tapestry NETWORKS

Ethics, Culture, and Compliance Network

ECCN SUMMARY OF THEMES

Enhancing risk assessment

November 2023

An array of nonfinancial risks, including technology, geopolitical, climate, and culture risk, are interacting in complex ways that challenge organizations' risk management frameworks and demand new approaches to risk assessment.

On October 10, 2023, the Ethics, Culture, and Compliance Network (ECCN) gathered virtually for a discussion on enhancing risk management oversight—identifying pressing risks that have emerged at the top of board agendas, mechanisms for assessing culture risk, and tools and processes for anticipating new risks.

This *Summary of Themes* highlights the challenges of navigating the current risk landscape:

Facing an evolving risk landscape

Assessing and addressing culture risks

Managing an expanding range of risks

For a list of meeting participants, see Appendix 1 (page 6).

LRN Inspiring Principled Performance

Facing an evolving risk landscape

The expanding range and magnitude of risks, as well as the pace of change and the complex interactions among risks, are making it more difficult for companies and boards to anticipate, assess, and mitigate crucial risks. Participants discussed a range of pressing issues that have emerged on their risk registers:

- **Geopolitical tensions.** Doing business in foreign markets has always come with risks, but rising geopolitical tensions are heightening these concerns. Many companies are navigating the increased complexity of supply-chain risks induced primarily by the COVID-19 pandemic and heighted by geopolitical conflicts. Geopolitical tensions also limit or restrict firms' ability to access certain markets. One director said, "*We used to sell products into Russia; we sell none now. So that shows how quickly things can change from what you expected*." National security concerns have also intruded into international business operations. One participant noted that the US Department of Justice has indicated that "*national security is now a paramount concern when there's a violation of sanctions or export controls. They are clearly signaling that compliance in that area is a top priority and any failures will be viewed as something that could compromise national security, which I think really ups the stakes for companies*." Relatedly, many companies, particularly in the tech sector, face heighted risk to their intellectual property (IP), with geopolitical implications: "*IP loss is a very big issue as it relates to the geopolitical climate that we have today. This is not just a cybersecurity issue but also a physical issue. The loss of IP to folks with purposes that may be counter to the United States is a real risk for these companies*," one director said.
- **Increasing polarization and political uncertainty.** One director said, *"We have a more uncertain environment in the US than we've ever had, both from a political and legislative standpoint, and this has implications for companies, especially in regulated industries."* Polarization is heightening fear of reputational risk related to politically charged issues. One director stated, *"I think the risk there is that the visibility that environmental and social issues have gotten over the last few years has given everyone pause in how corporations engage."* A volatile political climate has increased concerns about physical risks to both facilities and employees. One director said, *"We've had potential physical threats to our reporters, and we have had to think about what to do to protect our people going into the next election cycle."*
- **A difficult talent landscape.** Challenges in recruiting and retaining key people are raising many operational risk concerns, and a tight labor market is compounding those concerns in some sectors. One director said, *"The balance of power has shifted to the labor side, especially if you have organized unions,"* which is pushing up labor costs. One participant noted that firms that depend heavily on engineering talent face stiff competition for those workers from deep-pocketed tech companies. Some industries face additional concerns. For example, noting the serious mental health issues experienced by healthcare workers, one director said, *"People don't want to do the work anymore, and it's hard to get people.*

We have to ask, Are we thinking about what people experience every day and what they deal with in going to work?"

Assessing and addressing culture risks

Corporate culture is an important source of risk, and participants acknowledged that the challenge of managing that risk lies in the changing and ambiguous nature of culture, which can be difficult to define or analyze. Participants highlighted several aspects of and tools for assessing and mitigating culture risk:

- **Identifying a culture of ethics and integrity.** One participant said, *"If you notice ethics and integrity aren't a value, that's a red flag; values help define the culture of an organization. But beyond just seeing that integrity or ethics are values of the organization, you need to look deeper than that and make sure that for a company that truly has a culture of ethics and integrity, how do they measure that?"* One indicator could be how clearly management emphasizes ethics and integrity in front of the entire organization. *"Check the CEO scripts and see how often it's brought up,"* said a director.
- **Addressing lack of visibility into culture.** One director asked, *"Are we sure that we're seeing the reality of culture versus what folks want us to see?"* While participants agreed on the challenge of gaining visibility into culture, one director suggested, *"I don't think the boardroom is ever divorced from what's going on in the broader culture. I think sometimes we're just not listening in the boardroom. One thing every director can do to test culture is get confirmation that the company has a speak-up culture, that people are comfortable raising their hands."* Members discussed the need to assess methods for reporting, like an ombudsman, hotline, and employee surveys—especially the transparency of those tools. Anonymous reports to hotlines can signal that people are afraid to raise issues, for example, and some surveys generate more useful insights than others. One director said, *"If you get a thorough explanation of things that come out of the survey, that can give you an indicator if there's a weakness in certain areas."*
- **Acting on culture commitments.** One director said, *"A lot of culture risk is having committed to something but not being ready for what it means to make that commitment."* Members discussed how, for example, a culture commitment like focusing on diverse talent recruitment and retention must include a plan for how to integrate and support diverse talent in the workplace. *"If you're not ready to handle those things, then you're not ready to make the commitment,"* one said.

Managing an expanding range of risks

One director said, *"The pace and the velocity of change as well as the magnitude of the risks are overwhelming for boards."* Participants suggested a range of approaches for boards and leadership teams to effectively manage and mitigate the evolving range of risks they are confronting:

- **Prioritizing and categorizing risks.** One executive noted that *"boards are facing an absolute influx of risks on top of risks and should press on management to explain how best* *to think about that in a hierarchical way."* Given the large number of potential risks, boards and management teams need a way to prioritize the most important ones. One director described a risk assessment process that *"would identify 500 risk scenarios that could come into play. You can't manage 500 risk scenarios at the senior level, so what they typically do is to narrow that down to the top 10 or the top 20, and then those are the ones that are focused on mostly in the board room and at the senior-officer level."* One executive identified a process for prioritizing risk: *"We'd take 100 identified risks and vote on them as a management team based upon three different parameters: the impact, potential impact and likelihood of that risk materializing, and how that risk is currently being managed in the company."* This enabled the board and senior leadership team to focus on the most important risks: "*The board would have awareness of others beyond the top risks, but board-level discussions would be focused on those top risks*." Another participant stated, "*We have a collaborative process where risk is owned collectively by the chief compliance officer, the head of internal audit, and the chief risk officer. All interviews are conducted collaboratively where everybody hears the same information that each control function can use to determine how their program needs to change based upon the risk assessment*."

- **Assigning risk ownership and accountability.** Participants agreed that a key aspect of effective risk oversight is to assign ownership of risk that establishes clear expectations of roles for both management and the board. One executive noted that the top risks emerging from the risk assessment process are individually assigned to members of the management team, who report back to the senior leadership team and the board. Ownership and collaboration at the board level are also crucial. One director said, "*One of the things we're working on with our risk committees and working groups is a risk assessment charter, which is about role clarity, and I think it will support our leaders in understanding decisions that they weigh in on*." Participants discussed the benefit of committee collaboration in getting updates on risk to the full board. Another director said, "*I've been on committees where we end up holding joint meetings because there's enough overlap of the risks being managed where we can collaborate*."
- **Assessing risk appetite.** An effective risk management process requires an assessment of risk appetite and alignment with the company's strategic objectives. One director said, *"It's important that you bring risk appetite to a level of consciousness when discussing risk."* Determining risk appetite can effectively inform how boards prioritize risk. *"Risk appetite is either controlled within the appetite or above the appetite. Of the many risk scenarios, about 5% come out above the appetite, and that gives you one assessment of the priority,"* said one director.

To meet the challenge of navigating the current risk landscape, boards and management teams are seeking new approaches to anticipating future risks in a volatile environment. One director said, "*I'm seeing a more future-looking direction at risk across the board, which is a shift from where we reported out against the risks before. We're asking, What do we see on the horizon, and what are we doing about it?*" Members discussed the difficulty of building risk assessment mechanisms and processes that identify and mitigate future risks before they escalate into crises. One director said, "*We should be better at seeing the things that don't fully exist. It's way easier, cheaper, and quicker to deal with when we see it coming.*" This can require a shift in mindset from leaders. "*I think it's really important to do horizon scanning and ensure the board and management aren't staying narrowly boxed into the more obvious risks. And we need to widen the lens on how we're thinking—even about risks that we are aware of that might have unanticipated implications,*" one director said.

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

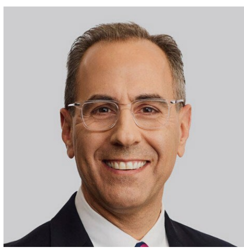
Appendix 1: Participants

Noni Abdur-Razzaq
Associate
Tapestry Networks

Eric Baldwin
Principal
Tapestry Networks

Sue Bettman
Partner
Brunswick Group

Deepak Bhatt
Non-Executive Director
Bristol-Myers Squibb



Michael Bramnick
Senior VP – Administration, Chief Compliance Officer & Chief of Staff
NRG Energy

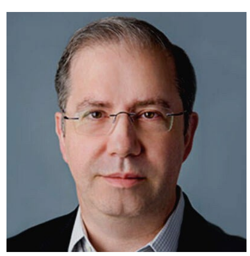
Jim Byrne
SVP, Corporate Ethics and Business Conduct
Lockheed Martin

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

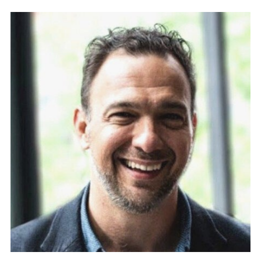
Bill Cameron
Assistant General Counsel
Exelon

Marjorie Rodgers Cheshire
Non-Executive Director
Exelon and PNC Financial Services

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



Jonathan Day
Chief Executive
Tapestry Networks



Forrest Deegan
Chief Ethics & Compliance Officer
Victoria's Secret

Susan Frank Divers
Director of Thought Leadership and Best Practices
LRN

Adam Dubow
General Counsel
Day One Biopharmaceuticals

Andy Dunbar
Senior VP and Chief Compliance Officer
Herbalife

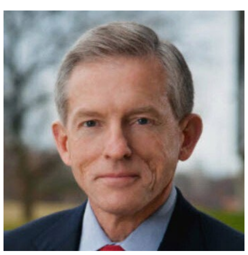
Marsha Ershaghi Hames
Partner
Tapestry Networks

Ty Francis
Chief Advisory Officer
LRN

Amy Hanan
Chief Marketing Officer
LRN

Sandy Helton
Non-Executive Director
OptiNose

Lenny Izzo
Chief Revenue Officer
LRN



Clayton M. Jones
Non-Executive Director
Deere and Motorola Solutions

Julie Kane
Non-Executive Director
Heliogen

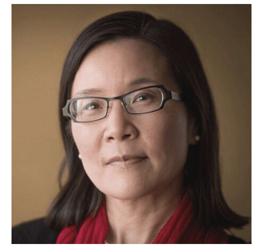
Laura Koski
Project and Event Manager
Tapestry Networks

Bethany Mayer
Non-Executive Director
Box, Sempra, Hewlett Packard Enterprise, and Lam Research

Neil Novich
Non-Executive Director
Beacon Roofing Supply, Hillenbrand, and WW Grainger

Meg Porfido
Non-Executive Director
Kaiser Permanente

Justin Ross
VP and Global Chief Compliance Officer
FedEx



Diana Sands
Non-Executive Director
Anglogold Ashanti and SP Plus

Scott Sullivan
Chief Integrity and Compliance Officer
Newmont Corporation

Kim Urbanchuk
Chief Compliance Officer
Covington & Burling LLP

Kim Williams
Non-Executive Director
The EW Scripps Company, Xcel Energy, and Weyerhaeuser