Codes of conduct
A barrier or breakthrough for corporate behaviour?

PwC Fraud Academy
A snapshot analysis of what businesses are doing with their codes of conduct and how they’re being used to enhance their organisations behaviours and actions.
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More companies are establishing codes as a routine part of their governance. But does this add any real value or is it simply an exercise that ticks another box? To some extent this question highlights mounting concerns about the mismatch between what companies say and what they do.

Regular reviews of codes by organisations that have had business conduct failings have fuelled this cynicism. They are cited as evidence that these top-level corporate documents are little more than window dressing. One recent newspaper article commenting on a new code for a global financial services institution, released after the organisation had suffered a number of significant business failures, asked the question 'Is it enough to right recent wrongs?'

Codes set out standards of behaviour and practices for organisations across the public and private sectors, typically underpinned by the organisations' underlying values. Some codes are labelled Code of Ethics, Code of Business Practices, Code of Values, or Code of Behaviours, but the most common term has become Code of Conduct.

The challenge

Our experience shows that while codes continue to have relevance and meaning for many businesses, this is not always the case. Some organisations still seem to approach their codes narrowly as a matter of compliance. They use them as a set of rules and regulations acting as a stick to deliver effective governance through command and control language. What is clear is that many organisations are not seizing the opportunity to use their code as a tool to inspire an ethical corporate culture.

We’ve reviewed a sample of publicly available codes, and our results support this concern. Codes are increasingly converging around the same legally-focused standards. They continue to rely on rules-based language and show little evidence of engagement or dialogue with their target audience. Despite this trend towards boilerplate form, there remains a surprising amount of variety in quality, with almost a third of the codes we reviewed omitting key good practice elements such as board-level endorsement and explicit reference to organisational values.

However, we also found there is a growing shift from mainly rules-based policies to a values-based approach, and the emergence of a good practice which supports learning and decision making by providing practical tools.

Our approach

Our insights come from our thinking and practical experience of advising various organisations on codes as part of our focus on integrity and business conduct. We’ve combined this experience with the outputs from a series of debates held by the PwC Fraud Academy in the UK to contribute to the points of view contained in this paper. These debates challenged whether a code of conduct plays any meaningful role today in effectively managing ethical business conduct and corporate behaviour. Panellists included PwC experts and corporate ethics and compliance officers.

A comprehensive definition of ‘codes of conduct’ for the purposes of this paper is:

“Principles, values, standards, or rules of behaviour that guide the decisions, procedures and systems of an organisation 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.”

"A code should be the overarching home for an organisation’s values and beliefs, inspiring people to do the right thing every day. Alignment of both personal and corporate values is critical to making a successful code a reality. For a code to work, individuals need to believe in its purpose which will create authenticity and consistent delivery. If deployed effectively, a code breathes life into how and why the organisation exists.”

Tracey Groves, Partner, PwC

In this paper we also set the key findings from our review of 36 UK-based companies and the 30 publicly available codes from this group. This provided a balanced sample of codes from the past seven years for private sector organisations of various sizes and from a variety of industry sectors. Key areas of focus included purpose, ownership, structure, language, relevance and content.

Our view

In our view, dismissing codes merely as a branch of marketing or good corporate PR is a mistake. There is a growing interest in the role that codes can play in addressing hard-to-reach behaviour such as decision-making in ‘critical moments’, and the approach to building organisations’ risk resilience. In our review we identified emerging good practice, including the use of codes to build staff capability to identify potential issues and then apply robust judgement in deciding how they should respond. These developments provide a less cynical perspective on the ongoing convergence between codes, and we see this trend as a step towards a more practical and pragmatic approach to business ethics.

We believe that codes represent a critical and integral part of a sustainable eco-system for the culture of good business. A good corporate culture is one that is empathic and demonstrates care and humanity towards all its stakeholders. The code should be presented as a shared statement of purpose, agreed between the organisation and its people, and should embrace the values, character, behaviour and actions of its leaders, employees and the organisation. Only then can the code be used to recalibrate organisational culture and act as a ‘carrot’ to motivate and encourage the right behaviours, rather than a ‘stick’ to impose command and control.

A first step in assessing the effectiveness and impact of a code on the business is for organisations to challenge themselves about where they stand against some simple assertions, as outlined here.

Which of the statements below would ring true for your organisation and for your people?

- We use the code to engage with our people and empower them in their day-to-day working.
- The code is used to provide a signpost and common reference point for our people to navigate their way through business decisions.
- We regularly refresh and update our code to reflect new business and ways of working.
- The code is shared by our leaders and our people and represents a common sense of purpose of our business.
- Without our code we would struggle to articulate who we are and what we stand for.
Headline findings

**Purpose**

1. There are an increasing number of defensive reasons to have a code. However, the most meaningful motive is to communicate your shared purpose.

2. There is a growing move from mainly rules-based policies to a values-based approach. Emerging good practice is to provide practical tools to support learning and decision making.

**Structure**

3. Code structure and content is evolving. New approaches mix an issues structure with references to the broader social context.

**Relevance**

4. More recent codes include new issues such as a proactive approach to human rights and use of social media. It is challenging to keep up with the growing pace of economic and cultural change.

**Content**

5. Codes typically rely on the language of command and control with little evidence of two way dialogue.

6. Some industries seem slower than others to adopt emerging good practice.
An effective culture is one that supports a business model and business practices that have at their core the fair treatment of customers and behaviours that do not harm market integrity. This is very different from what we have today where...the focus has been on ensuring compliance with a set of rules rather than doing the right thing for customers.”

Clive Adamson
Director of Supervision,
Financial Conduct Agency

85% of companies we reviewed across the FTSE 350 and a range of sectors do have a public code

The median average length of codes reviewed was 33 pages but the sample ranged from two to 112 pages

Commentary

Purpose

1. **Key finding**

   There are an increasing number of defensive reasons to establish or review a code, but a meaningful motive is one that proactively and regularly communicates the organisation’s distinctive culture and shared sense of purpose.

Over the past 20 years codes have evolved from emerging good practice to an established norm. In the past, organisations would make a distinction between internal codes of conduct, aimed at setting out standards of organisational behaviour for management and staff, and public statements of ethics, aimed at setting out the organisation’s values and commitments to a range of public stakeholders.

Our review of 36 companies across the FTSE 350 and a range of sectors found that 85% (thirty) do have a public code. This finding echoes earlier studies on the steady growth in code adoption by larger UK companies.

Perhaps unsurprisingly, our review found that those companies that have experienced significant or severe external scrutiny or regulatory sanction during the past five years have all since updated their code. However, the majority of companies that have not undergone this scrutiny have also updated their codes. We should also note that the Institute of Business Ethics (IBE) estimated in 2010 that over 80% of FTSE 100 companies have an explicit code of conduct or equivalent, increasing from an estimated 33% in 1993.

2. **Key finding**

   A growing number of organisations are looking to the code to recalibrate their rules-based policies and processes with a more values-based approach in order to drive ethical decision-making. Emerging good practice is to include a mix of learning and decision-making tools to support good judgement in alignment with values.

Our PwC Fraud Academy debate panellists confirmed this rise in adoption. They noted that formal codification of business ethics has been encouraged by a number of both positive and defensive factors, such as:

- Increasing business complexity
- A desire to engage with a dispersed and multicultural workforce
- Greater public expectations of transparency
- Developments in UK corporate governance – including government guidance on the UK Bribery Act.

Codes that have been formulated from narrowly defensive motivations have questionable lasting value. Such reactive codes neither ring true upon closer inspection nor contribute to sustainable growth – a finding that was echoed in our panel discussions. On the other hand, Enron is an example of a technically comprehensive code that was undermined by senior management choosing to exempt themselves from its standards, with notorious results. A code’s authenticity and effectiveness can only be assessed by the degree to which it communicates the organisation’s purpose and culture.
Companies often review their codes after a crisis. This is sometimes part of a knee-jerk reaction that gives rise to the sentiment that ‘the culture needs to change’. The problem however tends not to lie with the code’s language, rather it resides in the success of the business to embed the code in its day to day activities.

A number of organisations that have experienced significant scrutiny have started to overhaul their basic approach to compliance, looking beyond processes and controls to more fundamental issues of employee motivation and alignment. Regulators now talk openly about changing the ‘culture’ of organisations – reinforcing the view that companies are really needing to place much more emphasis on cultures and behaviour alongside policies, procedures and controls. This follows earlier lessons from the field of health and safety which demonstrated that improvements from physical safeguards and process interventions quickly reach a plateau. Achieving further reductions in preventable accidents requires a different focus on culture and workforce behaviour.

Our review of sample codes confirmed this trend. Many previous studies found that codes typically focused on legal prohibitions and minimum standards of behaviour, such as not mistreating customers. In contrast, a large majority of our sample went further than this by outlining positive behaviour, such as taking personal responsibility for good customer service. This issue is discussed in more detail in the section on code content.

As codes have become an established part of corporate communications and governance, their communication role has shifted from a summary of the expected standards of behaviour to a tool that helps people understand and apply these rules in practice. How companies choose to communicate their codes in light of ever evolving social media channels, and the need to demonstrate transparency, could be either a real challenge or a real opportunity as we progress deeper into the digital age. The typical focus of codes has also broadened, supplementing the ‘what’ of expected behaviour and the ‘how’ of guidance principles with an increasing concentration on the ‘why’ explaining the organisation’s purpose and culture.

Far from being a flight into aspirational generalities, we see this new focus on consistent values as a valid attempt to grapple with the slippery human element in the control environment. In this way, the code can help address real and difficult compliance issues such as effective challenge, reporting of bad news and balancing individual and collective responsibility.

“Written sensitively, communicated engagingly, lived and breathed by senior management, Codes of Ethics can have a positive impact on the way business is done. They should be considered as guidance – a tool to use when you’re not quite sure of the direction to take. IBE Research shows that training staff in what the code means to their working life can not only bring significant financial benefits, but build an ethical business culture a company can be proud of.”

Philippa Foster Back  
Director, Institute of Business Ethics

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2. UK Health and Safety Executive, Behavioural Change and Worker Engagement Practices within the Construction Sector, 2008
**Key finding**

The structure and content of codes continues to evolve. There is a move away from structures based purely around issues to structures that also identify and map these to corporate values and purpose.

From our research, the median average length of codes was 33 pages but examples ranged from two to 112 pages. A clear majority of these also made explicit reference to other sources of internal policies or public information, such as more detailed staff guidance and a corporate sustainability report.

As described in Figure 1 below, not all of these codes adopt the same structure to presenting the company’s standards.

**Figure 1 – Code structure**

- Structured by stakeholder groups (e.g. staff, customers, government, society)
- Structured by issues (e.g. anti-bribery, environment)
- Structured by a mix of issues under broad stakeholder themes
A majority of the sample of codes reviewed were structured on an issue basis. This continues an observed trend away from earlier stakeholder approaches that were based on company relationships with different groups. The evolution in code structure has been accompanied by an increasing convergence of content around legally-focused standards such as anti-bribery, fair competition, environmental responsibility and health and safety. These trends may partly reflect a process of consolidation of the previously distinct internal codes and external ethics statements, (as discussed earlier in the section on code purpose).

This issue-by-issue approach may also be under revision, however. A sizable minority of codes we analysed mixed the two approaches to some degree, grouping issues and legally-focused standards according to broad stakeholder categories such as employees, customers, government and broader society. In many cases, this approach married the practical benefits of clear standards of behaviour on issues with the motivational benefits of a social context and purpose.

PwC’s Code of Conduct, for example, recognising the complexity of the markets in which we operate, plays an important role in relating us back to our core values.

“We conduct our business within the framework of applicable professional standards, laws, and regulations together with PwC policies and standards. However, we also acknowledge that these standards, laws, regulations and policies do not govern all types of behaviour. As a result, we also have a Code of Conduct for all PwC people and firms. This code is based on our values and it takes them to the next level – demonstrating our values in action and contributing to the PwC Experience.”

PwC Code of Conduct
Relevance

Key finding

Some recent codes include a number of emerging issues such as; a proactive approach to human rights, data privacy, due diligence, and the use of social media. However, there is a continual challenge as to how a code can keep up with the speed of change in a global and complex world where market forces such as competition, cultural diversity and innovation can challenge and define corporate culture and behaviours.

New themes

Some of the more recently revised codes set out a new approach to human rights, based on the 2011 UN Guiding Principles for Business to adopt proactive human rights due diligence. Other additions to the list of typical code issues include data privacy, use of the internet at work and social media. The 2013 PwC CEO survey underlines the importance of these issues in terms of increasing scrutiny in a global marketplace with instant and ubiquitous connectivity.

One of the critical issues facing organisations seeking to develop effective codes is to look beyond good practice design to the more challenging issue of how to embed the code in a company’s day-to-day operations. As our panel discussions identified, there is a clear need to bring the code to life.

Our debate on how best to embed the code raised questions about the proper place of the code in company incentivisation, with arguments on both sides of the question of whether to make compliance with the code a part of reward and promotion policies. Similar arguments arose over adding compliance performance objectives, such as part of a more balanced scorecard for all staff.

Of the sample codes that made explicit reference to the company’s values, 53% mentioned strongly collectivist values such as teamwork, collaboration and trust, while only 16% of codes mentioned strongly individualist values such as freedom, courage and respect for individuals.

3. 16th Annual Global CEO Survey, http://www.pwc.co.uk/ceo-survey/index.jhtml
Pace and complexity

Today’s global business environment, where competition, cultural diversity and innovation can encourage divergent behaviours to drive growth, raises the issue of whether it is realistic for a code to keep up with the pace and speed of change.

The increasing convergence on legally-based standards might be seen as a narrowly Western approach to ethics. In response, codes for multinational companies may need to reflect and accommodate other cultural models in growth markets such as Asia. Given the strong global focus of many of our sample codes, this should be a valid challenge for many of those businesses to consider.

The picture becomes more complicated when we look deeper into whether code structure is biased towards a view of ethics that is based on narrow individual self-interest and economic value generation. In reality, the codes that made explicit reference to company values typically referred to traditional ethical concepts such as trust, integrity and teamwork, with no strong references to personal conscience, individual legal liability or financial value.

In addition, nearly all codes have adopted speak-up procedures with explicit permission to bypass line management hierarchy where appropriate. Many codes have also adopted decision-making guides that inject individualism through their mix of social, team and individual perspectives.
Content

Key finding

5

Despite the crucial importance of stakeholder engagement and empowerment, codes typically still rely on the language of command and control and vary enormously in length. There is little evidence of two way dialogue, apart from the procedural aspects of whistle blowing.

Key finding

6

Some industries can be seen to be slower than others to adopt good practice elements of code design. Organisations in these sectors should look further afield when benchmarking their codes for good practice.

A credible code helps build a sustainable and consistent business culture by providing a common reference point for non-negotiable standards, as well as for making judgements on how to resolve conflicts between different objectives. However, as our panel discussions confirmed, many codes fall short of providing what staff need to digest the list of requirements and understand how company management actually wants them to behave. This observation was supported by our review, which identified a close connection between three key elements of good practice design.

Codes making no explicit reference to company values were typically harder to find on the company website and were far more likely to omit other elements of good practice design, as noted in Figure 2. In addition, while only two sample codes lacked an explicit commitment to protecting internal whistleblowers from retaliation, in both cases these codes also lacked an explicit reference to company values.

Our analysis also identified a marked evolution in the way code content helped staff recognise issues where they arose in the workplace rush.

Emerging good practice in this area includes simple judgement aids that help staff reframe complex business dilemmas by using simple moral principles. These tools range from ethical prompts and decision framing, such as through the ‘front page of the newspaper test’, to encouraging systematic consideration of basic moral values, such as care and honesty.

“A good code sets the tone overall and helps coordinate everything else, linking corporate policies to desired behaviours and compliance certifications. It can thereby contribute to improved internal communication, more productive employees and the overall growth of the business.”

PwC Fraud Academy, Code of Conduct debate panellist
Language and communication

Good presentation, while important, is not sufficient to ensure consistency in day-to-day behaviour. While overly formal and legalistic phrasing is best avoided, spending too much time focusing on elegant drafting may miss the importance of developing a clear understanding of the core messages and desired behaviour that the code needs to convey, ideally in simple words.

On this point the findings of our review highlight wide variation in the use of common words used about conduct and ethics. We analysed each sample code for how often they used a word (or close variant) from a series of typical words that we would expect to see in a code. As noted in Figure 3, the six most common words in our sample of codes relied extensively on the language of command and control, with ‘law’ or ‘legal’ being the most common typical word for almost half of our sample. ‘Speak Up’ or whistleblowing procedures were also present in nearly every code, underlining the priority of the code as top-level corporate policy and also the increased focus on the use of ‘Speak Up’ as a way of identifying risks. Every such reference emphasised the protection of confidential reporting, regardless of whether an external helpline facility was offered. Typically, these references were limited to an opening or concluding section, with no further discussion of staff communication or feedback mechanisms. Combined with the tone of most codes arising from their reliance on rules-based language, the relegation of internal reporting is likely to leave a stronger (adverse) impression on staff than the supportive policy commitment of protection for confidential reporting.

Key elements of good practice design

1 Explicit reference to company values

2 Explicit Board-level endorsement of the code

3 Learning & training tools
   • Frequently-asked-questions
   • Hypothetical scenarios and worked examples
   • Decision making tools.
The credit crunch and subsequent financial crisis has almost certainly eroded public trust in all types of business. The resulting increase in scrutiny has challenged companies in all sectors to explain how their pursuit of profit is aligned with their overall business purpose.

Despite the typical issue-by-issue structure to our sample of codes, there was surprisingly little sector-specific content. This may reflect cross-fertilisation of issues between sectors, or an increasing reliance on a default list of legally-focused standards. However, there were some notable sector trends.

As noted in Figure 4, sample codes from companies in the Financial Services and Entertainment & Media sectors were typically lagging behind the trend of adopting good practice design. In contrast, codes from organisations in the Energy, Utility and Mining and the Aerospace and Defence sectors typically included the full range of good practice design. This may be as a result of greater levels of regulation, enforcement action and high profile cases.

There were also some companies that had no public code – six of our sample of thirty-six. Of these six, three came from the financial services sector.

They were also in some cases harder to find on the company website and a number did not include any of the three good practice design (i.e. explicit reference to company values, explicit board-level endorsement of the code, and various learning and training tools).
We’ve seen codes evolve into more complex and integrated mix of structures, content and focus.

One clear observation is that no one size fits all. Codes are personal, they are dynamic, they are owned by the business for the business. Codes must be authentic and serve the people to whom the corporate values and purpose have meaning and relevance.

In our view, businesses need to be courageous in designing a code that communicates their purpose and value in society in an empathic way, rather than ticking the box.

Regardless of the approach they take, companies will be judged by their success in positioning their code as a tool to guide, inspire and encourage the right behaviours.

As we have said, there is no right answer to the development of the right code for each business.

However, we believe that there are some common practical steps for all organisations to consider as they embark on developing and implementing an effective code:

1. Develop an agreed board-level understanding of the purpose of the code as part of a global vision and strategy for ethical conduct across the business. Critically review the relevance and meaning of the current code against this purpose.

2. Diagnose the ‘as is’ state towards ethical conduct, including analysis of unpredictable behaviours by business unit, functional activity and code issue. Test relevance and understanding of the meaning of the code in those areas that pose a heightened risk of inconsistency.

3. Refresh the code to address key gaps in relevance and meaning, using learning and training tools to address areas of heightened risk. Make use of positive and empathic language to re-position ‘doing the right thing’ as a carrot rather than a stick.

4. Test or pilot the draft code with working groups of employees from various levels, functions and locations.

5. Design and implement a plan to communicate the agreed code and its practical implications to all employees and to business partners.

6. Develop approaches to reporting and assessment of the code’s impact on organisational behaviour, including the reporting of bad news and decisions on conflicting objectives.

7. Consider ways of embedding the code in day-to-day business, such as through HR linking to performance management, recruitment and hiring processes.
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- Access to regulators, experts and peers through events, seminars and webcasts.
- Thought leadership, knowledge, benchmarking tools, surveys and best practice.
- Regular updates and invitations to PwC Fraud Academy events emailed to you. Our members include people working in finance, internal audit, security, in-house legal and compliance functions as well as specialist fraud teams.

www.pwc.co.uk/fraudacademy

**Methodology**

Our research for this paper is based around a series of debates held by our PwC Fraud Academy in London and Birmingham with businesses and the analysis of the publicly held codes of conduct of 30 companies across the FTSE 350 and a range of sectors.

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