

CEP Magazine – January 2024



Jim Walton (jim.walton@lrn.com, [linkedin.com/in/jim-walton-ccep-3035951a/](https://www.linkedin.com/in/jim-walton-ccep-3035951a/)) is Director of Code of Conduct Solutions at LRN Corporation in New York, New York, USA.



Meredith Hunt (meredith.hunt@lrn.com, [linkedin.com/in/meredith-l-hunt/](https://www.linkedin.com/in/meredith-l-hunt/)) is an Ethics & Compliance Specialist at LRN Corporation in Boston, Massachusetts, USA.

LRN's 2023 Code of Conduct Report: Raising the bar on code effectiveness

By Jim Walton and Meredith Hunt

Your code of conduct is not only the most important document for your ethics and compliance program but also your company's most important document—period. Your code is your culture *written down*. It's a declaration of who you are, why you exist, what you believe, what you value, how you make decisions, do business, and interact with your many and varied stakeholders. The most effective codes *inspire* employees by connecting them to your company's purpose and values, *guide* employees in living out those values at work every day, and *enable* them to make ethical decisions and spot ethics and compliance risks they may face on the job.

The Code of Conduct Report released by LRN Corporation in July 2023 reveals that many companies understand the need for a code of conduct and the basic standards and expectations around codes.^[1] However, there is still significant room for companies to strengthen their codes of conduct and make them a more valuable tool to promote ethical corporate culture, which evidence has shown is a key driver of stronger business performance. A large proportion (about 2 in 5) of the world's top publicly traded companies have work to do to meet basic expectations for more effective codes of conduct. Further, speak-up culture appears deficient in most companies, as less than two-thirds of all codes include a section on reporting misconduct, and fewer than 3 in 5 have strong nonretaliation policies stated for those who do so.

Methodology

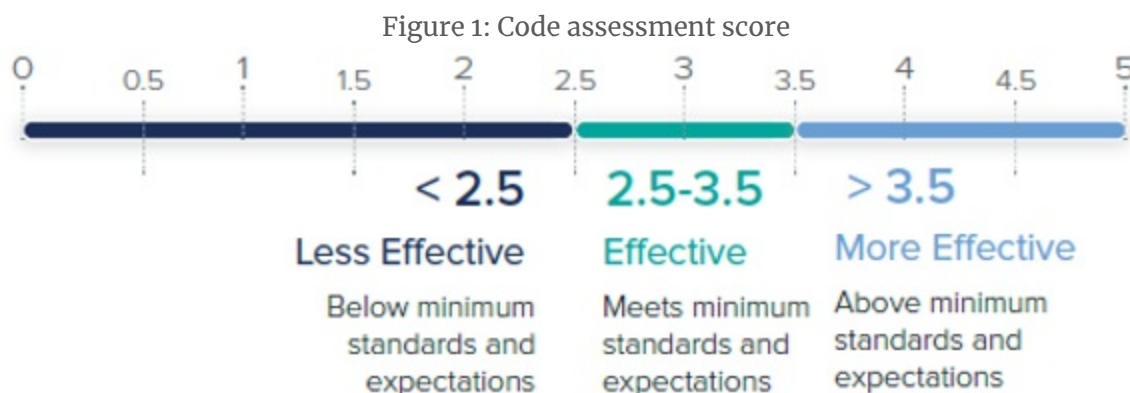
For the report, LRN reviewed the codes of conduct of nearly 200 of the top publicly traded companies in Asia, Europe, and North America—focusing on those listed on the major indices in Germany, France, the U.K., the U.S. and, for the first time, Japan and Singapore. Specifically, we looked at the top 40 companies in the CAC (France), DAX (Germany), FTSE (U.K.), NIK (Japan), SGX (Singapore), and S&P (U.S.) stock exchange listings; 195 out of the 240 companies had publicly available codes, which formed the basis of our analysis.

We used LRN's proprietary Code of Conduct Assessment Tool to assess the codes featured in the report and evaluate eight different dimensions of effective codes of conduct, including Tone from the Top, Purpose and Values Orientation, Applicability and Administration, Speaking Up, Risk Topics, Knowledge Reinforcement, Usability, and Look and Feel. Our framework reflects the latest regulatory and best practice guidance along with 28 years of experience and research into ethical culture and compliance program effectiveness; it has consistently evolved to keep up with the latest trends. For example, Artificial Intelligence/Technology Ethics was added to the topics list when it became clear that its potential misuse was becoming a risk to many organizations.

For each of the eight dimensions of code effectiveness, we ask specific questions about the code that relates to that dimension. Some questions have yes/no answers, while many have observations rated on a scale from 1 to 5 —5 corresponding to the best practice. For example, under Tone from the Top, the first question asks if the code includes a message from the CEO or other leader. An answer of “yes” yields a score of 5, while a “no” answer results in a score of 1. If the code does include a CEO message, the next question asks whether the message is brief, addresses unique aspects of the organization, is inspiring, and connects to the company’s values and business performance. The more of those criteria that are met, the higher the score. There are a total of 48 questions within the framework, cutting across all eight dimensions. For each code, we developed an overall score as well as scores for each of the eight dimensions.

The codes of conduct evaluated for the report were grouped into three categories of effectiveness, as follows:

- Codes with overall scores less than 2.5 out of 5 were considered “Less Effective,” meaning they were below minimum standards and expectations.
- Codes with overall scores between 2.5 and 3.5 were considered “Effective,” meaning they meet minimum standards and expectations.
- Codes with overall scores greater than 3.5 were considered “More Effective,” meaning they exceeded minimum standards and expectations.



This document is only available to members. Please log in or become a member.

[Become a Member](#) [Login](#)