

The Complete Compliance and Ethics Manual 2023

Creating an Effective Code of Conduct and Code Program

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While most organizations understand the need for a great code of conduct, many do not know how to “get it right” and miss the value a strong code can provide. A strong code of conduct offers real value to an organization. Developing and sustaining such a code depends on a broad-based, managed process that includes attention to the organization’s mission, values, and other key considerations. With a little foresight and focus, an organization can develop a new code or enhance an existing code to reap numerous benefits.

Introduction

Corporate codes of conduct (or codes of ethics) have been around for more than three decades, with growing attention focused on them. In the late 1980s, the U.S. Defense Industry Initiative on Business Ethics and Conduct and its member organizations’ public adoption of codes of conduct served as a precipitating factor. The 2002 U.S. Sarbanes–Oxley Act made codes mandatory for U.S. publicly-traded organizations’ directors and senior officers, and the New York Stock Exchange and National Association of Securities Dealers (now the Financial Industry Regulatory Authority) raised the bar by making employee codes required—and publicly available—for their listed organizations. It appears that the corporate code of conduct is here to stay and likely will receive increased visibility—and scrutiny.

An organization’s code of conduct serves as the principal statement regarding how an organization conducts its business as well as its ethics and compliance program’s chief communication. A code generally embodies the standards an organization sets for itself, and possibly other standards that others encourage it to adopt. Chief among these standards are the ethics and compliance risks an organization seeks to prevent, detect, and mitigate should a violation occur. Many organizations make their codes available to outside stakeholders and use them to set expectations for their business partners. Further, with the role that it plays within an ethics and compliance program, the code of conduct can set the stage for the program’s success, or can get the program off to a poor start. Given these roles that a code can play, it makes sense to get the code right.

If moral behavior were simply following rules, we could program a computer to be moral. –Samuel P. Ginder

Codes come in all shapes, sizes, and levels of quality. Given the level of attention devoted to them, each code will have a different impact on the organization it serves. A few organizations appreciate the vital role that a code can play, such as with respect to the organization’s mission, values, and other aspects of culture. For these organizations, developing an effective code can constructively impact its employees, customers, business partners, and other stakeholders. A strong code stands the chance of reinforcing leadership’s good intentions and efforts.

Conversely, a poorly conceived and developed code is likely to hurt the organization’s efforts and weaken leadership’s good intentions. Many organizations still do the bare minimum required by Sarbanes–Oxley or the stock exchange listing standards. This is surprising given the relatively little that is needed to develop a truly impactful code of conduct. It also is a mistake. A poor code marginalizes the importance of an organization’s standards of conduct, negates leadership’s focus on those standards, and sends employees the message that the

organization's code is just one of the many "corporate documents" they can ignore.

What a Code Can Help Accomplish

A quality code of conduct can contribute to an organization's success. Organizations that use a code simply to set legal rules miss much of the value that a better one can provide. A well-developed code can help an organization:

- **Prevent legal and regulatory violations and other questionable conduct.** This is the first objective that most organizations attach to a code of conduct. When violations do occur, a code helps employees detect and report them to mitigate their effects.
- **Foster greater employee loyalty and retention.** Employees feel more committed when included and engaged in their organization's culture and success—especially when everyone is held to principles of good conduct.
- **Encourage greater customer loyalty and retention.** When customers learn about—and then experience—excellent treatment due to an organization's high standards of conduct, they are more likely to show their loyalty. Related standards can include accurate advertising, fair dealing, healthy and safe products, privacy of personal data, and environmental protection.
- **Build stronger relationships with suppliers and other business partners.** As with employees, the more suppliers and other business partners understand what the organization expects of them—and what they can expect from the organization—the stronger the alliance. This may involve standards related to handling confidential information, use of third-party information, fair dealing, proper financial transactions, and others.
- **Strengthen trust from and respect of other stakeholders, such as local communities, regulators, NGOs, and even competitors.** As codes are made public, more outside stakeholders review them and set their own expectations for the organization partly based on its code. The more that an organization lives up to the expectations that it has established, the greater goodwill it engenders. This is increasingly true as Environmental, Social and Governance (ESG) expectations come to the forefront.
- **Build a stronger reputation for integrity, in essence, by helping the organization do what it says it will do.**

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