Sands



Bethany Mayer
Non-executive director,
Box, Lam Research,
Sempra Energy



Cindy Moehring
Non-executive director,
Pyxis International



Neil Novich
Non-executive director,
Beacon Roofing Supply,
Hillenbrand, and WW
Grainger



Meg Porfido
Non-executive director,
Kaiser Permanente



Kim Urbanchuk
Chief Compliance
Officer, Covington &
Burling LLP



Amber Williams
Senior Vice President &
Deputy General
Counsel, Bath and Body
Works

ETHICS, CULTURE, AND COMPLIANCE NETWORK



Kim Williams
Non-executive director,
The EW Scripps
Company, Xcel Energy,
and Weyerhaeuser



Michael Williamson
VP Compliance and
Ethics, Pacific Dental
Services



Heather Wilson
Non-executive director,
Equifax



Dona Young
Non-executive director,
Aegon, Foot Locker, and
USAA



Donna Zarcone
Non-executive director,
CDW and Cigna

LRN



**Susan Frank
Divers**
Director of Thought
Leadership and Best
Practices, LRN



Ty Francis
Chief Advisory Officer,
LRN

Tapestry Networks



Eric Baldwin
Principal, Tapestry
Networks



Jonathan Day
Chief Executive,
Tapestry Networks



**Marsha Ershaghi
Hames**
Partner, Tapestry
Networks



Laura Koski
Project and Event
Manager, Tapestry
Networks