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Kellogg's Legal Dept. Fortified With Ethics and Compliance

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The legal department at the cereal giant Kellogg Co. has an unusual structure, set up to meet two overall goals. The first is to have the GC serve as a key lieutenant to the business.

Why not a general? General counsel Gary Pilnick explained, "If you are a general, you are not in trenches with your people. When you are a lieutenant, you are doing both—working in the strategy sessions and in the foxholes."

The second goal is a little more complicated. It involves being what Pilnick calls "functionally brilliant" in five areas that matter. Those areas include: audit, brands, transactions, people and an area encompassing regulatory, food safety and litigation.

Pilnick said in a recent interview that the leaders of all five areas report to him. Within the legal department, lawyers are divided into two camps and are assigned geographically: busi-



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ness-unit lawyers in, say, Italy know a lot about business law in that country and, in Pilnick's parlance, "they go wide."

But each region also can call on specialists in the five subject matter areas who, as you might have guessed, "go narrow and deep." The dual-purpose team must work in sync. Pilnick noted, "How we connect people and their work together is critical. It's the sound of inspired peo-

ple working together. We call it harmony."

Interwoven into all this is an ethics and compliance system where behavior is driven by values, not rigid rules. Kellogg's K Values system includes several factors, including integrity and humility. Tying these systems together are James Sholl, vice president for internal audit and compliance; and Emeka Nwankpah, director of ethics

and compliance.

Sholl, a finance guru, has been with the Battle Creek, Mich., company since 1977, and took on the ethics and compliance duties in 2007.

"Most audit groups do risk assessment," Sholl said. "But we've found that the legal team, as key lieutenants to the business, are a very important part of the conversation. The practice group specialists and the regional lawyers bring external considerations looking through every possible lens."

For the legal department, the process begins with a year-end session called ROAP: risk, opportunities, assessment and planning. It's a systemic process engaging lawyers from around the globe to help set priorities for the following year. They identify key risks and the opportunities that arise by controlling those risks, identify the skills and resources needed, and target specific groups for training.

The process evolves throughout the year with a global video meeting, or "bullpen," every two weeks. The key for the bullpen is to share information, not hide it. "If there's an ethics issue, it always comes to the center," Pil-

nick said. "People know Jim and Emeka are not going to be judgmental, but are going to help with how to investigate it."

The GC said the process improves problem solving as well as compliance effectiveness, and allows members of the legal team to learn and grow.

Mark Rowe, a member of the advisory services practice at LRN, a New York-based corporate culture and ethics advisory firm, worked with Kellogg on its 2013 code of conduct and other matters. Rowe appreciates the uniqueness of Kellogg's structure and process.

"The challenge Kellogg had was figuring out how to bring its values into the code of conduct," Rowe said. "A lot of companies talk about a values-based code, but for that to happen it has to not just express the values but be very practical in how it integrates values into the guidance given."

Kellogg's code is more of a practical guide to getting things done than a compliance manual, Rowe noted. "It's not a defensive list of thou shalt not's," he added. "This is seen more as an enabling document. They wanted something to propel as well as protect

the business."

Rowe said that approach ties into research LRN has done finding a strong correlation between highly effective programs that do not layer on controls but "are more like doing a service for people, making sure they can do their jobs without getting the company into trouble."

In some companies, Rowe said, "I've had clients say senior executives will jokingly refer to them as the 'Department of Sales Prevention.' Some execs think ethics and compliance are getting in the way of making numbers."

The challenge, he added, is for them to express the importance of making the numbers the right way so that they protect the company from legal risk.

Kellogg's Nwankpah put it this way: "Most people look at compliance as either corporate oversight or a corporate conscience, but it can be a business enabler. We are the first two, but we have really embraced the last part."