

# Business Behaviour

A code of ethics can be a crucial tool to help the board deploy a common understanding of expected standards of conduct

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We all know right from wrong, so behaving ethically in business should surely be a straight forward matter, shouldn't it? And similarly, you might expect that establishing and communicating acceptable standards of behaviour should be relatively easy. In fact however, such issues are nuanced, complex and cultural.

For a global organisation, there is the added complication that what is considered acceptable behaviour in one jurisdiction can be widely viewed as improper in another and it is therefore even more important that the largest companies with the greatest international reach provide clarity to their colleagues about the expectations

placed upon them.

Such issues, if left to guesswork or personal opinion, will not be dealt with consistently and external expectations and perceptions will inevitably become confused. In addition, there is the very real risk that statutory obligations, for example to take measures to prevent bribery, corruption or modern slavery and to ensure the health and safety of employees and others, will be breached with serious consequences, not just for directors, but for society as a whole.

It is unfortunate, therefore, that big businesses can frequently fall down when it comes to defining and conveying exactly how they want their colleagues and suppliers to approach ethical issues. That was the conclusion of a recent report by the Institute of Business Ethics, *FTSE100 Codes of Ethics: Room For Improvement*, which





examined how effective the largest UK listed companies were in publishing coherent and comprehensive codes of practice to guide the behaviours of their staff. Less report writers and 18 of the FTSE100 did not even publish a report to the wider world.

### **Company Culture**

A company's ethical expectations are an important part of its overall culture. The base line for any organisation's conduct is clearly compliance with legislative and regulatory requirements, but in many areas, that is simply no longer enough. And in any case, this is not an issue for legal and compliance teams to resolve, but rather an organisational-wide issue in which all colleagues, contractors and suppliers, led by the company's board, have a part to play.

For investors and other stakeholders, a poor culture is increasingly a red flag when it comes to assessing whether an organisation is one that they want to have dealings with. Shareholders will likely see companies with low expectations as to conduct as riskier investments, potentially more prone to regulatory sanctions and costly reputational damage. Consumers increasingly prefer to spend their money with businesses that align with their own personal moral compass and a company's culture and ethics are often relevant factors when it comes to individual career choices, particularly for workers of the highest calibre who can perhaps afford to be more choosy. Moreover, many suppliers do not want to be linked to customers which could suffer reputational issues which tarnish them by association and may therefore screen out

undesirable clients.

It therefore makes perfect commercial sense for it to be the responsibility of the board to 'set the tone from the top' so as to ensure that the business can attract the most supportive investors, maximise their customer appeal, and entice the best performing employees and suppliers to work with them.

### Ethical Issues

Whilst publication of a code of ethics is not the full answer, it is an important tool which the board can deploy to bring about a common understanding of expected standards of conduct, both internally and in its external supply chain. A code of ethics, whatever name it is known by, is an opportunity to highlight the interconnectivity of ethical issues, to explain the company's approach and expectations, to offer advice on how to tackle difficult situations and to confirm a commitment to supporting those who raise concerns and refuse to be drawn into the type of conduct that is in breach of the code.

How often have you been put off a brand simply because you came across an unhelpful shop assistant or call handler? Or conversely become a loyal customer because of an incident of outstanding

more difficult for women or recruitment, reward and development practices do not try to overcome unconscious bias, for example. Similarly, measures aimed at eradicating modern slavery are at risk of being compromised if cost efficiencies are the only or main measure against which procurement activities are judged and supply arrangements can be endangered if poor payment practices put the financial viability and/or goodwill of suppliers at risk.

Perhaps most importantly of all, trust in arrangements which encourage colleagues to speak up in confidence if they have concerns about wrongdoing will be seriously undermined if whistleblowers are gagged or suffer detriment in their career.

### Setting an Example

A 'practice what you preach' approach to the code is essential and widespread belief in it will not be achieved without clear and visible leadership and example from senior managers.

Some common themes are likely to be covered by a code of ethics including communicating a zero tolerance approach to bribery and corruption, forced labour, workplace bullying and discrimination, tax evasion, misrepresentation of financial results or

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service? For better or for worse, an organisation's reputation is essentially the product of the myriad of individual actions taken by those who contribute to its outputs. The behaviours of individuals matter, not just those whose roles are externally facing, but the behaviours of everyone. However, behaviours are rarely best guided by a rigid rulebook which will inevitably be unable to cover every eventuality or close every loophole.

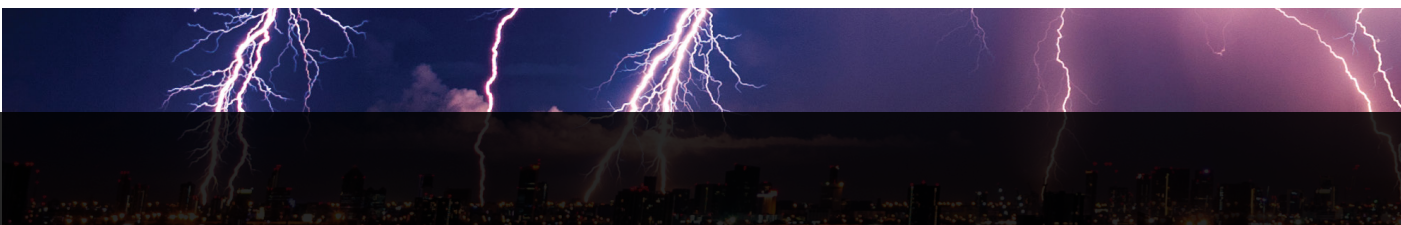
An effective code of conduct will generate high levels of buy-in from its audience, it will persuade rather than lecture, provide readily-understandable guidance that can easily be applied to everyday situations, and communicate the benefits of everyone meeting the code's expectations. It will also be uncompromising in confirming the universal application of the code – any hint that it is 'one rule for us and another rule for them' would entirely undermine the code as a tool for positive change.

To this end, the company needs to empower its people to comply with the code and demonstrate clear organisational commitment to it. A code will ring hollow if it espouses diversity and inclusion but employment policies in practice make progression

deliberate breaches of privacy and confidentiality. But ultimately, a code of ethics cannot cover every eventuality and it will need to establish overarching principles to guide conduct and provide assurance that behaving responsibly and ethically is expected and will be supported, even if there are financial costs in doing so.

Those guiding principles may include:

- reinforcement of the requirement for universal application of the code by everyone
- confirmation of key values such as honesty, integrity and transparency
- the need to comply with all local laws
- adherence to human rights and the right to be treated fairly, equally and with respect
- acceptance of environmental and social responsibilities
- acknowledgement that there may be grey areas and advice on how matters which are not clear cut should be referred to more senior colleagues or specialist teams for consideration
- a commitment to support colleagues who raise concerns in good faith and to protect them from





career or other personal detriment. Implementation will only be effective if the code is actively rolled out across the organisation, if it is part of regular communication and training as well as initial induction for new joiners. It needs to be a living document, referred to in other policies, business briefings, communications and performance reviews so that connections between the code and what is done in practice in the workplace are reiterated and made clear.

### Collaborative Approach

The code should also be communicated to suppliers and commitments should be sought from them, verified through appropriate onboarding and periodic checks, that they are applying the guidance provided. The approach to bringing issues to the surface will need some careful thought. Whilst taking a hard line is appealing (and where there is a statutory responsibility, for example in relation to anti-bribery, may be necessary) care should be taken not to drive issues underground. A collaborative approach to addressing any issues can be very much more effective and aligned to the overall objectives of improving practices in the long run.

In essence, a code of ethics is not worth the paper it is written on (or the webpage it is published on) if it is not well understood and consistently and effectively applied. To that end, it is well worth spending time and energy ensuring that the code is easy to understand.

Bearing in mind that it needs to be communicated to, and applied by, the entire workforce, encompassing individuals with diverse roles, skills, knowledge and experience, it certainly needs to be written in plain language, with an absence of legal jargon.

The document needs to look and feel accessible – this is a document that you want people to read and engage with. Swathes of longwinded text are intimidating and make it difficult to navigate to the relevant information. The tone needs to be inclusive, persuasive and encouraging and the contents will ideally be thought provoking and generate appetite to look at old issues afresh.

Some of the concepts within the code may not seem obviously relevant to all but use of illustrative examples and FAQ encompassing issues such as ‘what should I do if...?’, ‘who can I speak to if...?’ etc, can help team members to see that the code is not just for others.

For example, putting the external cleaning contract in place is the responsibility of the procurement team, but anyone might spot the signs of modern slavery and have concerns about the individual who actually cleans their own workplace. Or a junior member of the finance team is unlikely to have sufficient visibility of the company’s overall finances to spot

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patterns indicating a potential fraud but may feel uncomfortable about a manager’s request to alter certain ledger entries.

A key element of the code that needs to be communicated, is what should be done when someone feels unsure about something they have witnessed or need to make a decision on. Not every incident is appropriate to escalate through the full whistleblowing procedure and guidance should be provided on how to raise issues with more senior colleagues or specific teams (for example the legal, compliance, HR, finance or tax departments). But ultimately a process by which serious concerns about wrongdoing can be raised in confidence without fear of repercussion needs to be included. Leadership is particularly important to instil faith in this regard.

### Code Reviews

As a living document, and with expectations from internal and external stakeholders for responsible corporate behaviour continuing to evolve at pace, no company’s code of ethics should be written and forgotten. Reviews of the code should be active, regular and led by senior management. As already discussed, the ‘tone from the top’ is an essential ingredient and, accordingly, an introduction by the board chair or chief executive will lend weight to the idea that this is not just a piece of spin but a document setting out the clear intention of the board to raise and maintain high standards of conduct across the business.

Review of the code of ethics should be added to the forward schedule of board agenda items so it does not get forgotten and board ownership is clearly established.

When reviewing the code, one has the advantage of having numerous publicly available examples to draw inspiration from. Take advantage of this rich source of resources to find ones that work well or not so well, not only in terms of content, but also style, layout, readability and clever infographics.

The best examples deliver a compelling message from the most senior leaders in a user-friendly manner, demonstrating how, by engaging in a collective approach to responsible behaviour in an everyday context, the organisation’s path to future success can be strengthened for the good of all. If you do one thing after reading this article, look at your company’s code of ethics with fresh eyes to see if you can truly say it achieves that standard. If it doesn’t, then a refresh is definitely overdue. ■

