

BOARD OVERSIGHT OF ETHICS AND COMPLIANCE:

TWELVE STEPS TO
OPERATIONALIZE THE
TONE AT THE VERY TOP

Boards have a clear legal obligation to oversee company integrity, ethics and compliance. Nevertheless, LRN's recent study of board oversight at 25 global companies uncovered significant discrepancies and weaknesses in how most boards fulfill their obligations. Here are twelve immediate steps boards can take to strengthen the crucial tone at the very top.

QUALITY TIME AND STRATEGIC FOCUS

The majority of boards spend less than two hours a year in committee or in full board oversight of ethics and compliance (E&C). Moreover, most boards do not have a clear strategy undergirding their oversight.

WHAT CAN YOUR BOARD DO TO ALLOCATE SUFFICIENT TIME AND THE STRATEGIC FOCUS NEEDED?

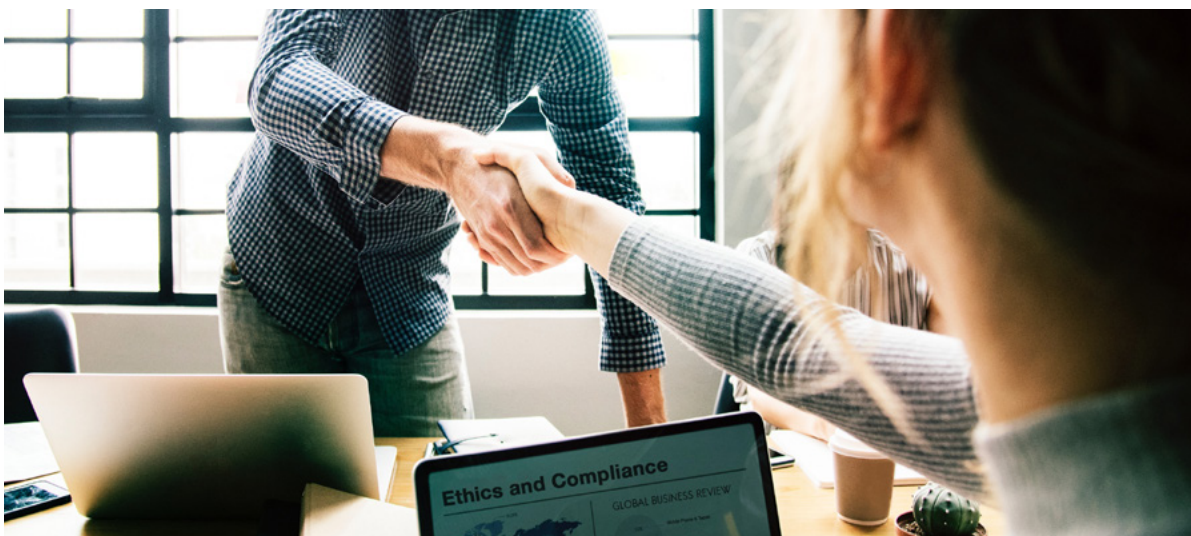
1. Require Chief Ethics and Compliance Officers (CECOs) to present a comprehensive strategy, with clear, relevant metrics, and accountability. Require them to report back on progress against that strategy.
2. Ensure there is meaningful time purposefully allocated to ethics and compliance on board and committee agendas. 'Pre-read' documents by themselves will not do the job, nor will five minutes at the very end of board or committee agendas.
3. At the board committee level, assess whether the current committee of jurisdiction (often the Audit Committee) is simply too busy to do an adequate job on ethics and compliance oversight. If so, assign E&C oversight to a committee under less agenda pressure.

SENIOR LEADERSHIP ACCOUNTABILITY

Our study demonstrates that few companies set clear expectations for senior executives on ethics and compliance. Unless senior leaders regularly insist that business decisions incorporate company values, the correct 'tone at the top' will never be set.

HOW CAN BOARDS TAKE ACTION TO HOLD SENIOR MANAGEMENT ACCOUNTABLE?

4. Work with Compensation Committees to ensure that all senior leaders have clear and measurable objectives related to ethics, compliance and culture. Compensation decisions should incorporate performance against these same objectives.
5. Undertake root cause analyses of misconduct and require senior corporate and operating unit leaders to explain any ethics and compliance missteps within their organizations and the remediation plans. Follow up with them at subsequent board meetings on the progress and outcomes of those remediation plans and any related metrics that support the proposition that the underlying problems have genuinely been addressed.



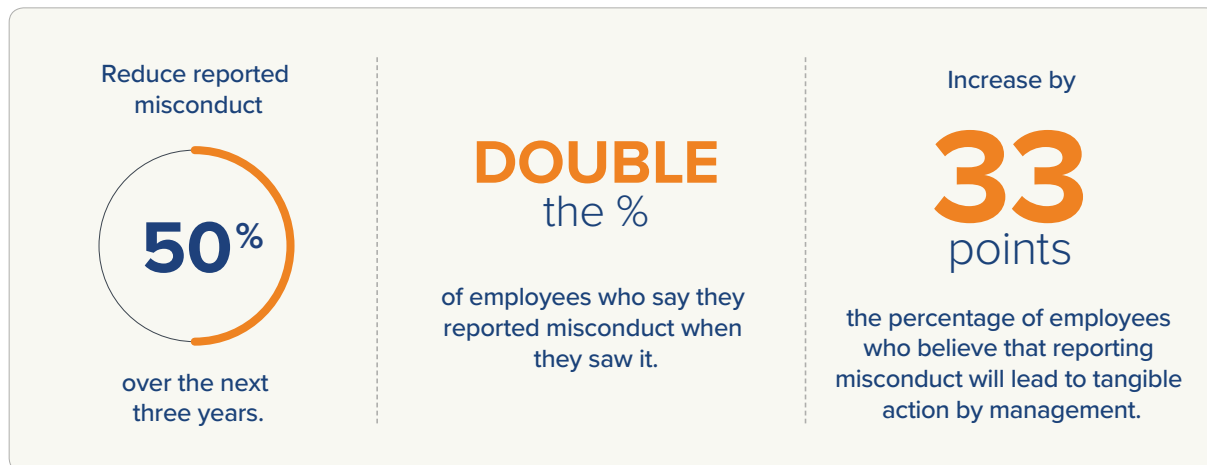
METRICS THAT MATTER

Many CECOs use checklists of ethics and compliance activities to report to the board rather than focusing on outcomes. For example, they focus on the number of employees trained, the number of calls made to hotlines and the number of investigations opened and resolved during the year. But this data does not actually reflect whether ethics and compliance initiatives influenced behavior and decisions in the workplace.

HOW CAN BOARDS GUIDE CECOS TO PUT THE RIGHT METRICS IN PLACE?

6. Put a spotlight on culture and behavior. Boards should expect the E&C team to work with human resources and executive management to assess company culture and steer it in the right direction to deter misconduct and promote the right behavior.
7. Measure what matters. Boards should ask for measures of the forces that drive behavior, such as trust, willingness to speak out, management's willingness to listen and employee belief that company values actually play out in business decisions.
8. Focus on misconduct and its causes. Effective employee surveys and focus groups can reveal important trends on how much misconduct exists in a company, why it happens, whether it is reported or under-reported and why employees who witness misconduct choose not to come forward. Findings on these key topics should then be transformed into tangible and measurable objectives, for example:

EXAMPLES OF TANGIBLE & MEASURABLE OBJECTIVES TO PUT IN PLACE



STRONG RELATIONSHIPS WITH THE CHIEF ETHICS AND COMPLIANCE OFFICER

Our study found that many CECOs feel undervalued by senior management and the board. They typically have little direct contact with board members and almost half reported that they do not report in executive sessions to either the board or a board committee. This distant relationship makes it difficult for CECOs to come forward with negative news, particularly regarding senior management.

HOW CAN BOARDS STRENGTHEN THEIR RELATIONSHIPS WITH CECOS?

9. Mandate E&C executive sessions at every board or board committee meeting. These sessions can be short, but they are important in establishing a relationship that ensures that there is a normal-course-of-business opportunity to discuss serious misconduct, should it occur.

10. Speak to the CECO between board meetings. Establish a pattern of a pre-board or committee phone call or a short meeting with the CECO. Take the initiative to meet the full compliance team outside of board meetings to have longer discussions about the strategic plan, culture, and how it's going.
11. Establish expectations with senior management. Whatever the level or reporting relationship of CECOs, they should be viewed as respected and senior leaders with similar seniority and influence as other executives, such as the Chief Human Resource Officer, General Counsel and Chief Information Officer.

TAILORED TRAINING

While it is settled that boards must be trained on E&C, our research revealed that few boards actually fulfill this requirement. And even when they do—many companies simply ask their boards to do the same training provided to employees. Since boards have entirely different roles, this training misses the mark.

WHAT IS THE RIGHT KIND OF E&C TRAINING FOR BOARDS?

12. Boards need training and experiences directly relevant to their oversight role vis-à-vis compliance and ethics. Boards should seek out training that test their ability to respond to the types of issues they—not employees—will encounter. Boards should ask for discussions, scenarios and simulations that pivot off key risks to their companies and challenge their role in setting the tone at the very top while overseeing E&C strategy and initiatives.

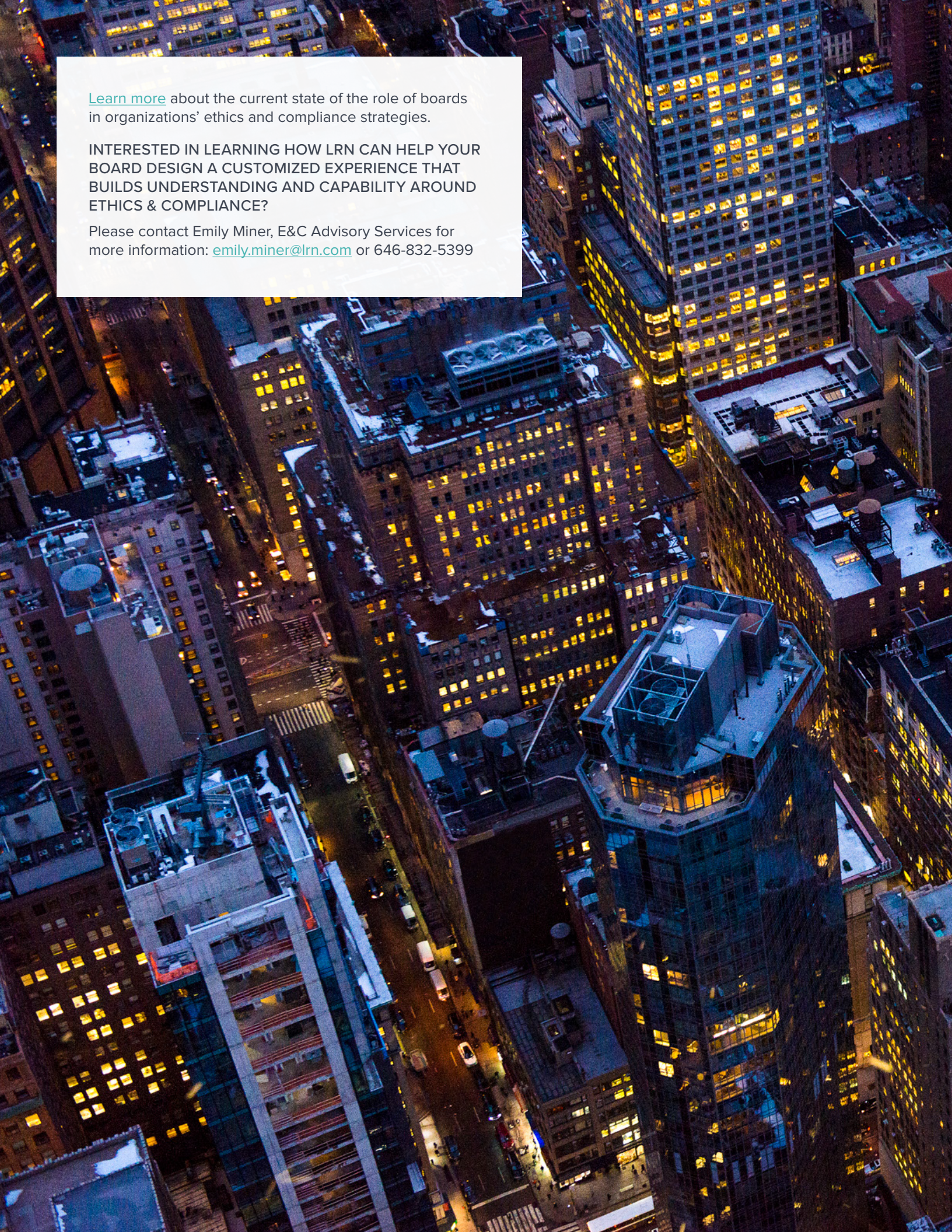
These are twelve operational and relatively inexpensive steps boards can take now to strengthen both E&C oversight and the tone at the very top of their companies. These kinds of investments will pay major dividends in protecting company reputation and long term value.



To download our full report, What's the Tone At the Very Top? The Role of Boards In Overseeing Corporate Ethics & Compliance, click [here](#).

A 12-STEP CHECKLIST: HOW BOARDS CAN STRENGTHEN THE TONE AT THE TOP

1. Require Chief Ethics and Compliance Officers (CECOs) to present a comprehensive strategy and require reporting back on progress.
2. Ensure there is meaningful time purposefully allocated to E&C on board/committee agendas.
3. At the board committee level, assess whether the current committee of jurisdiction is too busy to do an adequate job on E&C oversight.
4. Work with Compensation Committees to ensure that all senior leaders have clear and measurable objectives related to E&C.
5. Require senior corporate and operating unit leaders to explain any E&C missteps within their organizations and the remediation plans.
6. Require an in-depth assessment of company culture.
7. Insist on metrics on the forces that drive behavior.
8. Focus on misconduct and its causes through employee surveys and focus groups.
9. Mandate E&C executive sessions at every board or board committee meeting.
10. Speak to the CECO between board meetings and meet the E&C team.
11. Establish expectations with senior management that CECO's are viewed as respected company leaders with similar seniority and influence as other executives.
12. Seek out custom training directly relevant to the board's oversight role.

An aerial night photograph of a dense urban area, likely New York City. Numerous skyscrapers and mid-rise buildings are visible, their windows glowing with warm yellow light. The streets below are dark, with some vehicle lights visible. The overall scene is a high-angle, top-down view of the city's grid.

[Learn more](#) about the current state of the role of boards in organizations' ethics and compliance strategies.

INTERESTED IN LEARNING HOW LRN CAN HELP YOUR BOARD DESIGN A CUSTOMIZED EXPERIENCE THAT BUILDS UNDERSTANDING AND CAPABILITY AROUND ETHICS & COMPLIANCE?

Please contact Emily Miner, E&C Advisory Services for more information: emily.miner@lrn.com or 646-832-5399

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