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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

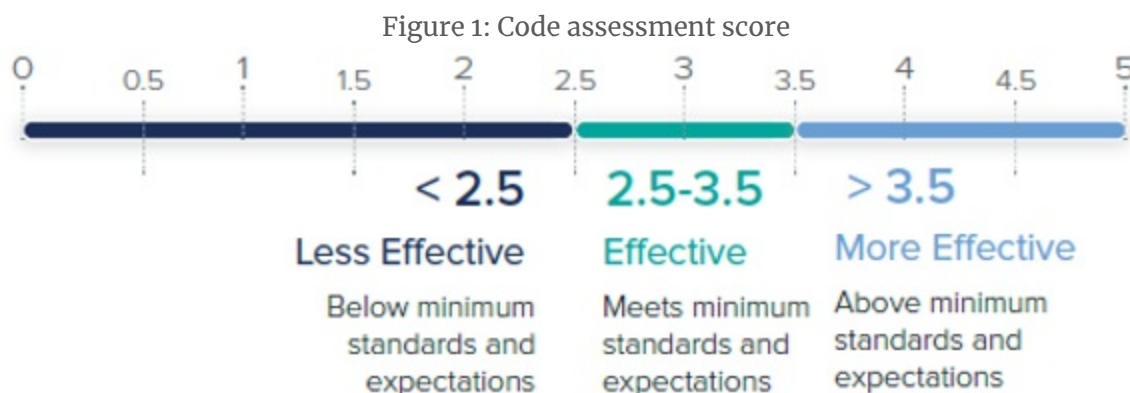
For the report, LRN reviewed the codes of conduct of nearly 200 of the top publicly traded companies in Asia, Europe, and North America—focusing on those listed on the major indices in Germany, France, the U.K., the U.S. and, for the first time, Japan and Singapore. Specifically, we looked at the top 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.

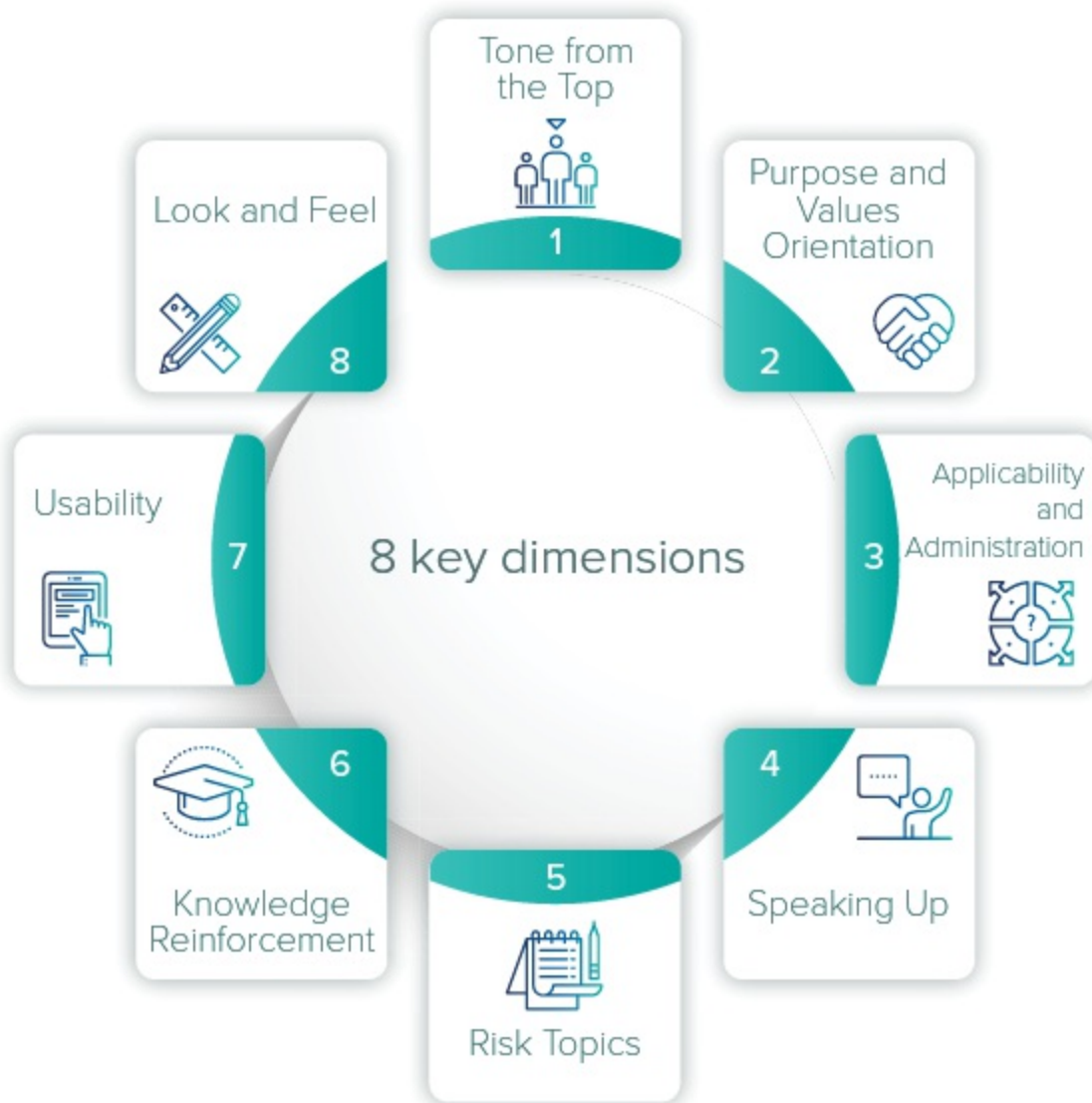
The codes of conduct evaluated for the report were grouped into three categories of effectiveness, as follows:

- 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.



Eight dimensions of an effective code of conduct

Figure 2: Eight dimensions of code effectiveness



1. **Tone from the Top:** A message from the CEO or other leader that is brief, unique, inspiring, and connects to values and business performance.
2. **Purpose and Values Orientation:** The code clearly connects to the company's purpose, values, and business. It explains how the code heightens risk awareness, enhances decision-making, and helps strengthen culture. The code includes a distinct theme that runs throughout the document.
3. **Applicability and Administration:** The code is expressly applicable to employees, officers, directors, and contractors. It makes specific reference to leaders having unique responsibilities. The code provides an overview of the ethics and compliance program and investigations process. The consequences of violating the code are clearly explained.
4. **Speaking Up:** Multiple resources for seeking guidance, raising concerns, and reporting potential violations are included. Confidentiality, anonymity, and nonretaliation are clearly addressed.

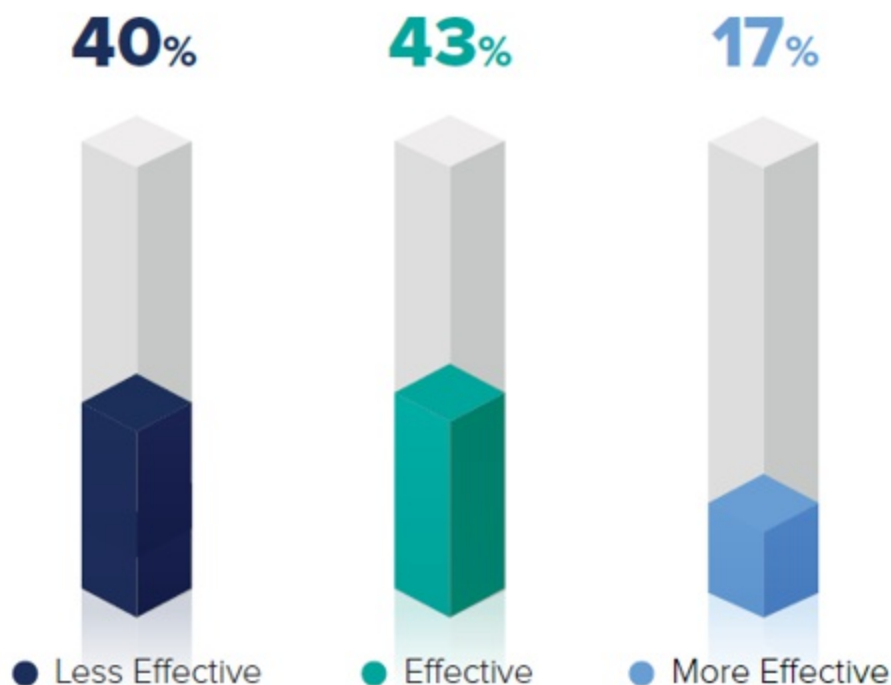
5. **Risk Topics:** The code includes a comprehensive range of risk topics consistent with the organization's industry and operations. The business rationale for each topic is clearly explained.
6. **Knowledge Reinforcement:** The code includes learning aids such as scenario-based Q&As, a decision-making model, multimedia elements, and links to company policies.
7. **Usability:** The code is structured clearly and logically and is carried consistently throughout the document. It is designed so readers can quickly find or navigate critical information. Essential principles and behavioral guidance are clearly highlighted. The writing style is clear, concise, direct, and understandable.
8. **Look and Feel:** The visual design is inspiring, engaging, and consistent with the company's brand. Images, graphics, text callouts, bulleted lists, and white space are used to enhance the reader's experience.

Key findings

Significant room for improvement

Only 43% of the evaluated codes of conduct were scored Effective, meaning they met the minimum expectations, and 40% were rated Less Effective, meaning they fell below the expectations of an effective code. Only 17% were found to be More Effective, meaning that their codes exceeded the minimum expectations. This is the most concerning finding. With so much emphasis on codes of conduct as the foundational document of a company's ethics and compliance program, we would expect the largest and presumably most well-resourced companies around the world to have world-class codes of conduct. Perhaps there is too much focus on how a code looks and not enough on what it should do. A code should be the primary driver of values-based behavior and a culture of ethics and compliance. It shouldn't be something that employees only read when they're told to do so. Companies should make every effort to design their codes to be useful resources for employees to refer to whenever they have a question about an ethics and compliance issue, policy, or procedure.

Figure 3: Distribution of overall code of conduct assessment scores



Regional variability

The codes of conduct of companies on the U.S. S&P 100 outperform those in other indexes overall, followed closely by the FTSE, DAX, and CAC. Companies listed on Japan's NIK40 and Singapore's STI 30 generally have the lowest code effectiveness scores. This variability could be attributed to the fact that the U.S. and Western Europe have had a long history of focusing on the effectiveness of ethics and compliance programs. Generally, these regions have a much stronger regulatory framework, and enforcement efforts tend to be quite robust. As more and more regulations become global in nature and international enforcement cooperation efforts continue to increase, we expect the other regions to continue to improve and close the gap.

Falling short on speaking up

Of the codes analyzed, 64% have a section on speaking up; however, only 57% have a strong nonretaliation policy for employees who speak up about misconduct, and just 17% explain the procedure for investigating misconduct. Besides fear of retaliation, one of the reasons employees might not report misconduct is that they either don't understand the investigation and follow-up process or they don't trust that anything will be done about their report. The importance of transparency cannot be overstated here: communication is vital when nurturing a speak-up culture.

Don't forget the helpline

Companies with more effective codes are 10 times more likely to include hotline/helpline details. If you have a hotline, making sure everyone knows how to reach it is of the utmost significance. It is also crucial to explain in detail what you mean by confidentiality, anonymity, and nonretaliation. There are limits to confidentiality, depending on local laws and the needs of the investigation; employees should understand that. While we must make it clear that employees may report anonymously, we should also encourage them to identify themselves, if at all possible, because it will help with the investigation and follow-up.

Extending applicability to contractors

Only 48% of codes extend applicability to contractors, agents, and other third parties working on behalf of the company. This is an area of concern as more companies find themselves being held responsible for the actions of third parties working on their behalf. This is especially relevant when it comes to issues like bribery, corruption, fraud, conflicts of interest, and human rights. Regulators and stakeholder groups have continued to increase their focus on the supply chain. That is why it is critical for companies to hold out the expectation that their third parties adhere to the same standards of ethics and compliance they hold themselves to, as outlined in the code of conduct. It doesn't stop there, though. Companies must put in place more specific supplier codes of conduct, robust due diligence and screening procedures, strict contract clauses, and auditing processes to ensure compliance.

Codes that rise to the top

So, what does good look like? In case you're wondering, we wanted to highlight a few examples of exemplary codes identified in the study. If you look at the codes of conduct published on these companies' external websites, you will see the eight dimensions of code effectiveness in action.

3M – Overall score: 4.3

Visually, this code is striking.^[2] The 3M brand jumps off the page, bringing the company's values to life from the

very start. The code highlights key principles and uses brand colors and iconography that make it easy for the reader to find what they're looking for while simultaneously reinforcing the brand. This code is a case study of what can happen when stellar visual design meets ethics and compliance program documentation.

Imperial Brands – Overall score: 4.2

This code connects company values and integrates them into substantive content, effectively bringing them to life.^[3] The code is distinctively branded and easy to read, with well-organized chapters that cover a broad range of risks. The tone of voice is inclusive, making employees feel like an important part of a larger whole.

General Motors – Overall score: 4.2

General Motors' code employs a distinct theme right out of the gate, using "Winning with Integrity" as both a catchy title and an effective mechanism to connect to organizational purpose and brand.^[4] The risk provisions included cover appropriate ground for the industry and type of business; they are structured in a way that is predictable and easy to follow. The code also highlights behavioral expectations and other major points in each provision, which makes the reader able to connect the "how" and the "why."

Conclusion

Ethics and compliance professionals understand the importance of having an effective code of conduct. They are constantly looking for ways to improve their codes of conduct and make them more relevant and useful. There is a lot of good work going on in this area, but there is still a huge opportunity for improvement. And keep in mind that code effectiveness is a moving target, as best practices are constantly evolving. What's considered "best in class" today will not be five years from now.

We hope this report will provide the ethics and compliance community with further ideas, benchmarks, and insights to help them make their codes of conduct even better.

Takeaways

- Your code of conduct is not only the most important document for your ethics and compliance program but also your company's most essential document.
- 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.
- While a great deal of good work is being done to make codes of conduct more effective, these are significant opportunities for improvement.
- Be sure to design your code of conduct to be a valuable resource for your employees to refer to whenever they have questions about an ethics and compliance issue, policy, or procedure.
- Code effectiveness is a moving target. What's considered "best in class" today will not be five years from now. It's important for ethics and compliance professionals to stay ahead of the curve.

¹ LRN, *LRN Code of Conduct Report*, July 2023, <https://lrn.com/2023-lrn-code-of-conduct-report>.

² 3M, *Be 3M: Global Code of Conduct*, revised May 2022, <https://multimedia.3m.com/mws/media/12375160/handbook-pdf-eng-v2-pdf>.

3 Imperial Brands, *Our Code of Conduct*, January 3, 2023,
<https://www.imperialbrandsplc.com/content/dam/imperialbrands/corporate/documents/healthier-futures/governance/our-code-of-contact/English-Code-of-Conduct.pdf>.
4 General Motors, *GM'S Code Of Conduct: Winning With Integrity*, accessed November 1, 2023,
<https://investor.gm.com/static-files/265a1dc0-adc5-4d38-ab41-2c58e575692d>.

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