
Best practices for designing effective ethics programmes

How to fortify your ethics codes and training methods

Executive summary

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Ethical Corporation Institute

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Foreword

Writing a Code of Conduct is easy. Producing a relevant, credible, useable Code of Conduct presents challenge.

Enron is a case-in-point for corporate malfeasance and the failings of the former approach. In 2000, the US conglomerate unveiled its new 64-page Code of Ethics. An introductory note from former chairman Kenneth Lay reminds all Enron employees that they are responsible for meeting “all applicable laws and in a moral and honest manner”. The history books record just how far the company missed its stated aspiration. Former employees are now selling the booklet on Ebay.

As trust in the business sector declines across the world, large companies are at pains to show that they ‘walk the talk’ when it comes to ethics. Well-managed companies are aware of changing societal expectations and are developing or revising their ethics codes to meet these. Others are forced to begin on the back foot, only being prompted into action once costly and brand-damaging incidences of internal misconduct occur.

The legislative environment acts as an additional driver. The introduction - and the strict enforcement - of the Foreign Corrupt Practices Act in the US, for example, has put anti-bribery measures on the map for US-based international companies. Voluntary

standards, such as the OECD Guidelines for multinational and the UN Global Compact, are having a similar impact.

Developing an ethics policy represents no small undertaking, but all too often companies mistake the process as an end in itself. This is not the case. As a management tool, even the best Codes of Conduct and ethics charters are redundant without an effective process to implement them.

Implementation can take several forms, from basic internal communications through to exacting compliance procedures. By far, the most effective tool is training. Today, most large companies offer some degree of ethics training or awareness raising. Traditionally, most companies presumed it was sufficient to oblige employees to sign a compliance agreement. Enron was a case in point. Again, history demonstrates the weakness of the theory in practice.

In summary, this report shows the reader how big companies around the world are considering and managing these vital issues around corruption. Anyone interested in further information should contact: Pamela Muckosy, Research Manager at pam.muckosy@ethicalcorp.com or call customer services at +44 20 7375 7500.

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Executive Summary

Guidance and training will be provided to all employees and, where necessary, third parties on the global standards and their practical application, particularly in areas of high risk. An appropriate balance will be struck between using compliance-based, legalistic terms and those based upon the application of core principles explained in everyday language.

Extract into the independent report by the Woolf Committee on actions BAE Systems should take to improve its ethics standards after a major scandal – Note 2.27, Woolf Report, 2008

Companies' ethical policies have historically comprised extended lists of 'dos' and 'don'ts'. Many still do. Naturally, ensuring compliance with existing rules and legislation represents a basic requirement of any ethics policy. Employees should be provided with a clear explanation of their own legal obligations and the liabilities of the company.

However, leading corporations are beginning to rethink the traditional compliance-based approach. Codes of Conduct and their equivalents are increasingly viewed as management instruments for creating a widespread ethical culture throughout an organisation. This is especially true in Europe, where the emphasis on US-style compliance is less entrenched.

By effectively communicating the company's values, employees should be better equipped to discern appropriate paths of action while acting on behalf of the company. Building a values-based culture also prompts employees towards positive behavioural patterns, such as reporting suspicions of malpractice or creating a respectful working environment.

Codes of Conduct vary hugely in content and length. Some run as short as a few pages. Others extend over a hundred. There is no ideal format. Ethical policies should reflect a company's vision and values, its goals and its business activities. That much is clear. Beyond that staple advice companies can and do approach the task very differently.

Despite variations in practice, ECI's research reveals some commonalities. Most ethics statements begin with a general description of the values and corporate culture to which the company aspires. Similar core topics are also addressed. These include issues such as anti-competition, anti-bribery, conflicts of interest, financial probity, record keeping, privacy and intellectual property.

Codes of Ethics cannot be written in isolation. It is important that they reflect stakeholder expectations as well as the company's own values. Wide-ranging internal and external consultation is therefore a critical step when developing an ethical policy. Many companies also choose to undertake an internal risk assessment to ensure they have all the pertinent issues covered.

Corruption has emerged as a dominant theme in the ethics agenda over recent years. An estimate \$1tn is lost in the payment of bribes every year, adding to operating costs and distorting market efficiency. ECI finds that companies are increasingly expanding their existing statements on anti-corruption to produce stand-alone policies.

Training is clearly an integral part of any ethics implementation programme. Online training has emerged as the most widely used form of training over the last five to ten years. Web-based training boasts a number of considerable benefits. Companies are able to ensure all employees receive basic training, while simultaneously guaranteeing that such training is uniform and consistent. Ethics departments can also track employee participation closely. Although set-up costs are not cheap, the expense of rolling out online courses is found to be considerably cheaper than face-to-face training.

Online training is not, however, a complete solution. All the companies interviewed for this report use additional, face-to-face training to address specific ethical issues. All the companies interviewed for this report have additional, face-to-face training to address specific ethical issues. These are often targeted to senior leadership, managers and employees in 'at-risk' functions. In-person training takes many forms, from classroom settings and workshops, through to staff meetings and leaders speeches. Training is shown to be most effective when multiple methods are employed.

Most companies make mandatory training on core aspects of the ethics policy, such as a Code of Conduct, once a year. Specific training on anti-corruption is also commonly provided for at-risk employees on an annual basis. Many companies integrate additional issues into their annual training requirements. These can change from year to year.

ECI's survey of leading companies identified a dozen additional subjects that frequently appear on the list of non-mandatory training courses. Though by no means exclusive, the list includes: privacy and data protection; competition law; conflicts of interest; anti-corruption; insider training; records management; privacy and data protection; anti-trust; human

rights; due diligence of suppliers and contractors; political donations; and export compliance.

Alongside the development of ethics policies, cultural relevance is a key issue to the success of ethics training programmes. Companies should not modify their values because of different cultural contexts. However, they should (and do) adapt the content of training courses accordingly. A basic requirement is to ensure the material is translated into the local language. This entails considerable expense, but is vital to success. Many companies draw on their in-country ethics officers to advise on training scenarios that resonate with a local audience.

Successful ethics training comprises more than the transmission of information about standards and policies. Best-of-class companies use ethics training to build an ethical corporate culture. The use of scenarios is perceived as one of the most effective ways of changing employee behaviour and thereby achieving this end. Other popular methods include problem solving and roll-plays.

Ethics training will only be effective if employees perceive that the company's leadership express

consistent support for the organisation's standards. Establishing a communications strategy that embeds this value among all employees is essential. The chief executive must reinforce his or her commitment first to the board, and then to senior management, line management and so forth. Such a cascade approach requires ethics messaging to be tailored for a company's respective audiences.

Compliance can act as an additional communications tool. As one ethics practitioner puts it: "Knowing that the manager down the hall got sacked for breaching the ethics code doesn't half train the mind." Most large companies operate a helpline or whistleblower phone line and/or email to facilitate employee reports of misconduct. These are often operated by an independent third party, although follow-up tends to be conducted internally by the ethics or legal departments.

In addition to investigating accusations of misconduct, companies frequently carry out 'spot' audits to verify if the ethics policy is being implemented. Exit interviews represent perhaps the best means of gauging the real ethical performance of an organisation.

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