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Five Practices to Institutionalize Ethics, Integrity, and Compliance

By David W. Simon

RULES, PROCEDURES, AND CONTROLS ARE ESSENTIAL for maintaining a culture of ethics and integrity. In a previous article I wrote for *Directorship*, I argued that the essential issue for business leaders seeking to create and maintain an organizational culture of ethics and integrity is not "being ethical" but rather projecting ethics; I also offered five leadership practices that can help.

While ethical leadership is necessary, it is not sufficient. It must be paired with an ethical infrastructure.

Through years of advising companies, I have identified five practices that board members can deploy, or ask management to deploy, to create an ethical infrastructure, project ethics, and help discharge their duty to oversee compliance. These are not abstract theories or regulatory checklists; they are practical, proven actions supported by behavioral science research.

Practice 1: Align Incentives with Ethical Behavior

Ethical leadership becomes ineffective if incentives reward contrary behaviors.

As Alison Taylor notes in her 2024 book *Higher Ground: How Business Can Do the Right Thing in a Turbulent World*, most corporate scandals are not attributable to individual lapses or failures of compliance programs. Instead, they are reflections of a business model that prioritizes commercial success over the broader consequences of actions.

Indeed, if a company structures compensation, promotions, and recognition solely around hitting revenue targets or some other business objective, some employees will prioritize those metrics over ethics and compliance.

Incentives created by the business model become water to the fish swimming in it. According to the *Academy of Management Discoveries* article, "A (Bounded) Preference for Rule Breakers," leaders were substantially more likely to favor and select "moderate rule breakers" over honest players in circumstances of high consequence.

This dynamic was on display in Wells Fargo & Co.'s false-account scandal, which stemmed from the company's aggressive cross-selling strategy that rewarded employees for hitting quotas rather than for ethical customer interactions. Additionally, Amazon.com's relentless emphasis on speed has reportedly led to lapses in the company's ethical standards: Employees allegedly drive recklessly, skip safety protocols, and take extreme measures to avoid missing quotas.

How a company organizes its priorities, allocates resources, and defines success drives ethical behavior. If compensation, promotions, and prestige derive solely from hitting aggressive sales targets, the underlying message is clear: Revenue matters more than integrity.

If "moving fast and breaking things" is at the core of the business model, do not be surprised if ethical standards are broken. Companies that project ethics successfully align incentives so that ethical behavior is not in conflict with success but is a prerequisite for it.

To deliberately align a company's business model and incentives with ethical behavior, directors should require regular reviews from management of how the business model drives actions. This should include assessing the risks of speedy decision-making, short-term revenue pressure, growth or market-share obsession, and unchecked performance-based compensation that may create incentives to misbehave.

Directors may also consider asking management to model worst-case scenarios based on past industry scandals and internal data. If the current business model were stretched to the extreme, where would the ethical fault lines emerge?

The board may engage third-party experts to assess these questions independent of management. Regardless of the approach taken, periodic board-level discussions of the business model and ethical behavior are critical for building an ethical infrastructure.

In addition, directors should ensure that ethics and integrity are embedded in management performance evaluations with clear, measurable weight. This means incorporating ethics metrics, such as employee satisfaction scores, compliance incident rates, and cultural health indicators, into executive compensation; adjusting bonus structures to reward risk-conscious decision-making; and including misconduct clawbacks.

Practice 2: Independently Oversee Key Decisions

Without independent oversight of important decisions, such as major acquisitions, executive compensation, engaging in third-party relationships, and whether to operate in high-risk jurisdictions, the odds of ethical failures increase. Few practices are more critical than ensuring a second set of independent, unconflicted eyes.

Independent review is a fundamental principle of corporate governance. Many jurisdictions and exchanges require or strongly encourage independent directors on public company boards, and widely accepted control frameworks, such as the Committee of Sponsoring Organizations of the Treadway Commission's internal control framework, emphasize the importance of a segregation of duties to prevent unchecked authority and reduce the risk of fraud.

Many high-profile corporate scandals can be traced back to a lack of independent review of key decisions. The Theranos board was packed with high-profile individuals, but it lacked true industry expertise and could not provide independent technical oversight. Key decisions related to launching products and releasing disclosures, for example, were approved without independent validation.

Central to Enron Corp.'s collapse was a failure of internal controls. Executives wielded unchecked control over financial reporting and decision-making, which allowed them to manipulate financial statements, hide debt, and inflate earnings without scrutiny.

Though well-known, these cases endure because they exemplify structural failures that persist today.

To effectively project ethics, boards should examine whether their companies embed true independent oversight. Aside from mandating general internal controls hygiene, key actions for the board include the following:

Create and maintain an independent board with true oversight of major corporate decisions. A sufficiently informed, independent, and engaged board serves as a critical mechanism for creating an ethical infrastructure. Informed and engaged independent directors help combat cognitive bias and play a key role in evaluating strategic proposals, risk management, and regulatory compliance with a broad perspective on protecting corporate reputation.

Mandate independent review of high-risk decisions. Board members should create governance structures that ensure high-risk decisions are subject to an independent review process by a reputable and qualified third party before approval.

Promote organizational cross-fertilization. Isolated business functions that operate in silos are breeding grounds for ethics and compliance failures; unchecked authority can lead to high-risk decision-making without proper review. The board should ensure that company operational processes and oversight mechanisms actively promote cross-pollination among functions so that independent eyes within the organization regularly review decisions.

Practice 3: Ensure Companies Deliver Effective Ethics Messaging

Leaders who are serious about projecting ethics recognize that compliance messaging and training is not only about relaying policies; it is also about shaping ethical behavior in the moments that matter.

Boards should ensure that these communications are maximally effective by assessing training and communications plans as part of periodic reviews of the company's compliance program. In my experience, the most effective ethics messaging includes the following elements:

Frequent micro-training designed to take advantage of continuous reinforcement. Companies that effectively communicate about ethics and compliance avoid the one-time training trap.

The frequency of ethics and integrity messaging matters, and regular micro-training will have a greater impact on behavior. For example, to move the needle on safety, Walmart deployed a micro-learning platform where employees spent a few minutes answering safety questions in a game-like format. Over time, the system reinforced strengths and retaught weaker areas. Reports from HR Exchange Network indicate that this approach resulted in an increase in safety knowledge and a significant decrease in reportable incidents during the pilot phase.

Messaging delivered in the right situational context. Ethics and compliance training works best when it is delivered at the moment of decision-making. For instance, if an employee schedules a business trip to a country with a reputation for corruption, a real-time anti-bribery reminder email can pop up with relevant guidance. Or, when an employee is scheduled to attend a meeting of an industry trade association, the company's authorization can trigger an antitrust compliance reminder that appears in the employee's inbox on the day of travel.

Useful and substantive guidance to employees. The substance of ethics messaging is also extremely important. Erin Meyer's research in the 2024 *Harvard Business Review* article, "Build a Corporate Culture That Works," reveals a key insight: To build and sustain a meaningful culture rooted in purpose, ethics, and integrity, leaders must craft ethics value statements based on real-world dilemmas employees encounter, not on vague platitudes.

Meyer contrasts a typically empty corporate value statement, "We believe in transparency, respect, integrity, and honesty," with Amazon's very specific and useful value statement, "Have a backbone: Disagree and commit." The former tells employees almost nothing about how to behave at work, while the latter offers actionable guidance.

This practical approach helps translate professed values into concrete behaviors by giving employees actionable guidance for specific situations they are likely to deal with in their day-to-day work.

If an organization's ethical infrastructure allows a culture of silence to develop and concerns to be suppressed, whether through fear, bureaucracy, or misplaced incentives, it fails to project ethics.

Practice 4: Foster a "Speak-Up" Culture

A "speak-up" culture, in which employees and stakeholders can freely raise ethics and compliance concerns, is a hallmark of organizations that successfully project ethics. A strong ethical infrastructure should institutionalize "listening up" among leadership, and boards should ensure that this is indeed occurring.

Too many companies assume they have a strong speak-up culture because they deploy whistleblower hotlines and publish anti-retaliation policies. However, major ethical failures can still unfold in companies with mechanisms for speaking up.

For example, in 2022, global mining company Rio Tinto published a report that looked into its workplace culture, and it detailed serious ethics and compliance cultural failures. The report found that "bullying and sexism are systemic across Rio Tinto worksites" and that "racism is common across a number of areas." Despite having required reporting mechanisms, employees described a "culture of silence," citing negative consequences for reporting issues and a lack of confidentiality. Some said wrongdoers were even rewarded.

If employees do not believe speaking up will make a difference, they won't do so. If an organization's ethical infrastructure allows a culture of silence to develop and concerns to be suppressed, whether through fear, bureaucracy, or misplaced incentives, it fails to project ethics.

Effective ways to combat this dynamic include the following:

Measure reporting trends—and watch for silence. Boards should receive and scrutinize regular reports on ethics and compliance hotline activity from management. Benchmarking against peer organizations and discerning patterns, such as a sudden drop in reports or a complete absence of complaints from a department or jurisdiction, can reveal hidden risks. Directors should probe management when reports reveal such patterns.

Position the hotline as an ethics resource. Employees, reluctant to be perceived as snitches, may hesitate to report concerns because they see compliance hotlines as punitive rather than supportive. My clients with the strongest speak-up cultures have shifted this perception by framing their reporting mechanisms as an ethics resource that is not only for raising concerns but also for obtaining guidance, encouraging employees to ask questions about compliance gray areas and to seek direction from experts.

As part of the normal review of company hotline reporting, directors should insist that reporting mechanisms be positioned and experienced as trusted ethics resources that invite questions, not just allegations.

Ensure a robust and credible response process. A strong speak-up culture requires an appropriate investigation of and response to reports. Good ethical infrastructure will ensure that reports are investigated by independent and qualified professionals, and, when more serious issues are presented, reviewed and addressed by the board.

Employees need to see that concerns are addressed promptly and decisively. The longer an investigation drags on, the more trust erodes. Companies should communicate investigation results appropriately, balancing confidentiality with the need for accountability. If employees perceive that reports disappear into a compliance void, they will stop speaking up.

Publicize speak-up "wins" to build confidence. Transparency is essential to build trust in a speak-up culture. Directors should ensure that compliance teams are not only responding to reports but also communicating the impact of those reports where appropriate and without breaching confidentiality. Sharing examples of how an employee-raised concern led to a meaningful investigation and organizational change reinforces that the company listens and acts.

While publicizing these outcomes may feel uncomfortable and cannot occur in every case, it is a powerful way to show that the organization takes reports seriously and responds constructively.

Practice 5: Deploy Emerging Technologies to Detect Ethical Risks

Even with strong governance systems, boards cannot simply assume ethics and compliance are functioning as designed. Ongoing testing and monitoring are essential.

Traditional compliance monitoring remains reactive, fragmented, and labor-intensive. This is where technology-driven solutions are reshaping the landscape, offering real-time, predictive insights that can identify issues and prevent ethical failures before they escalate. Board compliance efforts should ensure that company monitoring and testing processes are supported by these technologies.

Examples of how generative artificial intelligence, machine learning, and predictive analytics are revolutionizing how organizations monitor ethics in real time include the following:

AI-driven pattern recognition in financial transactions. Generative AI can detect anomalies in payment flows, third-party invoices, and expense reports and flag transactions that fit the profile of bribery, fraud, or sanctions violations.

Compliance and culture monitoring. AI-powered sentiment analysis is increasingly effective at analyzing employee emails, chat logs, and hotline reports to detect compliance failures and emerging ethical risks.

Predictive risk modeling to anticipate ethical failures. Generative AI tools can predict where ethical risks are most likely to emerge. For example, Behavox offers an AI-generated risk map created by analyzing vast amounts of internal communication data to detect patterns and anomalies indicative of potential ethical breaches.

Boards have a critical responsibility to provide strategic oversight of emerging compliance technologies. This includes ensuring that the organization appropriately invests in compliance technology infrastructure and that clear frameworks are in place to govern the deployment and use of generative AI and monitoring tools. Effective board oversight helps ensure these technologies are used responsibly, projecting ethics without compromising trust.

Projecting Ethics by Design

Boards that embrace these five governance practices will help build resilient, high-trust organizations where ethics, integrity, and business performance go hand in hand. A solid ethical infrastructure, combined with effective ethical leadership, protects an organization from scandal and legal and regulatory jeopardy. D

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