

International Good Practice Guidance

Defining and Developing an Effective Code of Conduct for Organizations



International Federation
of Accountants

Professional Accountants in Business Committee
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The mission of the International Federation of Accountants (IFAC) is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

This publication was prepared by IFAC's Professional Accountants in Business (PAIB) Committee. The PAIB Committee serves IFAC member bodies and the more than one million professional accountants worldwide who work in commerce, industry, the public sector, education, and the not-for-profit sector. Its aim is to enhance the role of professional accountants in business by encouraging and facilitating the global development and exchange of knowledge and best practices.

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1. General Overview of Why the Topic is Important

- 1.1 Every organization has a standard of conduct, whether it knows it or not. One way or another, explicitly or implicitly, every organization communicates its values, acceptable criteria for decision-making, and its ground rules for behavior. An increasing number of organizations realize the importance and benefits of explicitly communicating their values and guiding principles in a published code of conduct or ethics. Such a code, which helps build a values-driven organization, typically deals with an organization's underlying values, commitment to employees, standards for doing business, and its relationship with wider society.
- 1.2 The concern over failure to establish or to adhere to standards of proper conduct has been heightened by corporate scandals and their impact on the capital markets and investors. Many individuals and groups demand more from their organizational leaders than profit maximization and transparency, and many organizational leaders now emphasize ethics and integrity as a primary feature of their business conduct. This increased focus on ethics, corporate governance and corporate responsibility has encouraged many organizations to establish codes of conduct. In some countries, laws and regulations have required such codes; in others, their establishment has been prompted by market mechanisms such as movements in share price, or a combination of market forces and regulation. From a wider economic perspective, implementing codes of conduct effectively and consistently could improve organizational performance and control, leading to fewer irregularities and corporate scandals and a gradual build-up of trust between organizations and its stakeholders.
- 1.3 Many organizations realize that good conduct and integrity contribute to marketplace success. Management theorists and business leaders frequently assert that clear core values are essential to high-performing organizations, and that "good conduct is good business." Ethical dilemmas can impair an organization's reputation, and ultimately its financial performance. Facilitating ethical behavior in organizations can help both to safeguard reputation and to convey a commitment to responsible practice to both society and regulators. Furthermore, multinational corporations influence standards of conduct and business practice when they apply their codes of conduct to all their operational facilities.
- 1.4 Questionable business practices, and even individual incidents of improper conduct, reflect to some degree the values, attitudes, beliefs, and systems of the organization in which they occur. Senior managers can be accused of failing to provide leadership if they don't institute systems that encourage and facilitate appropriate standards of conduct and behavior.
- 1.5 Despite pockets of information and resources on developing codes, authoritative international guidance is lacking for professional accountants in business. This International Good Practice Guidance prepares professional accountants in business to encourage an ethics-based culture and to help their organizations define and develop a code of conduct. It is equally relevant to organizations creating a code for the first time,

and those wishing to review their existing approach whether in developing markets or established economies.

- 1.6 Recognizing that this is an evolving area of practice, the PAIB Committee welcomes feedback and additional comment on this Guidance over time. Additional comments can be sent to edcomments@ifac.org. The PAIB Committee also encourages professional accountants in practice to refer to this Guidance.

Establishing a Business Case for Developing a Code of Conduct

- 1.7 Having a code is a key element of ensuring effective corporate governance. It is one of employees' most important documents. Developing and reviewing a code helps to make visible (a) how the company operates, (b) how it embeds its core values (such as by reflecting its cores values in its communications, processes, and behavior), and (c) how it relates to its key stakeholders. Employees generally prefer to work for organizations committed to values and ethics, and consumers tend to prefer to buy from organizations with strong records of adherence to standards of conduct and socially sensitive behavior. Codes also help to reassure investors and other stakeholders, in particular those looking for socially responsible investment, integrity, and a commitment to ethics.
- 1.8 A well-designed code of conduct can provide the context for programs designed to improve organizational performance. Organizations that fail to establish and implement a code of conduct and to embed their organizational values could experience lower productivity, higher turnover, increased transaction and agency costs, and increased exposure to legal action. This failure will ultimately increase the cost of capital. Thus, successfully implementing a code of conduct within a values-based organization is increasingly perceived as a competitive asset and advantage.

The Role of the Professional Accountant in Business

- 1.9 Professional accountants in business have important and varied roles to play in driving and supporting organizational ethics and conducting ethics programs and, specifically in the context of this Guidance, in defining and developing codes of conduct. All professional accountants in business have to uphold high ethical standards in accordance with IFAC's Code of Ethics for Professional Accountants, which requires accountants to *encourage an ethics-based culture in an employing organization that emphasizes the importance that senior management places on ethical behavior*¹. Therefore, all professional accountants in business can support an organization's code of conduct through their own behavior. The more senior the position an individual holds, the greater the ability and opportunity to influence events, practices, and attitudes. As a CEO or a CFO, an accountant may be directly involved in (a) developing and approving a code, especially by leading or championing the project, and (b) establishing the structures and approach required to execute an ethics, compliance, and values program.
- 1.10 Organizational leaders such as CEOs, CFOs and other directors and senior managers

¹ Paragraph 300.5 of the IFAC Code of Ethics for Professional Accountants.

could also be involved in demonstrating code adherence to third parties, whether investors, their representatives, or special interest groups. Pressure from third parties can focus on such high profile areas and issues as (a) protecting workers and labor practices, (b) extending code principles and guidelines to suppliers and business partners, and (c) addressing a range of management issues. Senior managers should ensure that the code, and other broader compliance and governance programs, influence how these issues are managed in practice.

- 1.11 An accountant working in internal audit may be involved in (a) assessing whether the code is an effective tool in minimizing the risk of improper conduct, including whether non-adherence is being reported, and (b) reporting to the audit committee. Accountants in the internal audit or finance function could also be involved in implementing and reinforcing the code in that function.
- 1.12 More generally, codes of conduct play a vital role in strengthening the control environment, within which professional accountants in business can feature significantly by monitoring, reviewing, and reporting on performance. Because an effective code of conduct is a critical component of an organization's control systems, most professional accountants in business should be able to:
- Recognize potential ethical and compliance problems within the organizations they support;
 - Apply a framework or a decision-making process for resolving conflicts;
 - Articulate the reasons for making particular decisions based on a code of conduct;
 - Identify, monitor, and communicate the expectations of stakeholders, as well as the costs, benefits and risks of meeting those expectations;
 - Monitor and report on adherence to their organizations' codes of conduct; and
 - Assess whether proposed action on current and future initiatives effectively manages the risks faced by the organization.
- 1.13 Although organizations may have their own codes of conduct, accountants are also required to comply with the code of ethics of their professional body. Professional bodies that are members of IFAC are required to comply with the ethical requirements of the IFAC Code, which establishes ethical requirements for professional accountants. A member body may not apply less stringent standards than those stated in this Code. However, if a member body is prohibited from complying with certain parts of this Code by law or regulation, they should comply with all other parts. The requirements and guidance of some jurisdictions may differ from the IFAC Code. Professional accountants should be aware of those differences and comply with the more stringent requirements and guidance, unless prohibited by law or regulation. Therefore, an accountant who is a member of a professional body that is an IFAC member will be required to comply with the principles of the IFAC Code, as well as the professional body's code of conduct. Professional accountants in business should support an organization's code by behaving in compliance with it. Where appropriate, professional accountants in business should also

be aware of other relevant codes such as the Group of 100 Code of Conduct for the Chief Financial Officers of Australia’s major enterprises. Complying with all relevant codes contributes to the integrity of reporting, and to responsible and ethical decision-making.

- 1.14 The 2005 PAIB Committee paper, *The Roles and Domains of Professional Accountants in Business*, outlines the varied roles that professional accountants in business perform, for example in implementing and maintaining operational and fiduciary controls, providing analytical support for strategic planning and decision making, ensuring that effective risk management processes are in place, and assisting management in setting the tone for ethical practices.

2. Key Principles That are Widely Accepted Features of Good Practice

The Nature of Codes of Conduct in Organizations

- 2.1 Typically, an organization’s ethics policy would set out the organization’s values and principles whilst an organization’s code of conduct would outline standards of behavior and practices. Some codes of conduct are labeled Code of Ethics, Code of Business Practices, Code of Values, or Code of Behaviors. The most common term seems to be Code of Conduct, although some organizations individualize the title with one of their core values, such as “integrity,” or with a phrase such as “Performance with integrity” or “The way we do business”. Some organizations have a separate ethics policy and code of conduct.
- 2.2 Although codes of conduct are drafted in many different ways, programs in organizations with a relatively developed approach to managing ethics and values usually include:
- An organization’s mission;
 - A statement from the CEO and/or board of directors;
 - Organizational values and principles;
 - A statement(s) on how the entity relates to its community, the environment, and society;
 - Ethical and conduct guidelines and guidance on practices;
 - Examples of ethical and unethical behavior;
 - Specific rules of conduct; and
 - Commitment to and information on performance evaluation.
- 2.3 The term “code of conduct” does not have an authorized definition. In its 1999 report *Code of Corporate Conduct: An inventory*, the OECD Working Party of the Trade Committee defined codes of corporate conduct for the purpose of its survey as “commitments voluntarily made by companies, associations or other entities, which put forth standards and principles for the conduct of business activities in the marketplace.”
- 2.4 Most other definitions emphasize that a code of conduct is a formal statement of the values and business practices of a corporation. A comprehensive definition of “code of

conduct” for purposes of this guidance is:

Principles, values, standards, or rules of behavior that guide the decisions, procedures and systems of an organization in a way that (a) contributes to the welfare of its key stakeholders, and (b) respects the rights of all constituents affected by its operations.

- 2.5 It is useful to distinguish between terms, to avoid confusion in communications, and to see part of the development of a code of conduct and a wider approach to ethics and compliance (perhaps in the form of an ethics and compliance program typical in many large organizations) from a broader effort to foster a values-driven organization. A code of conduct is one part of a comprehensive compliance and ethics program that should be part of a values-based organization and culture. This ensures that an ethics program and the development of a code of conduct are both rooted in an organization’s core values. Ethical decision-making requires values to guide those decisions. Values are important beliefs that shape attitudes and motivate actions, and should be used as a framework within which employees make decisions.
- 2.6 This approach can also be translated into a code of conduct by using the term “values-based code.” This refers to an approach that uses values as the basis for ethical decision-making. A code cannot cover all ethical and unethical actions hence it is neither a total solution nor a prescriptive tool to guide organizations and their management. Furthermore, many situations require employees to use discretion. A values-based code uses the organization’s values and managerial and employee guidelines as the basis for ethical decision-making, without listing detailed rules. This can help employees ‘do the right thing’ and address ethical dilemmas that sometimes do not have clear answers.

The Key Principles in Defining and Developing a Code of Conduct

- 2.7 The key principles underlying widely accepted good practice are:
- A. The organization’s overarching objective should be to develop a values-based organization and a values-driven code, to promote a culture that encourages employees to internalize the principle of integrity and practice it, and encourages employees to “do the right thing” by allowing them to make appropriate decisions.**
 - B. A code of conduct reflects organizational context. The nature, title and content of an effective code will vary between organizations, as will the approach to its development.**
 - C. Commitment from board of directors: Ultimately, ethical responsibility lies with the board of directors (or its equivalent), the body that has power to influence an organization’s culture and behavior. Boards should specifically oversee the development of the code of conduct (and a wider initiative to achieve a values-based organization), and formally appoint a senior manager to supervise that development.**

- D. A multi-disciplinary and cross-functional group including international personnel should lead code development where organizational size permits. Groups of employees and other key stakeholders can help to identify risks to corporate culture and business conduct and consider potential vulnerabilities arising from these risks and can usefully assist in defining and reviewing code content.**
- E. Clearly identifying the established process for defining, developing and reviewing a code will promote understanding of, and agreement on, the key stages and activities.**
- F. A code of conduct should apply across all jurisdictions in which an organization operates, unless contrary to local laws and regulations.**
- G. Continuous awareness and promotion of the code and the wider approach to ethics and compliance is an important part of conveying management's commitment to their underlying principles. A continuous awareness program should sustain interest in and commitment to the code. Employees and others should be made aware of the consequences of not adhering to the code.**

3. Application Guidance on Implementing the Principles

PRINCIPLE A

The organization’s overarching objective should be to develop a values-based organization and a values-driven code, to promote a culture that encourages employees to internalize the principle of integrity and practice it, and encourages employees to “do the right thing” by allowing them to make appropriate decisions.

- 3.1 A values-based code is best suited to a rapidly changing business environment, because it allows for a multitude of circumstances that may arise in practice. A values-based code provides a framework for analyzing threats and safeguards and determining appropriate action. It allows all employees to make responsible decisions and avoid a “tick-box” approach that could encourage loophole-based avoidance.
- 3.2 Managing for compliance² is a starting point to developing a code. Organizations see the tremendous damage that can be done to an organization’s reputation and momentum by illegal or otherwise improper conduct. To prevent this, an organization can establish a code of conduct requiring compliance with both the law and the standards of conduct the public demands. A code based solely on managing compliance will typically focus on prohibitions such as against conflicts of interest, theft of company property and revealing trade secrets, and could be titled a compliance code.
- 3.3 A compliance program can address only a limited set of organizational situations and behaviors, namely those that can be reduced to simple standards of right and wrong. The most difficult issues faced by employees often involve dilemmas brought on by new technologies, new business arrangements, or cases where two or more obligations conflict.
- 3.4 A compliance program based on a code of conduct that sets minimum standards for organizational behavior does little to define expected or encouraged types of behavior. It can expect employees to avoid mistreating customers, but it cannot help them see how to treat customers well. It may:
- Indicate to employees that the program is designed to control their behavior because they are not trusted. This directly counters efforts to empower employees to use their personal judgment in appropriately handling the many situations they face; and
 - Inadvertently give the impression that the organization wants only a minimum standard of behavior, and that employees will not be rewarded for substantial attention to ethical and conduct issues.
- 3.5 OECD research published in 2000, *An Expanded Review of their Contents*, illustrates the most-cited motivations mentioned by codes beyond mere expressions of responsibilities to the public or specific stakeholders. Cited objectives include: (a) protection or enhancement of reputation and the building or retention of industry leadership in certain areas of corporate social responsibility, (b) more customer loyalty, (c) improved operation

² Managing for compliance refers to avoiding any legal or other behavior that violates an organization’s policy and/or negatively affects its interests.

of the business, (d) stronger staff loyalty, and (e) control of legal risks.

3.6 Organizations usually affect employee behaviors in only a limited way if they manage compliance without creating a genuine change in organizational culture. Without that change, important situations raising conduct issues bring out instinctive rather than strategic responses. Those who do create that change foster a values-driven organization that identifies values and invests considerable resources to make those values permeate all aspects of operations. They find it productive to make decisions consistent with those values, even when short-term payoffs are not apparent.

3.7 A purely compliance-based approach that tells employees about the law as a means of preventing violations has limited effectiveness. Recognition of this has steered many organizations to manage by a set of positive values that help to guide employees' decisions and actions, and promote individual responsibility. Organizational values may be shaped by (a) an organization's founders who continue to dominate leadership and management beliefs, (b) the expectations and demands of stakeholders, or (c) a set of long-standing values established by professional managers whether it is the board of directors or others charged with leadership and governance.

Implementing a values-based program usually involves at least the following activities:

- Identifying and defining the organization's values by considering the organization's purpose, its accountabilities, its authority, and its obligations and duties. Preparing values statements should involve a broad group of managers and other employees. Typically, the better value statements are developed through consultation and collective commitment rather than by imposition from the top;
- Putting values into action by effectively communicating them, and continuously communicating with employees;
- Creating systems that help to embed values;
- Establishing a function and/or processes that monitors employees' response to stated values, and ensures that they are having the desired impact;
- Updating values and values-based programs to support the changing needs of the organization;
- Assigning responsibility for interpreting values and reviewing values;
- Recruiting and promoting those whose personal values are aligned with the company's values.

3.8 Preparing a values-based code requires defining fundamental principles and providing guidance, particularly on what is ethical conduct and what is not. A values-based code defines values at a relatively high level, because it is impossible to address all situations employees might face. A code should clearly identify activities or behaviors for which there is no tolerance.

3.9 Appendix A is an example code of conduct that although not comprehensive acts as a guide on how a fictional organization describes the values that govern how it does

business, sets out some example responsibilities of the organization towards its stakeholders and specifies how employees are expected to act in relation to the organization's values as well as the laws and regulations that control operations. Appendix B provides an example of values-based principles that public sector organizations can appropriately include in their codes of conduct.

PRINCIPLE B

A code of conduct reflects organizational context. The nature, title and content of an effective code will vary between organizations, as will the approach to its development.

- 3.10 Codes of conduct vary in design and content as well as how they are developed, and will be affected by the following factors:
- Organizational size, type and complexity;
 - Geography;
 - Industry; and
 - Cultural considerations.
- 3.11 Smaller organizations could take a simpler approach that leads to a shorter document covering a narrower range of issues. The process of development and implementation will likely be less formal, focusing on actions rather than formal policy statements. If the behavior of the owner-manager(s) is to be seen as a model for employees' behavior, they should understand the owner-manager(s)' approach to ethical issues. Ideally, new partners and senior managers would share the same values. Smaller organizations should establish clear lines of responsibility and accountability for ethical conduct, and regularly review code and ethical performance, especially where the organization is changing rapidly.
- 3.12 Codes of conduct are important tools for state-owned and not-for-profit enterprises. The codes of these organizations usually cover a range of public commitments, because a loss of public confidence due to unethical behavior can irreversibly damage reputation. Developing and implementing codes can help manage specific ethical issues that can arise in these organizational types, and are challenging to manage. For example, these organizations can also use codes of conduct for board members to good effect. This helps to prevent conflicts of interest, especially by directing board members not to put their personal objectives above the organization's welfare. Diligent decision-making in these organizations requires the same level of application and consideration of ethical issues as for profit-driven organizations.
- 3.13 For larger and more complex organizations in both private and public sectors, more substantial codes should include a set of specific ethical rules and guidance covering a range of ethical issues. They should, for example, deal with bribery and corruption, conflict of interest, improper accounting practices, and labor and environmental issues, and include corporate goals, responsibilities and values. They should also include

guidelines for suppliers and business partners, and make public commitments where appropriate.

- 3.14 While organizations in different sectors will have some issues in common, organizations in heavy or resource-based industries are likely to focus on a different range of issues than would service-based organizations or technology companies. Programs in heavily regulated industries often initially respond to violation of the law, although many have moved beyond this to establishing a values-based culture. Furthermore, very few codes deal only with single issues. Most cover a wide spectrum of issues, in one or more documents. Codes developed by organizations working with the public sector should also refer to specific laws and regulations governing sales to the public sector. In most countries, procurements by the public sector are subject to restrictions and guidelines.

PRINCIPLE C

Commitment from board of directors: Ultimately, ethical responsibility lies with the board of directors (or its equivalent), the body that has power to influence an organization's culture and behavior. Boards should specifically oversee the development of the code of conduct (and a wider initiative to achieve a values-based organization), and formally appoint a senior manager to supervise that development.

- 3.15 Some organizations make a senior executive responsible for leading the development of a code of conduct; some appoint full-time ethics officers; and some do both. Regardless of where the responsibility lies, a champion, preferably at board level, is required and they should also sponsor the wider initiative to achieve a values-based organization.
- 3.16 Directors and senior management demonstrate their commitment, in part, by incorporating ethics and transparency into corporate strategy. This includes ensuring that critical functions are led by people with the appropriate competence and authority, and that the organization understands its market and risks and manages them effectively.
- 3.17 Some national laws and regulations require a senior officer to be in charge of ethics and compliance. The board should require this person to report regularly through an appropriate channel, such as the Audit Committee or Ethics Committee/group where there is one.
- 3.18 Developing a values-based organization should start at the top of the organization, with senior executive support. The CEO should be willing to commit the required time and personal effort to the initiative, as well as to visibly demonstrate commitment. Companies known for ethical conduct and social responsibility are typically led by such CEOs. A values-driven program is likely to fail if employees sense that senior managers do not believe in and are not committed to the program.
- 3.19 The importance of an introductory letter from the CEO unambiguously endorsing the code and conveying top-management support cannot be underestimated. Such a letter

should emphasize the organization's values, include an overview of the code, and state the organization's commitment to the proper conduct of its managers and employees. This message from the CEO will play a critical role in determining how well the code will be received and followed. It can also place the code within the context of a wider ethics and values-driven program. The code of conduct could also begin with an introduction from the CEO and/or board of directors explaining the importance of ethics and integrity, how the code supports and guides ethical behavior, and how the code reflects the organization's context, values, and principles.

- 3.20 Through their everyday actions, senior managers can encourage others to meet higher standards. The board itself needs to be ethical and committed to fostering and supporting an ethical culture. Ethically acting boards can be facilitated and supported by having their own code of conduct, and through sound corporate governance that deals with (a) appointing directors, (b) board agendas and meetings, (c) remuneration, (d) internal control, and (e) evaluating board performance. The existence of a board code and sound corporate governance will help the corporation deal with issues such as existing management and employee attitudes, the difficulty of communicating values and standards, possible conflicts with other organization objectives, pressures to meet other corporate goals, and the real cost of resources and management time to develop, implement and enforce the code.
- 3.21 Where a board does not have its own code, the organization-wide code could be used to raise the level of governance and board performance by providing guidance on a range of issues, such as independence, nominations, tenure and remuneration, board structure, the process for managing meetings and agendas, and evaluation of board members and their performance. This should help prevent conflicts resulting from a lack of objectivity, divided loyalty, favoritism and self-interest.

PRINCIPLE D

A multi-disciplinary and cross-functional group including international personnel should lead code development where organizational size permits. Groups of employees and other key stakeholders can help to identify risks to corporate culture and business conduct and consider potential vulnerabilities arising from these risks and can usefully assist in defining and reviewing code content.

- 3.22 Using multi-departmental groups or committees to develop a code will foster ownership across all areas of an organization. The composition of such groups will vary and could include external representation, such as from suppliers or employee unions. Their work might also be facilitated by the involvement of consultants, especially at the beginning when the group determines its purpose, structure and process. Developing a code through cross-functional groups or committees helps to foster agreement on difficult and pertinent issues.
- 3.23 Larger organizations can establish a working group with representatives from various functions, including human resources, marketing, procurement, finance, internal audit,

and legal and compliance. This working group would be responsible for ensuring that the code of conduct is made part of the organizational culture. Smaller organizations may delegate these responsibilities to a sufficiently senior individual who commands respect and support.

- 3.24 The organization should undertake a diagnostic self-assessment of organizational risks that relate to ethics and conduct. It should first identify, within the context of the organization and its competitive environment, what issues to assess. It should (a) take into account customers' and other stakeholders' perceptions of the organization, (b) assess the behaviors within the organization and its competitors, and (c) understand what constitutes violation of industry and other external codes and laws, and existing policies that impact on organizational ethics and conduct.
- 3.25 Analyzing the organization by processes and activity leads to a comprehensive understanding of (a) all material risks that should be addressed, and their possible causes, (b) whether they relate to organizational culture or structure, and (c) how performance is managed and rewarded. This approach can be applied to first development of a code, or when evaluating and updating a code. It can be a particularly useful approach when assessing gaps in performance. For example, a code might require the maintenance of income and expenditure accounts in accordance with generally accepted accounting principles, but in practice disbursements might not be properly documented, or internal controls could be inappropriately overridden.

PRINCIPLE E

Clearly identifying the established process for defining, developing and reviewing a code will promote understanding of, and agreement on, the key stages and activities.

- 3.26 In addition to gaining the commitment of senior management, defining and developing a code includes at least the following activities:
- Agreeing on the purpose of the code and how it will be used, and including this in a statement of intent in the code;
 - Identifying stakeholders, what is important to them, and who should be involved in code development and implementation;
 - Reviewing widely recognized external and multi-sector conduct guidelines;
 - Drafting the content, perhaps by a working group comprising representatives from various functions in an organization;
 - Testing/piloting and approving;
 - Publishing and publicizing;
 - Post-implementation reviewing of code content and its impact;
 - Training and communicating as a means to embed the code (and organizational values); and

- Connecting the code to the organization’s (a) performance management policies and systems, and (b) internal controls.

Each of these steps is considered below.

Agreeing on the purpose of the code and how it will be used, and including this in a statement of intent in the code

3.27 Organizations should be clear on the code’s purpose and use. Codes typically fulfill the following objectives:

- Stipulating the values and principles that govern how the organization does business;
- Establishing the responsibilities of the company towards its stakeholders;
- Explaining how employees are expected to apply an organization’s values and laws and regulations that affect its operations; and
- Providing guidance on resolving ethical issues and dilemmas, and how they can receive further advice.

Identifying stakeholders, what is important to them, and who should be involved in code development and implementation

3.28 Codes can be overly centered on responsibilities owed to the organization, rather than responsibilities to stakeholders. This typically occurs where management leads and manages the drafting process without stakeholder input. Such codes typically fail to address important themes and issues.

3.29 Organizations that involve their stakeholders, at least by seeking their views and requirements, should identify their stakeholders, evaluate their attitudes and opinions, design programs to address their concerns, and audit the effectiveness of policies affecting stakeholders.

3.30 A graphic representation of key stakeholders and their primary areas of concern is at Appendix D. Key stakeholders include customers, employees, investors and creditors, competitors, suppliers/partners, and the public. Where employee unions or councils exist, the organization should consult with the employees’ representative. Most codes deal with behavior at least in relation to customers and suppliers. Guidelines targeted at other stakeholder groups are less commonly found, but should be considered for inclusion. Code guidelines typically cover areas such as:

Customers: meeting product/service quality requirements, environmentally safe products/services, transparency in customer dealings and relationships, and privacy of customer data.

Employees: Protecting workers from injury and meeting health and safety requirements, avoiding discrimination, providing equal employment opportunity, fair and appropriate remuneration, respect of human rights, right to collective bargaining and support in developing skills and capabilities, and approach to gifts, entertainment, favors and bribes.

Suppliers/partners: fair dealing, environmental and labor standards, anti-bribery, and corruption and human rights.

Investors and creditors: Insider trading, financial returns to investors, accurate and timely information, financial disclosure and reporting, accounting and audits, and respecting shareholders' legal rights. Directors' responsibilities can be supported by guidelines on integrity, duties of diligence, conflicts of interest, and unauthorized self-dealing.

Competitors: Adherence to competition laws, commitment to free and fair competition and cooperation with competition authorities, respect for rivals' property rights, and appropriate gathering of competitive information.

Public: Promotion of free trade, open markets, and democratic institutions, avoiding inappropriate involvement in politics, and environmental stewardship.

This list is not intended to be exhaustive. A number of surveys are available that indicate a range of typical code guidelines – see resources in Appendix E.

- 3.31 The effectiveness of guidelines generally depends on the approach guidelines take on an issue and what specific guidance is included. Credibility and commitment can be enhanced when a code precisely defines key concepts and clearly and adequately specifies required behavior. For example, if environmental concerns pose significant risks to an organization, the code should provide detailed guidance that defines and supports specific environmental initiatives.
- 3.32 Another example relates to bribery and corruption. Here, codes typically vary widely in their definitions and required commitments. Rather than simply prohibiting bribery and corrupt behavior, codes could include guidance on offering, giving, soliciting and receiving “gifts,” and include references to authoritative guidance, such as the OECD Bribery Convention. Rules and guidelines can be included for both public officials and business partners, although they may vary in their treatment of these groups. In some circumstances, gifts from business partners could be accepted, but should be subject to disclosure.

Reviewing widely recognized external and multi-sector conduct guidelines

- 3.33 In preparing a code, an organization can access a variety of sources, ranging from local laws and regulations to internationally accepted standards and guidelines. External standards (legal, industry, voluntary) and codes and guidance provided by external organizations, trade associations and professional bodies should be appropriately consulted and referenced in a code of conduct. See Appendix C for examples of such codes and guidelines.
- 3.34 Although industry codes can be used to elevate standards, following them can be difficult where an organization is raising standards above those of competitors, and employees feel constrained in their ability to compete. However, raising ethical standards and embedding organizational values should not be viewed negatively, as it can provide a competitive advantage.

Drafting the content, perhaps by a working group comprising representatives from various functions in an organization

- 3.35 One person needs to be primarily responsible for writing the code, but should be supported by a group. This group should decide how to structure the code. The writing and implementation of a code has many legal aspects that could be reviewed by legal counsel. Where only a small amount of information is to be included, as could be the case in small organizations, a formal structure might not be required. In this case, a prioritized short list of issues and statements could form the basis of the written code.
- 3.36 Codes need to be easily understood by all employees. Negative phrasing should be avoided. For example, individual rights can be addressed in such statements as, “We do not tolerate discrimination in A, B or C”. Instead, the principle can be stated positively and discrimination addressed more effectively through corporate and individual direction to “treat people fairly”. Effective codes that promote proper conduct write guiding principles and explanations in plain, positive language, rather than merely making demands. Codes can also usefully include practical examples.

Testing/piloting and approving

- 3.37 Codes should be tested among groups of employees from all levels and at different locations. The working group should consider feedback and suggestions from the piloting phase, and make amendments before approving and publishing the code.

Publishing and publicizing

- 3.38 The code and its implications should be communicated to all employees in all locations, and to business partners. Publishing codes on organizational websites is quite common. It should also be explained to new employees and partners. Some organizations reproduce the code, or parts of it, in their annual report and state how it is being used.

Post implementation review of code content and its impact

- 3.39 It is critical to assess the impact of a code’s principles and guidelines on organizational practices and behavior, and how particularly sensitive and contentious issues are being managed. A worst-case scenario for non-compliance with a code’s principles and guidelines could be consumer boycotts for issues such as labor rights violations (whether by the organization or a business partner), or doing business in countries with poor human rights records.
- 3.40 Such a review provides an opportunity to openly debate an organization’s ethical standards, and to determine whether management action is required to improve the code so that it positively influences the way companies conduct day-to-day operations.
- 3.41 Where an individual is responsible for the code, and perhaps wider values and compliance initiatives, that individual could be usefully supported by a group of senior staff responsible for monitoring the adoption, promotion and effectiveness of the code. This group could also investigate potential breaches and regularly review wording and

content. Feedback on compliance with the code should also help it to become an integral part of an organization's culture.

- 3.42 In the case of existing codes, the organization should undertake a gap analysis that considers the existing policy and approach and related communications and training programs, to identify what more or different is needed to encourage and support the expected behavior and compliance.
- 3.43 An outcome-based evaluation should document the current situation by (a) identifying organizational risks and uncertainties, (b) listing and describing the resources dedicated to the program, (c) describing the program's structures and systems, activities and processes (both planned and undertaken), and (d) assessing the outputs of the program, such as the number of people trained.

Training and communicating as a means to embed the code (and organizational values)

- 3.44 A well-drafted effective code simplifies adherence. Communication programs and educational sessions are effective means of guiding employees, monitoring behavior, and embedding the code's provisions.
- 3.45 Training in the practical application of the code can include workshops, hard copy materials, online resources and e-learning modules. More innovative approaches to training such as mentoring and the use of ethical dilemma case studies can enhance its effectiveness by allowing dialogue and discussion so that employees can develop their level of awareness of ethical issues and ability to consider choices and possible responses. New employees should participate in training and related awareness programs. Without these, they may not realize the expectations and standards of their new organization.
- 3.46 To move beyond mere legal compliance, training and awareness programs could help workers and managers at operational sites to assume more control over issues such as workplace conditions. Specific training could improve safety and enhance productivity. Training could also help employees apply principles to local circumstances, and encourage employees to disclose and discuss particularly challenging ethical dilemmas. For example, these programs should define conflicts of interest with precision, apply the principles to specific examples, and support the results with reasons. These programs should first focus on educating employees about how conflicts can develop. In addition, employees should be helped to (a) recognize situations having the potential to create conflicts of interest, and (b) determine whether they are material and need to be managed and reported.
- 3.47 The effectiveness of training, education and communication programs should be reviewed regularly.

Connecting the code to the organization's (a) performance management policies and systems, and (b) internal controls

- 3.48 Implementing the code requires reviewing existing performance management policies and systems, and monitoring how expected behavior and compliance will be achieved and supported.
- 3.49 Mechanisms to embed the code and measure performance include annual compliance sign-offs, periodic internal audits, and regular performance reviews. Adherence to the letter and spirit of the code could also be made a condition of continued employment, as well as a consideration in pay and a condition of further promotion.
- 3.50 Measures used in monitoring adherence with a code of conduct should be developed, a task particularly suited to professional accountants in business. In doing so, questions of deviation should be addressed. For example, when does behavior so deviate from the standards that it should be reported to management? And how should the organization identify, consider and report on activities and behavior that poses risks to the organization?
- 3.51 Whistle-blowing (speaking up): the Code, or referenced documentation, should discuss whistle-blowing, informing employees of what process to follow. Whistle-blowing should be defined to include reporting of lapses in honesty and integrity. Those who witness such behavior should be encouraged to report it and organizations should monitor the prevalence of whistle-blowing to be satisfied that people are not deterred from speaking up. In some jurisdictions, there is regulation that seeks to protect those speaking up and this should be considered in establishing a policy on whistle-blowing. Organizations should respond positively to those who speak up.

PRINCIPLE F

A code of conduct should apply across all jurisdictions in which an organization operates, unless contrary to local laws and regulations.

- 3.52 Codes and policies should apply to all global business operations/production facilities. A code of conduct is a reference for decision-making for employees from diverse backgrounds working across geographical and cultural boundaries. Without a fundamental code of conduct on which to base decisions, managers in different countries may have difficulty resolving conflicts. Local organizations should designate a senior person to be responsible for ensuring that the code is adhered to in that location.
- 3.53 Development of local, or country-specific, guidance should follow the same process as that used to develop the organization's global code and policies. This ensures that the over-arching values and principles flow through to country-specific guidance. A global code supported by country-specific guidance is a way of dealing with local standards of conduct that differ from those in the country of its head office. It can also ensure compliance with domestic laws and regulations.

- 3.54 Although some organizations allow its stakeholders to define what constitutes appropriate behavior in local jurisdictions, a compromise between a global and a domestic approach to standards of conduct should be avoided. An organization that operates internationally and seeks to respond to all stakeholders can be caught between the conflicting demands of diverse cultural environments.
- 3.55 More mature organizations seek to establish a single set of values and behavior standards for its worldwide operations. Although some minor variations are accepted to meet local conditions and conflicting local laws, these organizations believe that their interests are best served by a single, worldwide code of conduct that fosters a single, worldwide standard of acceptable behavior. They consider this a matter of principle and good management. They also believe that most, if not all, requirements in a code of conduct, particularly those relating to key issues of human rights, labor standards and the environment, have universal importance for the organization.
- 3.56 To facilitate local implementation, the code should be translated into the appropriate local language(s). A high-quality translation helps to ensure that the spirit and the intent of the text has been captured.
- 3.57 Training in local operational units can also facilitate implementation. An organization could focus training primarily on its own culture and values rather than the local national culture. For example, an organization could state as an organizational principle that all employees will be given equal opportunity and will be treated fairly at work, despite any different local pre-existing traditions. In addition, the organization should look for commonalities and similarities between organizational values and local characteristics, and consider these in training.

PRINCIPLE G

Continuous awareness and promotion of the code and the wider approach to ethics and compliance is an important part of conveying management's commitment to their underlying principles. A continuous awareness program should sustain interest in and commitment to the code. Employees and others should be made aware of the consequences of not adhering to the code.

- 3.58 Apathetic adherence to a code can be avoided with regular communications, especially feedback on adherence and case studies dealing with ethical dilemmas. Awareness of the code's existence is only a first step. Success depends on employees' awareness of the code's content and how its key features relate to their work. Publicizing positive behavior and contributions of employees in developing the code, setting and acting in accordance with the code and organizational values can facilitate continuing awareness and adherence.
- 3.59 A procedure for disciplining employees who do not adhere to any part of the code should be simple and involve an appropriate range of stakeholders, for example human

resources, legal, and trade union representatives. Employees should be told the facts that support allegations of non-adherence, and how it will be dealt with. Prescribing fixed actions for particular offences is not necessary, but the process for investigating alleged non-adherence should be clearly described and action should be proportional to the seriousness of confirmed non-adherence. Disciplinary and remedial measures should be applied with consistency, particularly across management levels, and reviewed so to prevent recurrences of inconsistent discipline.

- 3.60 The Code of Conduct should apply at all times to all employees, including Directors, especially during periods when challenging issues and ethical dilemmas arise. A Board of Directors should not countenance the suspension of a Code for difficult decisions particularly where there are, or could be, conflicts of interest.

Appendix A: Illustration of a Code of Conduct for the ABC Organization

This appendix is an example code of conduct for The ABC Organization. It is not definitive and because it does not cover a comprehensive range of issues, it should not be used as a template. It is a guide based on how a fictional ABC organization describes the values that govern how it does business, sets out some example responsibilities of the organization towards its stakeholders and specifies how employees are expected to act in relation to the organization's values as well as the laws and regulations that control operations. In practice, it is common for codes to outline obligations to a range of stakeholders (see appendix D) including employees, customers, shareholders, suppliers, competitors, governments and local communities.

The first page of the code of conduct would contain a letter from the President/CEO of The ABC Organization.

Code of Conduct

This document clarifies the responsibilities that The ABC Organization and its employees have to each other, to our partners, and to our communities. It helps us understand the responsibilities we share, and alerts us to important legal and conduct issues that may arise. You will not find every organizational rule, policy or standard here. You may also not find every answer you seek. You will, however, find the basic values and principles by which The ABC Organization has chosen to govern itself.

The Ethics and Conduct Committee produced this code in consultation with the organization's main stakeholder groups. The company is committed to regular and meaningful engagement with its stakeholders regarding its activities.

Accountability and Actions

ABC Organization maintains the highest ethical standards in carrying out its activities. All employees are expected to act according to our ethical principles.

Employee are encouraged to raise any questions or concerns about workplace behavior. If doubts exist – ask. Many improper actions are taken, not because of poor character or dishonest intentions, but because someone did not have the proper information, did not understand the information they had, or acted prompted by a desire to “*just get things done.*”

Any employee, who in good faith seeks advice, raises a concern or reports improper behavior, is doing the right thing. The ABC Organization prohibits all personnel from taking any action against an employee who reports a concern.

The Ethics and Conduct Committee is responsible for initiating and supervising the investigation of all reports of non-adherence of this code and ensuring appropriate disciplinary action is taken when required.

No part of this code may be waived or suspended.

Overview of Business Conduct

Every organization depends on its good name to succeed. The ABC Organization relies on its employees and business partners to consistently do the right thing in the right way, to maintain our good name. The vision of the organization and every employee is to be the best in everything we do, individually and collectively. We live by a set of values in every operation and action.

Do the Right Thing

- Put values and standards into practice.
- Comply with all applicable laws.

Do the Right Thing in the Right Way

- Work within organizational policies and established systems and processes.
- Speak up when faced with doubtful actions.
- Direct others to work according to organizational values, standards and the law.

All employees and business partners must take a personal interest in and be responsible for protecting the organization's good name in the following manner:

- Understand correct work behavior
 - Each employee must know the organization's values, policies, procedures, and legal requirements that guide their conduct. If a person does not know, he or she should ask before taking action.
 - Respect people and the law in the workplace.
 - Each employee, supplier, customer, representative and contractor is expected to behave in a lawful, respectful way when doing business on behalf of the organization.
- Question and/or report activities that appear to violate organizational values or the law.
 - Each employee should ask questions, raise concerns, and report dishonest or improper conduct by employees, representatives, contractors, customers, or suppliers.

The ABC Organization's Values

The ABC Organization is a values-based organization. Values provide the common framework for decisions, actions, and behaviors. Living our values requires us to meet the highest standards of corporate behavior in all aspects of business.

Integrity

The foundation of The ABC Organization is our integrity. We are open, honest and trustworthy in dealing with customers, suppliers, contractors, representatives, co-workers, shareholders and the communities we affect.

The ABC Organization's Code of Conduct

Environmental, Health and Safety

We work safely in a manner that protects and promotes the health and well-being of the individual and the environment.

Customer

We support our customers' success by creating exceptional value through innovative product and service solutions.

Excellence

We relentlessly pursue excellence in everything we do.

People

We work in an inclusive environment that embraces change, new ideas, respect for the individual, and equal opportunity to succeed.

Profitability

We strive for sustainable financial results that enable profitable growth and superior shareholder value.

Accountability

We are accountable – individually and collectively – for our behaviors, actions, and results.

Guide to Business Conduct

Conduct Involving Ourselves and Our Co-workers

The basis of our values is dignity and mutual respect. These values drive our business.

Management Responsibility

All organizational leaders must show a commitment to the organization's values through their actions. They must also promote an environment where compliance is expected and valued. All employees must comply with the organization's values and principles. No one may ask any ABC Organization employee to break the law or go against organizational policy and values.

Health and Safety

The ABC Organization will not compromise health or safety in the workplace for production or profit. It is the goal at every ABC Organization location to have and maintain a safe workplace. Health and Safety policies and procedures are published for all our plants, offices and work sites, and must be followed. All employees must perform their duties while following the published health and safety rules, and must promptly report any concerns, safety violations or incidents.

Respect and Fair Treatment

The ABC Organization gives equal opportunity for employment to all individuals, regardless of their race, religion, color, national origin, age, sex, sexual orientation, or disability. This fair treatment policy applies to all phases of the employment relationship, including:

- Hiring, assigning, promoting, and dismissing employees.
- Providing opportunities for growth and development.
- Recognizing success.
- Selecting employees for training programs.
- Determining wages and benefits. We will establish an environment of clear, honest, and timely communication. We will strive to understand all views.

Diversity is a strength in The ABC Organization. Every employee must respect the people and cultures with whom or in which they work. As an organization, we seek diversity at all levels and expect a work environment in which all employees can develop and contribute to their full potential.

Harassment

The ABC Organization does not tolerate any form of harassment whether it be sexual, physical or mental harassment. This includes bullying of employees. Employees are expected to be open, honest, and courteous with each other.

Human Rights

The ABC Organization honors and respects all who choose to work for the organization. The ABC Organization does not use child labor or forced labor. The ABC Organization respects the freedom of individual employees to join or refrain from joining legally authorized associations or organizations.

The company supports human rights consistent with the UN Declaration of Human Rights and will consider carefully before trading with, or investing in, countries which are governed by regimes that do not adhere to the UN Declaration.

Personal Relationships

The ABC Organization recognizes that all individuals have the right to work for the organization. In some cases, family members or close personal friends of employees may also work for The ABC Organization. In these situations, ABC Organization will avoid, where possible, work situations that create a direct reporting relationship between family members or individuals with a close personal relationship.

Other issues

Employees are not allowed to work under the influence of drugs or alcohol. Employees may not act violently or threaten violence while at work, and are prohibited from bringing weapons and illegal drugs onto the work site.

No employees may be involved with an activity that is in conflict with ABC Organization's business interests. Any personal interests in relation to the organization's business must be disclosed. A conflict of interest could include directorships, significant shareholdings and employment of family members.

Relations with suppliers

Strengthening our relationships depends on our reputation for conducting all aspects of our business with suppliers in a way that is mutually beneficial as well as open.

The ABC Organization will aim to develop relationships with its suppliers based on honesty, fairness and mutual trust.

Relations with governments and local communities

ABC Organization's performance over the long-term depends on sensitivity to local customs and conventions governing business relationships, and a commitment to make a positive contribution the sustainable development of the communities in which we work.

The ABC Organization will consider ways of supporting communities in which it operates through charitable and educational activities and contributions (made within policies set by the board of directors).

The ABC Organization will minimize any harmful effects of our operations on the natural environment and finite resources. In doing so, we will set out environmental quality standards which are desirable and attainable and comply fully with all relevant environmental legislation.

If you have questions about this code of conduct or concern about a co-worker's conduct, first contact your manager. If you do not feel comfortable doing that, contact one of these other organizational resources:

- **Human Resources Department**
- **Compliance Department**
- **Legal Department**
- **Audit Committee.**

Appendix B: Values-Based Principles in Public Life – An Example

The UK-based standing Committee on Standards in Public Life is an example of how a values-based code of conduct can be developed for the public sector. Formerly known as “The Nolan Principles of Public Life,” the website <http://www.public-standards.gov.uk/> provides information on the continuing evolution of this important activity.

The Committee has set out “Seven Principles of Public Life” that it believes should apply to all in the public service. These are:

Selflessness

Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

Integrity

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties.

Objectivity

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability

Holders of public office are accountable for their decisions and actions, to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions, and restrict information only when the wider public interest clearly demands.

Honesty

Holders of public office have a duty to declare any private interests relating to their public duties, and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership

Holders of public office should promote and support these principles by leadership and example.

Appendix C: External Conduct Guidelines and Legal Standards

A more wide-ranging list of external conduct guidelines and legal standards can be found at various websites and including the Business for Social Responsibility website www.bsr.org.

Examples of legal standards

US Federal Sentencing Guidelines: Developed in 1991 and updated in 1995 and 2002, these guidelines provide specific rules to US private, public and not-for-profit sector-based organizations for preventing, detecting, and reporting criminal conduct. www.ussc.gov/guidelin.htm

Foreign Corrupt Practices Act: First passed in 1977 and amended in 1988 and 1998, this Act applies to US citizens and organizations around the world, and to non-US companies listed on the New York Stock Exchange. It makes it a federal offense to give anything of value to foreign officials, political parties, or candidates for public office to obtain a contract.

OECD Convention on Combating Bribery of Foreign Public Officials: Signed by 29 OECD members and five non-members at the time it was enforced in 1999, this Convention's provisions deal with bribery in procurement with governments and environmental issues. This Convention has led to new and enhanced laws in many OECD countries. For example, the European Union has agreed new rules to deal with corruption, money laundering and smuggling.

Examples of voluntary standards

OECD Guidelines for Multinational Enterprises: www.oecd.org/dataoecd/56/36/1922428.pdf

The Global Sullivan Principles: www.thesullivanfoundation.org/gsp

International Labour Organisation Conventions: www.ilo.org/ilolex/english/convdisp1.htm

Universal Declaration of Human Rights: www.un.org/Overview/rights.html

Principles for Global Corporate Responsibility: www.bench-marks.org/

Caux Principles for Business: www.cauxroundtable.org

Global Reporting Initiative: www.globalreporting.org

Examples of industry specific standards

Defense Industry Initiative on Business Ethics and Conduct: <http://www.dii.org/>

International Council of Toy Industries: <http://www.toy-icti.org/>

Appendix D: A Graphic Representation of Key Stakeholders and Their Primary Areas of Concern

There are several overlaps and interdependencies between stakeholder groups that the diagram does not highlight, for example between employees on the one hand, and the community and the concept of corporate citizenship on the other.



Appendix E: Resources

This list of resources is a brief selection of many available resources on this topic and is not intended to be exhaustive. Use the IFAC KnowledgeNet at www.ifacnet.com to search IFAC and many of its member body websites.

- Center for the Study of Ethics in the Professions, Illinois Institute of Technology, Codes of Ethics online: <http://ethics.iit.edu/codes/>
- Center for Business Ethics at Bentley College <http://www.bentley.edu/cbe/>
- The Conference Board: www.conference-board.org
- Ethics Resource Center: www.ethics.org
- Group of 100: www.group100.com.au
- International Labour Organisation:
www.itcilo.it/english/actrav/telearn/global/ilo/code/main.htm
- Institute of Business Ethics: www.ibe.org.uk

Publications

- International Federation of Accountants Code of Ethics for Professional Accountants (2005): www.ifac.org/Store/Details.tml?SID=9560085_866929
- CMA Canada (Management Accounting Practices publication), Ethics Control Systems: <http://www.cma-canada.org/>
- OECD (2001), Codes of Corporate Conduct, An Expanded Review of their Contents: <http://www.oecd.org/>
- World Bank (2003 and 2004), Company Codes of Conduct and international standards: an analytical comparison, Part I: Apparel, Footwear and Light Manufacturing, Agribusiness and Tourism; Part II: Oil and Gas, Mining: <http://worldbank.org/>
- Dando N & Raven W (2006), Living up to our Values, Developing Ethical Assurance, The Institute of Business Ethics, ISBN 09539517 8 2
- Gebler D (2006), Creating an ethical culture, Values-based ethics programs can help employees judge right from wrong, Strategic Finance
- Paine L & Margolis JD (2005), Up to the Code: Does Your Company's Conduct Meet World-Class Standards?, Harvard Business Review
- Webley S (2003), Developing a Code of Business Ethics, The Institute of Business Ethics ISBN 0 9539517 4 – includes references to codes available on company websites
- Driscoll D & Hoffman W M (2000), Ethics Matters, How to Implement Values-Driven Management, Center for Business Ethics, Bentley ISBN 0-9675514-0-4



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