

Ethics and Compliance Leadership Forum

August 2020

ECLF

SUMMARY of THEMES

Key themes from the inaugural ECLF forum

On July 22, 2020, directors and senior executives – including chief ethics and compliance officers (CECOs) – met virtually to discuss how boards and top executives can work together to drive values, corporate culture, and ethical decision making in the face of uncertainty. The following key themes emerged from that conversation:

- **A board's oversight of corporate behavior starts with its own visibility.** Directors are increasingly responsible for influencing as well as overseeing corporate behavior. A board's own values can help articulate corporate purpose and reflect it in decision making. A participant said, *"Culture is ultimately a reflection of how things happen around a company. Boards can have a profound impact on corporate culture through the priorities they set and how they communicate to senior leadership."* But culture has many aspects. Participants pointed to the importance of sharply framed goals and critical questions. One said, *"A board needs a shared understanding between itself and management, so management can properly execute the board's goals."* Another noted, *"Asking the difficult questions is what mobilizes management to ensure they can respond and affect changes appropriately."* And a director added: *"Boards should be asking 'What are our guiding principles? Do we have accountability? How do we envision our stakeholders?' These are the types of critical discussions that need to happen in the boardroom to understand culture."*
- **Corporations need to go beyond formal compliance programs.** Participants agreed that the formal guardrails of corporate compliance and ethics programs are not enough to prevent deep reputational damage. According to one participant, *"A company can be in perfect compliance with its policies and procedures but if there is an instance of unethical behavior, trust in the company can be lost."* In addition, participants noted that there could be a disconnect between processes and corporate culture. One said: *"You can have a wonderful compliance and ethics program on paper, a wonderful strategy, and if you drop it into a toxic culture you have nothing."* Another added, *"Rules, policies, and procedures will not ultimately shift corporate culture. The culture can be a powerful ally or a formidable obstacle. It needs to direct the compliance aspects of a corporation."*

Even in the wake of misconduct – when it is time for a deep dive into underlying causes – boards can find themselves looking backwards on Ethics and Compliance, and simply counting activities, such as helpline calls, investigations, and training sessions. Participants called for boards to transform their deeper aspirations into action. They agree that value statements can come to seem like platitudes. One director said, *"At times in the boardroom, any discussion of corporate values feels like the values are being spooned up to us like*

apple pie. We could use some meat on the bones.” Another added: “Boards need to activate their company’s values and put those values into experiences.” In doing so, they can improve the reputation of the company and of its board. One participant said, “Boards need to figure out what makes their businesses tick and where there are potential danger zones. They need to move on from a point where culture is a political point where everyone has an opinion but no real metrics.”

- **Intense and transparent monitoring is essential.** To maintain a strong corporate reputation, participants said, boards should “*trust but verify*” management actions. One said, “*You need external professionals to make sure that everything is running well within the company. Using these outside people can inform the company whether it needs to take a closer look at any issues.*” Another said, “*Leadership should have a professionally skeptical attitude to ensure that small issues do not grow.*” Boards can work with management to engage in more internal and external oversight. One participant said, “*The more we layer on the outside monitors, the more it will be understood that we are welcoming oversight and honest feedback. That is a way to feed trust and business advancement.*”
- **The CECO’s role in the boardroom varied.** Some participants reported limited interactions with their CECO. A CECO said, “*I present quarterly to the audit committee and to the full board only once a year.*” Another added, “*Our company does not have a CECO. We don’t have a specific focus in that area.*” Often, the CECO’s efforts go reported and unadvised by the board, and many companies see their CECO as playing a legal role. One participant said, “*The CECO frequently reports into the legal department. This is the wrong reporting line. If you think about it from a director standpoint, by definition you have subordinated the importance of the CECO. The whole thing gets filtered through a weird legal lens.*” However, an effective CECO can be an asset to the board, especially if the CECO’s profile and skills add a fresh perspective to the boardroom, and assist directors in making agile and principled decisions. One participant said, “*The role of the CECO is to challenge the board.*”
- **CECOs can play a critical role in improving non-financial disclosures, especially around culture and ESG.** Boards face ever-increasing pressure for wider and deeper ESG disclosures. One participant said, “*We need to have a routine way of getting a pulse on culture.*” But another noted the challenge in creating uniform data that applies across a range of cultural norms: “*Not everyone perceives culture in the same way, and the issues can be very difficult to assess. It is a high challenge to create a metric and determine how often and why it should be measured.*” To better access data and metrics to guide oversight, several participants called for greater collaboration with the CECO. One said, “*We carve out time for the CECO every other board meeting. The CECO also makes regular presentations to our audit committee.*” Another highlighted the importance of collaboration to help the board have a better pulse on culture: “*It is critical that all individual functions,*

such as ethics and compliance, audit, quality, control, health and safety, finance, and legal work together so as to avoid missing key risks to the company. This shared ecosystem can create a macro lens for the board on the organization's culture."

- **Participants are eager to learn from one another.** They called for practical examples of change, and sharing of metrics, dashboards, questions from boards to management, and case studies of actual board performance on these critical issues. One said, *"It would be great to learn how audit and compliance works together at different companies. I would like to see how they collaborate on joint risk assessments and operations."* Another added, *"I learn a lot from hearing how other companies conduct their investigations and how they might change aspects going forward."*

About the Ethics and Compliance Leadership Forum (ECLF)

The ECLF is convened by Tapestry Networks and sponsored by LRN, Inc. It is a consortium of non-executive directors who have broad oversight responsibility, and senior executives who are responsible for corporate ethics and behavior, many of whom are both public company board members and current or former chief ethics and compliance officers. As boards have more responsibility around corporate behavior and integrity, the ECLF aims to explore the specific issues that are top of mind and how boards and management teams are collaborating in pursuit of corporate integrity. This *Summary of Themes* is produced by Tapestry Networks and aims to capture the essence of the network discussion and associated research. Those who receive the *Summary of Themes* are encouraged to share it with others in their own networks.

About Tapestry Networks

Tapestry Networks is a privately held professional services firm. Its mission is to advance society's ability to govern and lead across the borders of sector, geography, and constituency. To do this, Tapestry forms multi-stakeholder collaborations that embrace the public and private sector, as well as civil society. The participants in these initiatives are leaders drawn from key stakeholder organizations who realize the status quo is neither desirable nor sustainable and are seeking a goal that transcends their own interests and benefits everyone. Tapestry has used this approach to address critical and complex challenges in corporate governance, financial services, and healthcare.

About LRN

LRN helps organizations build and sustain ethical cultures. The foundation of everything LRN does is a simple but powerful notion: Values drive behavior, and behavior drives outcomes. Every solution LRN offers is designed with this in mind. Since its founding in 1994, LRN has helped over 20 million people at more than 700 companies worldwide, simultaneously navigate complex legal and regulatory environments and foster ethical cultures. Through a combination of practical tools, education and strategic advice, LRN enables companies to translate their values into concrete corporate practices and leadership behaviors that create sustainable competitive advantage. A global company, LRN works with organizations in more than 100 countries from its offices in major cities, including New York, London, and Mumbai.

Summary of Themes reflects the use of a modified version of the Chatham House Rule whereby comments are not attributed to individuals, corporations, or institutions. Network participants' comments appear in italics.

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Forum participants

- Jeff Epstein, Co-Chief Executive Officer, Chief Financial Officer, and Secretary, Apex Technology Acquisition Corp.; Lead Director and Audit Committee Chair, Twilio; Audit Committee Chair, Kaiser Permanente and Shutterstock
- Kathleen Franklin, Global Ethics and Compliance Strategy Leader, Sony Group; Non-Executive Director, Bank OZK
- Helene Gayle, President and CEO, The Chicago Community Trust; Compensation Committee Chair, The Coca-Cola Company; Nominating, Governance, and Corporate Responsibility Committee Chair, Colgate-Palmolive Company; Non-Executive Director, Federal Reserve Bank of Chicago*
- Liz Hewitt, Audit Committee Chair, Novo Nordisk and Melrose PLC; Non-Executive Director, National Grid Group PLC*
- Julie Kane, Senior Vice President, Chief Ethics and Compliance Officer, and Deputy General Counsel, Pacific Gas & Electric; Nominating and Governance Committee Chair, Siga Technologies
- Cathy Lego, Compensation Committee Chair, Lam Research Corp. and IPG Photonics; Audit Committee Chair, Guidewire Software; Non-Executive Director, Cirrus Logic
- Leo Mackay, Senior Vice President, Ethics and Enterprise Assurance, Lockheed Martin; Non-Executive Director, Cognizant and USAA Federal Savings Bank
- Mike McCarthy, Lead Director and Corporate Governance and Nominating Committee Chair, Union Pacific
- Meg Porfido, Compensation Committee Chair, Kaiser Permanente
- Melissa Stapleton Barnes, Senior Vice President, Enterprise Risk Management, and Chief Ethics and Compliance Officer, Eli Lilly & Co.; Non-Executive Director, Algonquin Power & Utilities Corp.

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- David Greenberg, Chief Executive Officer, LRN; Chief Executive Officer, Acqua Recovery; Former Senior Vice President and Chief Ethics and Compliance Officer, Altria Group; Corporate Governance and Risk Assessment Chair, International Seaways; Non-Executive Director, CTG:I LLC

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