



Swiss Codes of Conduct

Advisory

Benchmarking the Swiss
Codes with the Global 200

kpmg.ch





Table of contents

Foreword	4
Key findings	6
1. What is a Code of Conduct?	8
2. Prevalence	9
3. The Swiss Benchmark on Codes of Conduct	11
4. Drivers for having a code	16
5. Content of the codes	18
6. Two types of code: Rule based or Principle based	24
7. Differences in content and type of code between geographic regions and business sectors	26
7.1 Differences between regions	26
7.2 Differences in content between business sectors	27
8. Implementing the code of conduct	28
8.1 Communication	28
8.2 Training	29
8.3 HR Measures	30
8.4 Other policy measures	31
8.5. Monitoring, auditing and reporting	35
9. Four phase of implementation	36
10. Conclusions	38
11. Recommendations	42
Appendix I – Methodology	44
Appendix II – Parameters	46
Appendix III – Table of companies	49
Acknowledgement	50
About KPMG	50
About Rotterdam School of Management, Erasmus University	51

Foreword



Over the last 20 years, KPMG has supported many companies in the development, implementation and monitoring of their business codes (hereafter “codes”) and their broader ethics and compliance programmes. This whitepaper illustrates the most important results emerging from a study on the codes of conduct content of the listed Swiss Top 50 companies and a study conducted in conjunction with RSM Erasmus University into the prevalence, content and embedding of codes among the Fortune Global 200 companies.

For the first time, we conducted a desk-research on the codes of conduct (hereafter “codes”) of the 50 largest companies listed on the SIX Swiss Exchange. With this whitepaper we present a Swiss benchmark on the codes of conduct. Besides complementing our other study covering the 200 largest global companies, this Swiss benchmark aims at providing an overview on code design of the Swiss business sector and highlighting the completeness and particularities of Swiss codes of conduct. In addition, the benchmark will serve as basis for future analysis, enabling to review the evolution in the Swiss code design. This whitepaper also illustrates the differences in the content of codes compared to a similar desk-research and survey study we conducted in 2008 among the Fortune Global 200 companies. It also touches upon differences between regions and industries with regards to the content and prevalence of codes, and highlights the progress that have been made since 2008 with respect to the measures that companies take to embed their codes internally.

A properly implemented code is an increasingly important instrument for today's companies. A code contributes to a company's strategic positioning, identity and reputation, culture and work climate, and to its financial performance. The need for a code which is fully embedded is also driven by (new) laws and regulations which require companies to implement adequate measures to foster a desired culture and to prevent misconduct.

In our Swiss benchmark we see that 84% of the Swiss Top 50 companies have a code of conduct (42 of 50 companies) published, compared to 76% of the Fortune Global 200. Many companies choose to apply further detailed codes or policies, such as a code of conduct for suppliers or other relevant guidelines for their employees. For the Swiss benchmark, solely the general codes of conduct have been analyzed and only the relevant references to policies and guidelines have been looked at.



When we compare the international trend of the codes compared to 2008, the current codes are more often a combination of principle- and rule-based. On the one hand, companies rely on the sound judgment of their employees and empower them to take the right decision with the code as a guide while, on the other hand, companies include more detailed rules in the code governing certain topics in order to comply with laws and regulations.

Our desk-research shows differences in the content of codes between regions. Asian and US companies more frequently use a rule-based code, while companies that are originally European more often choose a principle-based code. Asian companies often do not include their responsibilities to employees and other stakeholders, while European companies also pay significant attention to the responsibilities that the company has to its employees. Companies originating from the US are more likely to mention politics or the government as a party that must be taken into account while doing business. Such statements have not been found in codes from European or Asian companies. These results are not supported by the Swiss benchmark, which shows a more balanced distribution of the type of codes.

Surprisingly we did not find substantial differences in the content of the codes between different industries. Small differences were visible, such as more focus on customers in client-orientated businesses, but the content of the codes seems primarily to relate to the region of origin and not the sector. Over the last six years, companies have been taking more measures to embed their codes into everyday business, such as formal inclusion of the code in decision-making procedures and the establishment of an ethics committee to provide answers to dilemmas. However, the majority of companies have only implemented measures which are tightly connected to the code (training and whistleblower mechanisms), while the frontrunners include the code and accompanying values in many more business processes.

Considering the critical importance of codes and compliance programs in today's business environment, we hope that this whitepaper provides a clear understanding of the trends in code development, implementation, and monitoring, as well as differences between business sectors and regions. We also hope that it inspires ideas for embedding your code into your organization.

Martijn de Kiewit

Head of Ethics & Compliance Management
KPMG Advisory Switzerland

Matthias Kiener

Partner KPMG Forensic
Switzerland

Key findings



Swiss Benchmark

- 84% of the Swiss Top 50 companies have a Code of conduct
- 26% of the codes are rule based, 36% are principle based and 38% are a combination of both
- A third of the codes contain examples and clarifications to explain the principles and rules written in the code
- More than 80% of the codes discuss anti-competition activities, the occurrence of conflict of interest, the company's position about bribery and corruption and the protection of confidential information.
- Only 57% of the codes make a specific reference to a reporting hotline or other anonymous reporting instrument
- Less than 15% of the companies have human resources available to monitor compliance with the code in their business units
- 70% of the codes mention the companies' position toward environment and sustainability
- Half of the codes refer towards other policies or guidelines



Code prevalence

- The vast majority of Fortune Global 200 companies have a code: currently 76%.
- When this is compared to our 2008 study, the figure has dropped. This is mainly due to the larger number of Asian companies in the Fortune Global 200 list: only 42% of Asian companies in the Fortune Global 200 have a code.
- Older codes are being updated: 64% of the companies that have had a code for more than three years have updated their codes during the last three years.

Content and drivers

- The three most common drivers of code adoption are:
 1. To create a shared company culture;
 2. To improve staff behaviour;
 3. To protect/improve the corporate reputation.



- These drivers differ from the 2008 study. At that time, the most important driver was to comply with legal requirements.
- The most commonly cited core values are:
 1. Integrity (50%);
 2. Respect (36%);
 3. Honesty (34%);
 4. Responsibility (27%);
 5. Trust (26%).
- Changes in this respect have taken place in comparison to the 2008 survey. At that time, teamwork, innovation and client focus were in the top five, whereas honesty, responsibility and trust were not. The other two values in the top five remained the same.
- Codes are most often directed at employees. Corporate responsibilities to shareholders are discussed in less than one third of the codes.
- More than 75% of the codes discuss the responsibilities of employees regarding confidential information, accuracy of reporting (fraud), protection of corporate property, and dealing with gifts and entertainment. This percentage is rising: in 2008, 70% addressed these issues.
- Most codes contain a combination of principles and rules: 5% of the codes are entirely principle-based, 22% entirely rule-based.
- These findings show a significant contrast with the findings in 2008. At that time, 13% were principle-based, 35% rule-based.

Embedding codes

- On average, US companies have taken more measures to implement their codes than European and Asian companies.
- More than 80% of the companies use e-learning modules to implement their code.
- More than 80% of the companies have an ethics hotline/whistleblower mechanisms.
- More than 80% of the companies have policies to enforce their codes and to investigate violations.
- Less than half of the companies monitor compliance with the code in their business units or have external reporting on compliance.

1. What is a code of conduct?



“A business code is a distinct and formal document containing a set of prescriptions developed by and for a company to guide present and future behavior on multiple issues of at least its managers and employees toward one another, the company, external stakeholders and/or society in general.”¹

Codes of conduct are sets of rules and ethical guidelines intended to outline responsibilities and proper practices within organizations. Many different terms are used to describe such documents and include, among others, the following:

- Code of conduct
- Code of business ethics
- Code of ethics
- Business principles
- Ethical guidelines
- Business code
- Code of practice
- Code of integrity

Throughout this paper the term code of conduct (or simply “code”) will be used to address such documents.

¹ Kaptein, M., Schwartz, M. (2008). “The effectiveness of Business Codes: A Critical Examination of Existing Studies and the Development of an Integrated Research Model”. *Journal of Business Ethics*, Vol. 77(2): 111-127.

2. Prevalence



Currently, 84% of the Swiss Top 50 companies possess a code and made it publicly available on their respective website. Economiesuisse explicitly writes in its “Swiss code of best practice for corporate governance” (2014) that companies should follow recognized best practice rules in compliance management. However, our results show that several listed companies don’t have their own code, and thus don’t comply with the Swiss best practice. Indeed, although companies of different size or with different risk profiles need to take unlike compliance measures, the enactment of a code of conduct belongs to the five basic elements of an effective compliance program according Swiss Holdings and economiesuisse². In addition, the companies selected for the Swiss benchmark correspond to the 50 largest and most liquid stocks in the Swiss equity market, covering together almost 95% of its entire capitalization³. Hence, this benchmark can be used to compare Swiss public companies with global companies, even though the framework used for the content analysis of the Swiss benchmark (see Appendix 2) slightly differs from the one used to assess the Fortune Global 200. But the Swiss benchmark should be generalized with caution with the rest of the Swiss Economy as about 87% of Swiss companies (i.e. mostly not public) are micro-enterprises⁴. In conclusion, the prevalence of a code at Swiss-based companies is lower than for their European counterparts.

² Economiesuisse and Swiss Holdings, „Fundamentals of effective compliance management,” 2014.

³ See <http://www.six-group.com>

⁴ Statistics of period 2010, found on the 25th of November 2014 under <http://www.bfs.admin.ch/bfs/portal/en/index/themen/06/01/pan.html>



Our research into the Fortune Global 200 companies shows that, at present, 76% have their own code. In 2008, 86% of the Fortune Global 200 companies had a code. This decrease can be explained by the relative increase of Asian companies included in the Fortune Global 200 list. Asian companies are less likely to have a code, and the increasing number of Asian companies in the Fortune Global 200 reduces the total percentage. From 2001 to 2014, there has been significant change in the geographical distribution of the companies in the Global 500 rankings, from which the Global 200 is derived. The number of US-based companies reduced from 215 in 2001 to 144 in 2011, whereas the contribution of Asian-based companies increased significantly, from 116 in 2001 to 188 in 2011. The share of European-based companies increased marginally, from 158 in 2001 to 160 in 2011.

However, when comparing the presence of codes per region, we can see an overall increase among US and European companies and a slight decrease among Asian companies. In 2008, all US firms in the Fortune Global 200 had a code, while this applied to only 52% of the Asian companies and 80% of the European companies. In 2014, all US firms still have a code, while the percentage for European companies has increased to 88%, compared to 42% for Asian companies. This indicates that, although the overall percentage declined, the general use of codes in the US and Europe has increased.

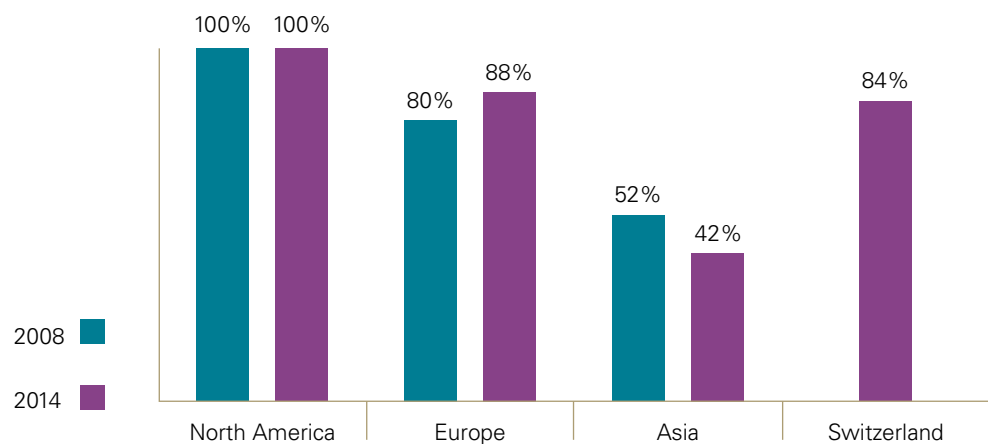


Figure 1: The prevalence of codes by region

3. A view on the Codes of conduct in the Swiss business sector

In this chapter, the main results of the Swiss benchmark are presented according to the analysis framework described in Appendix III. Our analysis framework is divided in several categories of topics.

3.1 General characteristics

The structural elements of a code of conduct as a document are covered in the category of "general characteristics". More than half of the Swiss codes start with a message from the chairman and/or with an introduction. 38% mention the company's values or principles and 26% address their responsibility towards their stakeholders. A third of the companies use examples or clarifications to make their code more understandable. Ranging from 1 to 60 pages, the average Swiss code is 15 pages long.

3.2 Compliance with laws and regulations

In this category the specific references to laws and regulations are included. Almost all of the Swiss codes (86%) include views on "free-market and fair competition (anti-trust)". This makes this one of the best covered topic in Swiss codes. However, not all codes expand upon this topic in much detail. About one quarter of the companies mention the "cooperation with authorized investigations", give information about "tied business dealings" and mention the topic of anti-money laundering. About 40% of the Swiss codes specifically mention compliance with anti-bribery laws, such as the Foreign Corrupt Practices Act (FCPA) or the UK Bribery Act. Although most of the codes mention that employees should comply with the law, only 60% explicitly require their employees to report suspicious activities.

3.3 Protecting company assets

The category of "Protecting company assets" covers topics about how employees should take care of company assets. Most of the Swiss codes mention that employees should take care of company's assets (69%). Some Swiss codes go further by explaining about the proper business use of company assets versus private use (57%) and mentioning respecting the company's property rights (62%).



3.4 Workplace responsibilities and employees conditions

The category of “workplace responsibilities and employee’s conditions” focuses mainly on companies’ treatment of their employees in terms of equal working opportunities, the cultivation of diversity, but also how the employees should interact with each other (e.g. harassment/ bullying) on the work floor. “Healthy and safe work environment” and “discrimination” and “harassment” are the most frequently addressed topics (79% and 74%) in the Swiss codes. “Equal employment opportunity” is addressed by 64% of the Swiss codes. “‘Child labor’ and ‘Forced labor’ are covered in almost half of the Swiss codes (45% and 43%). About a third of the Swiss codes mention ‘freedom of organization’, ‘foster diversity’ and ‘employees’ remuneration’. Only a minority address “alcohol and drugs” (17%) and “working hours” (5%).

3.5 Accuracy of records and reporting

Although more than 50% of the Swiss codes mention in some way “full, fair, accurate, timely, understandable disclosure”, a smaller number write about the “appropriate retention of records” (41%) or other specific areas such as “fair tax reporting” (20%).

3.6 Conflict of interest

A conflict of interest is a situation in which a person or organization is involved in multiple interests (financial, emotional, or otherwise), one of which could possibly corrupt the motivation of the individual or organization. The conflict of interest category covers several more specific matters and more than 90% of the Swiss codes discuss this topic. In addition, some companies address more specific topics in this regard, such as related party business dealings (33%), personal investments (24%), use of company’s reputation and/or resources (19%) and corporate opportunities (26%), personal business dealings (17%), conflict of interest in the procurement process (10%) and employees’ political activity (14%). Concerning outside business activities, the most common way to regulate this issue in a code is a section that encourages employees to disclose any external activities (that can create a conflict of interest).

The codes usually do not prohibit personal investments but rather ask the employees to avoid personal investments’ that can lead to conflicts of interest. Strictly regulating employees’ possibilities of private investments is probably better achieved in employment agreements, as this a more direct way of legally binding employees.

3.7 Improper payments, gifts and entertainment

Almost all of the Swiss companies reviewed take a stand against bribes in their code of conduct, respectively 80% give information on their position about bribery and corruption, and 70% regulate the topics of accepting and giving gifts and entertainment from and to third parties.

By contrast, a more detailed issue such as facilitation payments was only mentioned in 30% of the codes.

Lobbying refers to the company's relation and support to political parties and political settings. Of the Swiss codes 31% mention political support but almost no code contains the specific word "Lobbying".

Transparency International ranks Switzerland as a country with the score highest in the „Bribe Payers Index.“ The Bribe Payers Index evaluates the supply side of corruption – the likelihood of firms from the world's industrialised countries to bribe abroad. This means that it is very uncommon that bribes are being asked in Switzerland. However, the Swiss corporates that operate internationally have to deal with the challenging topic when operating in a very different environment.

3.8 Confidentiality

This category focuses on both internal and external rules for handling of confidential information. When disclosing information to the public, competitors and/or others it is important to have routines for what type of information to distribute and for how confidential information is to be treated.

Although 88% of the Swiss codes mention the topic of confidential information, only 50% of the Swiss codes describe this more elaborately with respect to the privacy of customer as well as the privacy of employee information.

3.9 Investments and Securities trading

Although most of the Swiss codes (79%) address the topic of insider trading in one way or another, only half of them edict rules about personal investment in and trading of company's securities and/or other relevant securities.

3.10 Sustainability

Sustainability refers to how a company interacts with society from an environmental and social perspective. Environment responsibility is one of the most widely debated topics of our time; 69% of the companies recognize environmental responsibility in their code, and many have an additional policy or guideline in that topic. Companies' environmental impact depends on the nature of their business and operations and thus put different demands on their efforts to limit their impact. In contrast, only 38% mention their social responsibility or corporate citizenship in their code. Many companies mention respecting Human rights and the UN Global Compact.

3.11 Reference to at least one detailed policy

In our research we have also looked at how references were made to other policy documents. Some codes provide a structure for a policy framework and have an elaborate referencing to other policies. In half of the Swiss codes, there is a reference to at least one more detailed policy or guideline, such as a specific policy about gifts or communication. This result does not mean that companies don't have more policies, but that they simply don't refer to them in their code. Four Swiss companies stand out by explicitly referring to up to more than five additional policies.

3.12 Compliance with the Code of conduct

Most of the Swiss codes (88%) refer to a whistle blower or a reporting procedure. From the Swiss codes 76% explicitly mention that employees are protected from retaliation if they report a breach of conduct. 57% of the Swiss codes mention an ethic hotline or another anonymous reporting instrument, such as a dedicated e-mail address or phone number. Having a specific and known reporting procedure is therefore for at least 43% of the Swiss companies a possible challenge. Although a strong majority (64%) refer to human resources that are available for ethical guidance. Only 14% of the Swiss codes monitor compliance with the code in their business units.

3.13 Ranking of the Swiss Top 50

We have assessed the Swiss codes of the top 50 Swiss companies as they were published on the websites of the respective companies. Based on our topic review the result is the following top 10 ranking. The Holcim code is scoring the highest number of items, followed by the codes of ABB, Actelion, Clariant, SGS and Roche in the top 5.

①	HOLCIM	44 ITEMS*
②	ABB LTD	41 ITEMS*
③	ACTELION	40 ITEMS*
④	CLARIANT	39 ITEMS*
⑤	SGS	38 ITEMS*
⑥	ROCHE	38 ITEMS*
⑦	SULZER	37 ITEMS*
⑧	ZURICH INS.	36 ITEMS*
⑨	SWISS RE	34 ITEMS*
⑩	UBS	34 ITEMS*

...

⑤0

4. Drivers for having a code

The Fortune Global 200 companies give a wide range of reasons for developing a code. Figure 2 highlights the most common of these. The data revealed that each company with a code identified at least five “important” to “very important” reasons for establishing its code, suggesting the flexibility and broad utility of codes by organisations.

		Not important	Somewhat important	Important	Very important
1.	To create a shared company culture	0%	4%	4%	96%
2.	To protect/improve company reputation	0%	4%	19%	82%
3.	To improve staff behaviour	0%	4%	19%	82%
4.	To comply with legal requirements	4%	4%	19%	78%
5.	To meet stakeholder expectations	7%	4%	19%	74%
6.	To be a socially responsible company	0%	4%	37%	59%
7.	To improve the company's competitive position	4%	26%	33%	41%
8.	To decrease liability in case of misconduct	15%	26%	26%	33%
9.	To prevent additional external regulation	26%	44%	15%	19%

Figure 2: Reasons for having a code

Creating a shared company culture is regarded as the most important reason for implementing a code. 96% of the respondents classified this as a very important reason for having a code, compared to 81% in 2008. This indicates a change in perception in comparison to 2008, when compliance with legal obligations was considered the most important reason (85% in 2008 compared to 78% in 2014). This reflects the increased focus of companies on defining desirable and undesirable behaviour and establishing a working climate that they believe will lead to the best results.



Other highly important drivers are to protect/improve the company reputation and to improve staff behaviour. Lesser reasons for developing a code are to prevent additional external regulation, to decrease liability in the event of misconduct, and to improve the company's competitive position.

The aforementioned drivers for developing and implementing a code are far more intrinsically driven than they were in 2008. A shift from a regulatory-driven motivation toward a motivation driven more by the company values and behaviour is clearly visible. This is also in line with the increased attention of regulators on a company's culture. Whereas the focus has long been on complying with rules and regulations, the focus is now more on how companies have been implementing their codes and how they are improving the company culture. Having a code is seen as a simple necessity and it is now recognised that it is the implementation of this code that can truly make a difference.

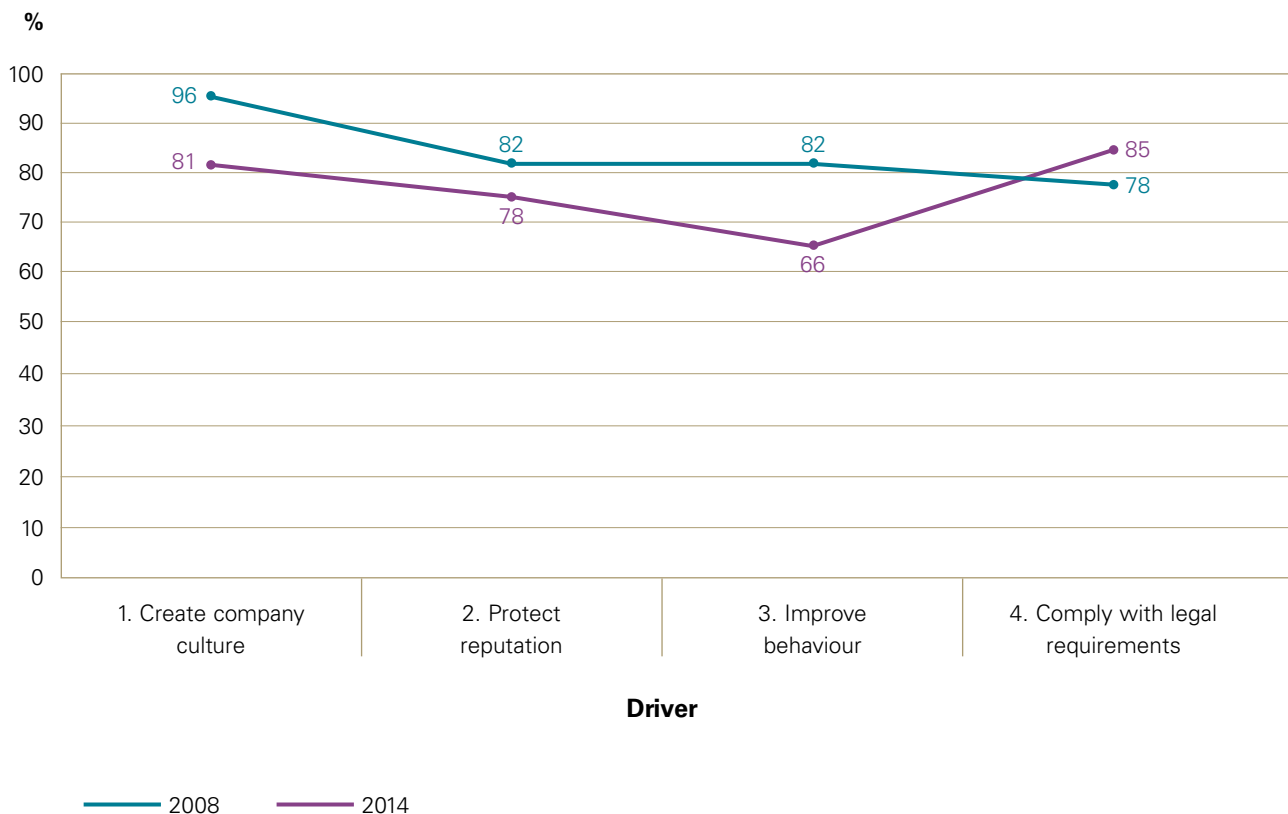
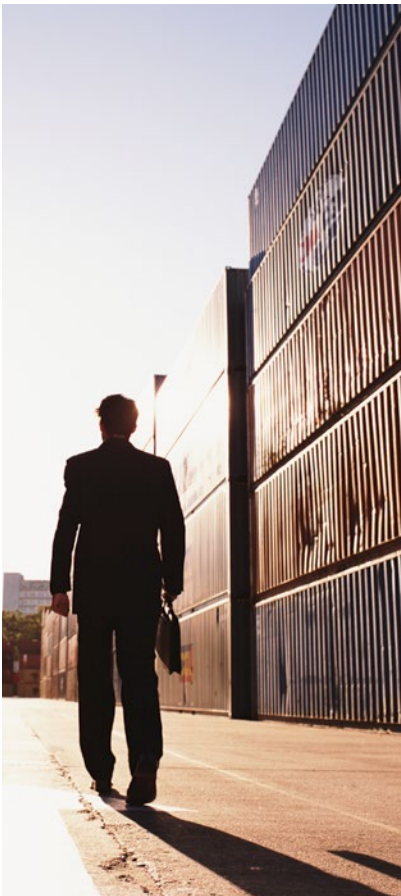


Figure 3: Reasons for having a code 2008-2014

5. Content of the international codes



A code can consist of various layers of information. The structure of these layers can be depicted as a code pyramid consisting of four layers. The lower the layer, the more extensive, detailed and technical the information in the codes usually is. At the top is (1) the mission and vision of the organisation with, directly underneath, (2) the organisation's core values, followed by (3) its responsibilities to the stakeholders. The lowest layer comprises (4) the standards and rules for managers and employees. These code elements are often integrated, together forming the company's ethical backbone. The different layers do not necessarily have to be integrated in one document. Companies sometimes choose to elaborate on one or more layers in separate documents.



Figure 4: Layers of a code

1. Mission and vision

The mission comprises a powerful formulation of the company's strategic objectives and states what the organisation stands for. It is oriented around the question of the organisation's "raison d'être," "purpose" and "Leitmotiv." A vision sets forth how the company views itself, its stakeholders, the internal and external factors affecting its development, and the applicable assumptions.

One fifth of the codes of the Fortune Global 200 companies describe the organisation's mission and/or vision. For example, AXA defines its mission as follows: "The AXA Group's ambition is to become a global leader in its core business, financial protection." Freddie Max expresses its mission as: "to provide liquidity, stability, and affordability to the US housing market."

What is striking is that the more detailed the code, the less frequently it contains a mission statement.

2. Core values

Core values (sometimes also called corporate values) are often derived from the company mission. Core values focus on the intentions of managers and employees. They do not, however, give any concrete indications for behaviour. For example, General Motors identifies integrity, teamwork, and innovation as its core values. Verizon opts for the core values of integrity, respect, performance excellence, and accountability.

43% of the codes of Fortune Global 200 companies describe their core values in their code. A quarter of these companies formulate five or more core values. The most cited values are shown in figure 5.



1.	Integrity	50%
2.	Respect	36%
3.	Honesty	34%
4.	Responsibility	27%
5.	Trust	26%
6.	Customer oriented	22%
7.	Performance	20%
8.	Open communication	18%
9.	Teamwork/cooperation	18%
10.	Innovation	15%

Figure 5: The core values most frequently cited in codes

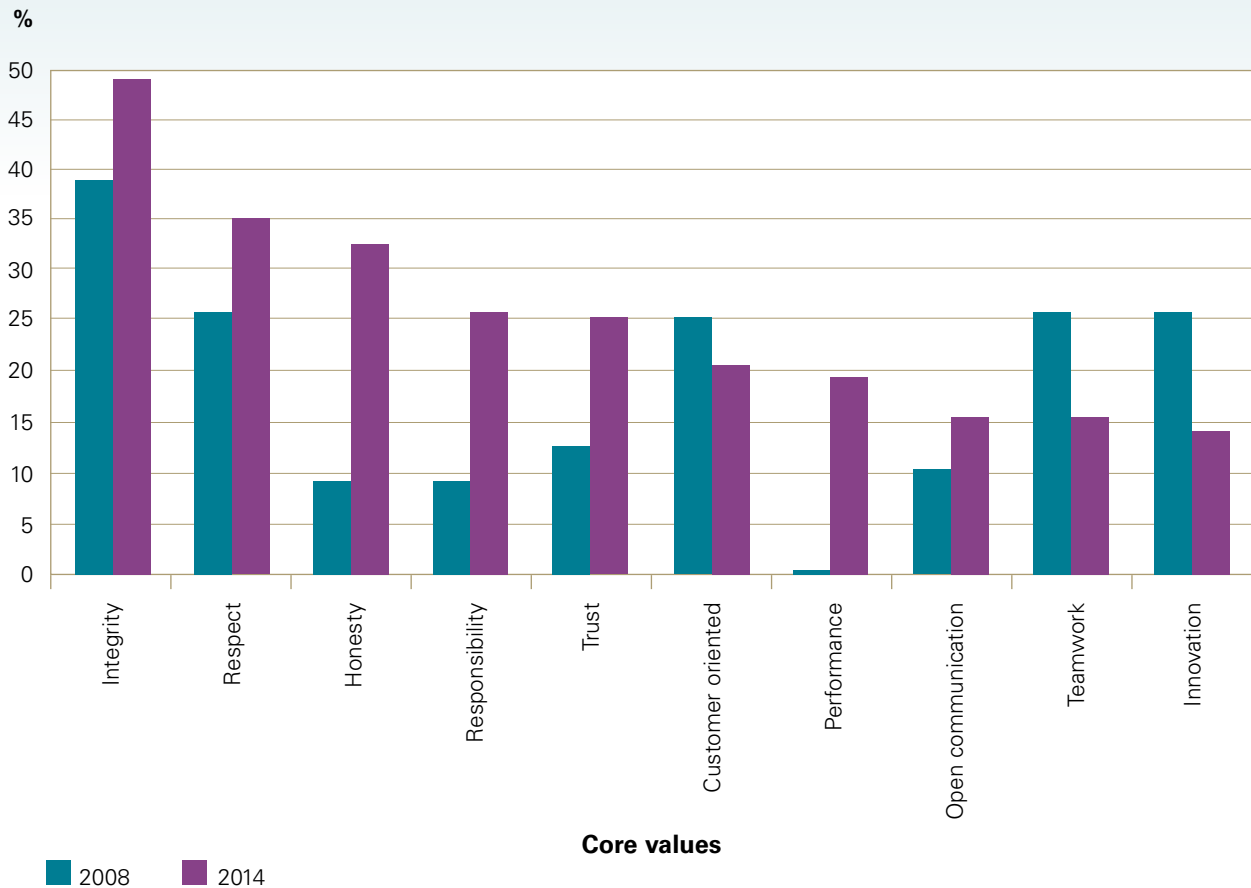


Figure 6: The core values most frequently cited in codes

Integrity is again the most cited core value. The only core value new in the top ten compared to 2008 is performance, with professionalism no longer in the list. However, the ranking of the most common core values has changed slightly. Ethical values (i.e. integrity, respect, honesty and responsibility) rank slightly higher than they did in 2008. Values which are more business driven (i.e. customer oriented, performance, innovation) rank lower than in 2008.

3. Responsibilities to stakeholders

A company's mission and values can be translated into responsibilities which the company believes it has toward its stakeholders. Some codes describe the responsibilities to stakeholders in a single sentence. For example, Philips says that it "wishes to be a responsible partner in society, acting with integrity toward its shareholders, customers, employees, suppliers and business partners, competitors, governments and their agencies, and others who can be affected by its activities."



However, responsibilities are often described uniquely for different stakeholders:

- Toward customers: For example Cardinal Health describes its responsibilities toward its customers as: "Our interactions with customers should focus on developing mutually beneficial business relationships so our customers can focus on their patients";
- Toward shareholders: For example Shell defines its responsibilities toward its shareholders as: "To protect shareholders' investment, and provide a long-term return competitive with those of other leading companies in the industry";
- Toward competitors: For example Daimler defines its responsibilities toward its competitors as: "Competition motivates and inspires excellence. Our goal is to do the best business with the best products in a decent manner. Accordingly, we treat our competitors fairly and cooperate with our business partners and customers respectfully and in a spirit of trust. These common principles form the basis for these relationships and are meant to guide our business transactions";
- Toward the environment: For example Total describes its responsibilities regarding the environment as: "Total is actively involved in environmental stewardship as part of its clear-cut commitment to sustainable development";
- Toward employees: Volkswagen expresses its responsibility for its employees explicitly: "We create an environment which provides personal and professional prospects for our employees, in which exceptional performance and results can be achieved and which promotes employability of our employees. We invest in the skills and competence of our employees";
- Toward society: Samsung states in its code: "We sincerely execute our basic responsibilities as a corporate citizen. Employees are encouraged to endeavour to build trust within the local community by fulfilling their duties and responsibilities".

Figure 7 depicts the orientation of codes toward various stakeholders. In almost all codes, the descriptions of the company's responsibilities toward its employees exceed one paragraph. This may be explained by the fact that employees are also the main addressees and representatives of the codes and are seen as the company's main asset. Figure 8 depicts the specific responsibilities companies cite as having to their employees. Compared to 2008, the responsibilities toward society increased in importance from position 6 (61%) to position 2. This can partly be explained by the credit and financial crisis, after which companies were blamed for neglecting their responsibilities to society at large. Many companies have taken this into account and have described their responsibilities toward society more prominently and in more depth in their (updated) codes.

		Brief (1 sentence)	Average (1 paragraph)	Elaborate (more than 1 paragraph)	Total
1.	Employees	1%	6%	88%	95%
2.	Society	6%	33%	40%	79%
3.	Natural environment	5%	41%	24%	70%
4.	Competitors	3%	38%	12%	53%
5.	Customers/consumers	6%	25%	21%	52%
6.	Government	3%	21%	16%	40%
7.	Business partners	4%	25%	8%	37%
8.	Shareholders	3%	16%	12%	31%

Figure 7: Responsibilities toward stakeholders

	Brief (1 sentence)	Average (1 paragraph)	Elaborate (more than 1 paragraph)	Total
Equality	18%	45%	22%	85%
Safe working conditions	23%	41%	16%	80%
Dignity/respect	38%	19%	0%	57%
Personal development of employees	12%	9%	0%	21%
Involving employees in decision-making	1%	4%	3%	8%
Good compensation	1%	2%	3%	6%
Privacy of employees	1%	2%	3%	6%
Stable and secure job opportunities	5%	1%	0%	6%

Figure 8: Specific responsibilities toward employees



4. Standards and rules

The fourth layer of company codes consists of the standards and rules for employees and is therefore frequently the most extensive and elaborate section. Standards provide guidelines to managers and staff on how they should act in situations where clear-cut rules are impossible or undesirable. Often, standards are presented in codes as rules. Rules indicate more or less exactly what is and is not possible and acceptable. Rules of thumb are where standards and rules meet.

The most common issues that standards and rules apply to are summarised in figure 9. The most frequently addressed issue in this respect is confidential or secret information (93%). In general the most common issues do not differ significantly from 2008.

		Brief (1 sentence)	Average (1 paragraph)	Elaborate (more than 1 paragraph)	Total
1.	Dealing with confidential or secret information	6%	42%	45%	93%
2.	Corruption and bribery	14%	43%	34%	91%
3.	Accuracy of reporting (fraud)	11%	42%	37%	90%
4.	Protecting the organisation's assets	8%	45%	37%	90%
5.	Accepting gifts	14%	36%	34%	84%
6.	Side-line activities (conflict of interest)	14%	42%	27%	83%
7.	Offering gifts	16%	33%	26%	75%
8.	Contacts with the media	9%	20%	3%	32%
9.	Use of company time	8%	3%	0%	11%

Figure 9: Staff responsibilities

6. Two types of code

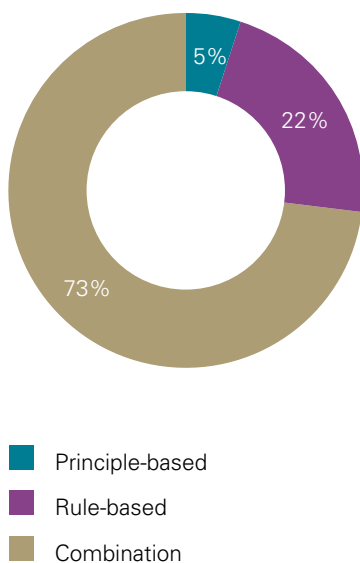


Figure 10: Types of Global 200

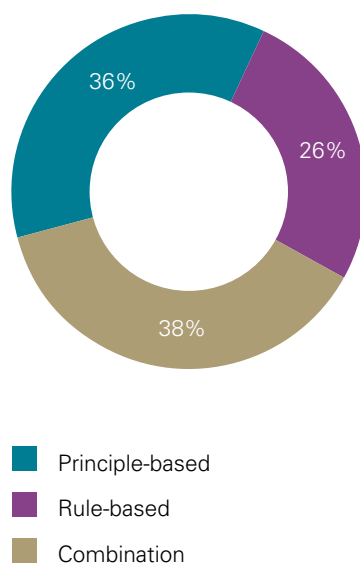


Figure 11: Types of Swiss Codes

Two approaches can be identified regarding whether or not to include concrete standards and rules in codes: 22% of the companies responding to our survey believe that a good code minimally contains standards and rules. However, 44% completely disagreed. Another 24% were neutral. The opinions also greatly differed regarding the extent to which a code should give employees the freedom to follow their own ethical judgment: 33% agreed and 46% disagreed.

These views appear to impact the content of codes. 5% of the codes we studied were entirely principle-based: they set out abstract expectations such as the mission, values and/or responsibilities toward stakeholders. 22% of the codes were wholly rule-based. These codes mainly contain detailed standards and rules. Almost three-quarters of the codes (73%) were a mix of general principles and detailed standards and rules. When compared to the results we found in 2008, this number has changed drastically. Six years ago, 13% of all codes were principle-based, 35% were rule-based and 52% a mix. This shows a tendency toward a more mixed version of codes.

In this respect the Swiss codes show a different distribution. Swiss codes tend to be very different in form. The percentage of principle based codes is much higher than their global counterparts. The proportion of mixed-codes is 38%, the principle-based codes 36% and rule-based codes (26%).

This can be explained by two contrasting developments. Firstly, over the last few years, there has been a significant increase in legislation and enforcement which requires companies to set stringent rules regarding certain legislative areas such as export controls, bribery and sanctions. Legal requirements do not allow for much freedom of interpretation. As a consequence, for example, codes often include monetary thresholds for accepting gifts and exact rules on exporting goods to sanctioned countries. Secondly, however, employees seem to be being seen more as autonomous professionals who are able to make their own decisions within the given guidelines, with companies relying more on the sound judgment of their employees and empowering them to make the right decision.

Rule-based codes are almost always significantly more detailed than principle-based ones and, on average, are four times as lengthy. They are usually written in the second or third person singular ("you should, he/she is to"), are more commanding, predominantly prescriptive, and more legalistic. They are primarily for internal use. More US companies have such codes than companies based in other continents, which reflects the legal orientation that still drives the development of many US codes.

Principle-based codes are more generalised and abstract. They usually consist of a couple of pages at most. They are often written in the first person plural, are more positively formulated, prescriptive as well as descriptive ("the way we do things"), and are more intrinsically driven. They are not only for internal use but also to be distributed to external stakeholders. Comparatively, more European companies have such codes than US-based and Asian-based companies. The effectiveness of either type of code depends on many factors. A rule-based code creates clarity and uniformity, while a principle-based one is more accessible and flexible. As presented above, a growing number of companies use both types. Rule-based codes increasingly include the corporate mission, values, and responsibilities to stakeholders, so that staff can better understand what the norms and rules are based on. Principle-based codes are increasingly being extended to include standards and rules to make them more concrete.



7. Differences in content and type of code between geographic regions and business sectors



1 Differences between regions

Based on our research into the content of company codes, there is evidence of differences between companies from different regions, as follows:

- **The preference for a specific style of code seems to relate to the region of origin of the company**

Our research shows differences in type of code based on origin of the company. Asian and US companies which tend to use a rule-based code, while companies that are originally European more frequently adopt a principle-based code. This suggests a difference in attitude: European codes often offer employees more space for their own interpretation and assessment of rules and standards, while Asian and US codes are more rigid. Swiss codes seem to be even more principle based.

- **Chinese companies mention stakeholders to a much lesser degree**

Companies originating from China tend to formulate their codes solely in terms of the rules that employees must adhere to. This means that, in these codes, stakeholders such as society, the natural environment and shareholders are given very limited attention or no attention at all.

- **European companies tend to describe more the responsibilities of the company toward employees**

Where US and Asian companies primarily focus on the responsibilities of employees toward their company, European companies also pay a lot of attention to the responsibilities that the company has toward its employees, such as guaranteeing a balance between work and private life, involving them in decision-making etc.

- **Although not all companies detail the company's responsibilities to its employees, equality and discrimination are almost always mentioned**

Where European companies tend to describe more the responsibilities of the company toward their employees, US and Asian companies attach to a certain extent also some value to the right of equality and non-discrimination. This is without a doubt true for US and European

companies but less so for Asian companies, which is mainly due to the focus of Asian codes on the rules that employees must adhere to rather than having a broader view.

- **US companies often mention politics or the government as stakeholders, whereas European and Asian companies do not**

Companies originating from the US are more likely to mention politics or the government as a party that must be taken into account while doing business. Such statements have to a much lesser degree been found in codes from European or Asian companies.

2 Differences in content between business sectors

- **There are no significant differences regarding the mention of society and the natural environment between the various business sectors**

Although it seemed likely that certain business sectors would pay more attention to society (such as the healthcare industry) because of their highly social profile, or to the natural environment (such as vehicles & transport and the oil, gas & energy industry) because of the high impact of their business activities on the environment, we found no significant differences. Whether or not these topics are mentioned in fact primarily relates to region of origin and not the sector.

- **Customers are more often mentioned by certain business sectors**

The household items & groceries, healthcare and electronics sectors focus more on their responsibilities toward customers than the other business sectors distinguished in this research. This can be explained by the relatively close contact that companies in these sectors have with their clients, compared to sectors such as energy or technical services.

- **Responsibilities toward suppliers are more often mentioned by certain business sectors**

The close relationships between companies in the household items & groceries, healthcare and electronics sectors and their customers also seems to influence their relationships with suppliers. Companies in these sectors describe their responsibilities toward suppliers more extensively than companies from other sectors.

- **Politics is mentioned significantly more by companies from the healthcare sector**

Companies in the healthcare sector pay significantly more attention to politics in their codes than companies from other sectors. This might be due to the extensive rules and regulations this sector has to deal with.

- **There are no differences between sectors with regard to human rights**

Before conducting our research, we believed it would be logical to find differences in the frequency that human rights are mentioned in company codes between sectors. For example, companies in the oil, gas & energy sector perform a lot of their activities in less-developed countries where human rights are not always respected. It seemed likely that they would put more emphasis on their role in protecting human rights. No such differences were identified however.

8. Implementing the code of conduct

Having a code is only the beginning. A code can be an extremely effective tool to achieve numerous business goals, thus once a code is adopted, it makes sense to put it to use. Additionally, many leading companies seek to have a “living” document that guides the behaviour of their managers and staff. To achieve these benefits, it is important for the code to be effectively embedded throughout the organisation.

The means of implementation can be divided into four clusters:

1. Communication
2. Training;
3. HR measures;
4. Other policy measures;
5. Monitoring, auditing, and reporting.

1. Communication

85% of the Fortune Global 200 companies we surveyed have issued their code to more than 95% of their personnel. Some of the ways in which codes are brought to people's attention are:

- By including the code in letters or e-mails;
- By setting up a separate intranet site;
- By including a section on the code in the in-house magazine;
- By making copies of the code available at busy locations in the organisation (such as the reception, waiting rooms, and meeting rooms);
- By organising special information events;
- By printing different passages from the code on posters;
- By developing interactive instruments such as digital/online games and dilemma applications for smart phones.



12.1 Dilemma application on smartphone

12.2 The so called “KPMG cards on the table game” to discuss dilemmas



Figure 12: Some communication and training instruments offered by KPMG (illustrations 1 and 2)

2. Training

Training courses on the code are a much-used resource. At 90% of the companies, at least three-quarters of the managers had attended a classroom training session during the past three years. At 63% of the companies, more than three-quarters of the employees had undergone face-to-face or e-learning training during the past three years. Compared to 2008, these numbers have increased significantly: at that time, 74% and 56% respectively had undergone the aforementioned training.

Some of the purposes of such training programmes are:

- To provide insight into the importance of the code;
- To incorporate the code into people's personal behaviour;
- To identify and deal with dilemmas;
- To provide instruments and teach staff to use them in order to implement the code more effectively.

Good ethics and compliance trainings have the following characteristics:

1. Combining knowledge, skills and motivation

The cornerstone of a successful learning methodology is finding the right combination between knowledge, skills and motivation. The participants should not only gain knowledge but also train their skills on using that knowledge in day-to-day business and also be motivated to do so.

2. Training as a profession

The adequate provision of training differs completely from simply presenting information. A trainer must be able to truly reach the participants with his or her message. Ethics and compliance topics require trainers that know the content very well and combine this with the practical use for the participants.

3. Inspiring

Ethics and compliance are often perceived as difficult issues to tackle. Participants often have not enjoyed compliance trainings because they were only informed about the rules. Training material and examples need to relate to the daily business practice and strike a balance between being not too easy and not too abstract.

4. Interactive examples

People learn best by examples. Participants will therefore get the most out of ethics and compliance training if they have to solve real-life cases for themselves rather than being provided with answers.

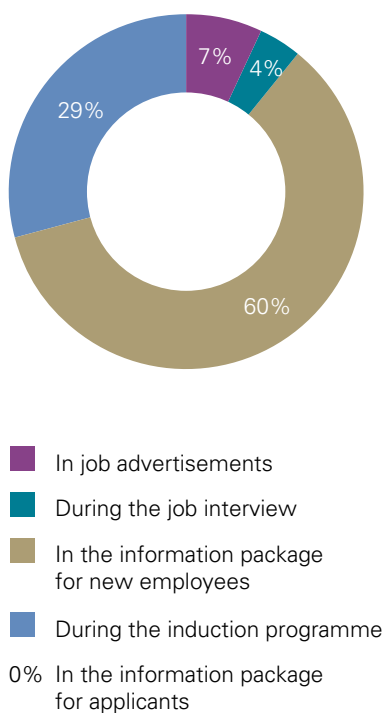


Figure 13: The use of codes toward new employees

6. Part of a process

A training course on the code of conduct intends to contribute to increasing the awareness of the ethics and compliance principles of the organisation. This can't be a one time effort. It should ideally be embedded in a broader trainings context.

3. HR Measures

The code is frequently assigned a prominent place in a company's HR measures, taking on a range of forms.

1. Applicants

The company can inform new employees about the code in a variety of ways. Only at 4% of the companies surveyed was the code referred to during job interviews but, at 8% of the companies, the code was referred to in job advertisements. Background checks of future managers and employees are carried out by 56% and 44% of the companies respectively. None of the companies surveyed includes the code in applicants' information packages but, at 60% of the companies, the code is part of the employment contract and as such part of the information package new hires receive. At 29% of the companies, the code is referred to during the induction programme for new employees. Compared to 2008, these numbers have not changed significantly. What is striking is that only 29% of the companies refer to the code during their induction programmes, while these programmes are the ideal forum for familiarising new employees with the code.

2. Sign-off

Managers are required to acknowledge their receipt of the code at 56% of the companies, while employees must acknowledge this in one-third of the cases. These numbers have diminished since 2008. In 2008, 65% of the companies had their managers acknowledge receipt of the code and in half of the cases employees had to acknowledge receipt of the code. While in some jurisdictions there are legal reasons for "signing off", there are also many companies (mainly European) which are of the opinion that signing-off does not add any value to the implementation of the code and even stimulates a "tick the box" mentality.

Signing-off takes place in various ways. The differences have to do with:

- Timing: personnel may acknowledge receipt of the code upon joining the company, once only (when first received) or periodically (as a rule annually) or as an integrated part of their employment contract;
- Role: all staff or only managers (of a certain level) and/or employees in positions where they may be more exposed to irregularities;

- Purpose: for receipt, as read, as approved, for retrospective compliance, or for prospective compliance;
- Scope: only relating to the individual or also to the persons managed.

3. Performance and assessment criteria

A code provides criteria for the assessment of managers and employees. At 44% of the companies, the code is a feature of the performance interview. At 30%, the remuneration and promotion criteria are directly related to compliance with the code. Since codes often include abstract criteria for desired behaviour it is necessary to translate these into concrete competencies. For example, companies that have included teamwork as a value in their code can develop key performance indicators that measure the teamwork showed by the employee. To steer and improve staff behaviour, the key performance indicators and (leadership) competencies should be aligned with the code and core values.

4. Sanctions/disciplinary policy

There are obligations attached to the code. 40% of our respondents believe that a sound indicator of the effectiveness of a code is whether people who violate it are dismissed. However, 21% totally disagreed with this view. In any event, it is important that the organisation has an effective and fair sanctions policy which describes the steps leading to a sanction being imposed and the penalty per type of violation. Threequarters of the companies (76%) have a sanctions policy, which is a significant increase on 2008 (55%). Transparency regarding the possible sanctions and enforcing the code subsequently are important measures for steering the behaviour of employees. If employees have the feeling (either perceived or based on facts) that their code is not (effectively) enforced, they will be less willing to adhere to the code than they would be if the code was visibly enforced effectively. There is an increase in companies which (externally) report on the number of violations of their code, such as in their annual report and/or sustainability report. Companies also internally communicate (anonymously) on these violations and the disciplinary measure that was enforced.

4. Other policy measures

Besides the communication and personnel policy, measures and activities can also be implemented in numerous other areas in order to anchor the code effectively in the organisation. The following are five such measures.





1. Risk analysis

Many firms are encouraged by law to take a risk-centred approach to their compliance and ethics programmes and to take adequate measures, including code development, to mitigate risks. This entails applying strategic risk analysis to generate insights into the organisation's most significant risks, and shaping the code and compliance and ethics programmes around those risks. After all, different risks apply to a company in the construction industry than to a pharmaceutical company. The code should address the topics that cover the prioritised risks. Strategic risk analysis can also be used to assess, on a periodic basis, whether the code is still focused on the firm's most important risks. Two-thirds of the companies (68%) carry out such an analysis on a periodic basis. This number was 56% in 2008. Companies which have had their code in place for several years can use the results of risk analysis to verify whether the code still reflects the risks that the company is currently facing. The same applies to the dilemmas that are documented during dilemma workshops. The topics around the dilemmas that are raised most frequently should probably be addressed in the code.

2. Decisions checklist

Decisions checklists are a useful way to include the code in companies' everyday business decisions. Half of the companies (49%) use a checklist in their operations. These checklists can be used to incorporate the code by adding a question to the checklist as to whether the proposed decision complies with the code. These kinds of checklist are also used in boardrooms to verify whether a board decision is in line with the code.

3. Screening of business partners

Similar to the process for members of staff, external stakeholders can also be screened by reference to the code. More and more companies are seeking to push their codes out to their agents and suppliers, to find out, for example, whether supply chains involve any child labour or corruption. Companies are seeking business partners that observe the same ethical standards as they apply. The code can be a useful tool in this respect because it can establish clear standards of behaviour. Moreover, including a code in contracts with external business partners allows for screening regarding compliance with the code as a part of the contract provisions and also allows for termination of the contract in case of violation of the code. Many companies include a termination clause in contracts addressing breaches of the code. At 40% of the companies surveyed, stakeholders are screened against the code.



4. Whistleblower mechanisms and protections

Questions relating to difficult situations and signals relating to violations of the code should, first and foremost, be dealt with by direct line managers. However, this is not always enough. Employees can face barriers when it comes to raising certain issues, particularly if these are of a structural nature or if their manager is part of the problem. Particularly in the case of larger companies, the establishment of a safety net is important in this respect, often legally desirable and perhaps even obligatory (e.g. required under SOX legislation and several corporate governance codes). 89% of the companies with a code have, as a last resort, a confidential and/or anonymous hotline or ethics channel that employees can use to report misconduct or seek advice. These channels for raising concerns can either be provided by an external hotline provider or internally via, for example, the compliance office. Often a whistleblower and/or complaints procedure is desirable in order to set out the rules relating to the reporting and processing of alleged violations. The channel available for raising concerns is often mentioned in the company's code. An investigation protocol, which is also in place in 90% of the companies, describes who carries out which investigation and when, and which procedures are to be complied with.

The number of companies which do have a channel for raising concerns has increased in the past six years due to legal requirements but also due to the fact that companies want to have insights into all (imminent) breaches and want to avoid their employees having to report infringements externally.

5. Ethics committee, office and officers

Slightly more than one-third of the Fortune Global 200 companies surveyed have an ethics committee which meets regularly to discuss current issues and any queries that may have arisen. Employees can, for example, submit ethical questions, dilemmas, and suggestions to this committee of internal and/or external experts. Since more and more companies are introducing (partly) principle-based codes, more guidance on dilemmas (conflicting values) might be required.

An ethics office is often an internal body that carries out a wide range of activities designed to stimulate compliance with the code and monitor compliance with the code. The committee often consists of various representatives (heads) of departments within the organization (e.g. HR, Internal Audit, Compliance and Legal) ranging from 5 to 13 people. Many companies also have one or more compliance or ethics officers (sometimes called ombudspersons), who can be approached to address dilemmas and questions regarding the code.

5. Monitoring, auditing and reporting

To ensure that specific attention is paid to raising the level of compliance with the code, it is advisable to include the code in the regular planning and control cycle. This is partly because supervisory bodies are paying more and more attention to the degree to which codes are being implemented, and partly because it makes sense from a business perspective in order to reap the full benefit of adopting a code. The code can serve as a basis for internal accountability (from employees to managers, from managers to the executive directors, and from the executive directors to the supervisory board) and for external accountability (to shareholders, other stakeholders and society in general). The frequency of such reporting can range from monthly to once every two or three years and can be by business unit or the company as a whole. The results can be checked by the company's own auditors and/or a third party.

At 85% of the companies, compliance with the code is reported on periodically. In 44% of cases, monitoring and reporting is even arranged for each business unit. The board of directors is informed of violations of the code on a monthly basis at 7% of the companies, 44% are informed each quarter, and 25% only annually. Reporting can range from the number and nature of measures taken to implement the code to reporting on the number of violations of the code and subsequent disciplinary measures taken.

The effectiveness of the code can also be monitored in many different forms. Questions regarding familiarity with the code can be included in employee engagement surveys which makes it possible to monitor the awareness among employees. Other examples of monitoring the effectiveness of the code are performing root cause analysis of significant incidents and losses in order to identify whether the code was breached and monitoring the attendance at training sessions regarding the code.²

⁵ See the book: Muel Kaptein, *The Living Code, Embedding Ethics into the Corporate DNA*, Sheffield: Greenleaf 2008, for more suggestions on how to monitor the effectiveness of codes.

9. Four phases of implementation

Complete overview

Figure 13 shows an overview of the measures the Fortune Global 200 companies have taken to implement their code. Codes are implemented in various ways. While most companies nowadays have hotlines and whistleblower procedures (the circle furthest to the left), background investigations on prospective employees and the formal inclusion of the code in decision-making procedures are common practice in less than half of the companies (the circle farthest to the right).

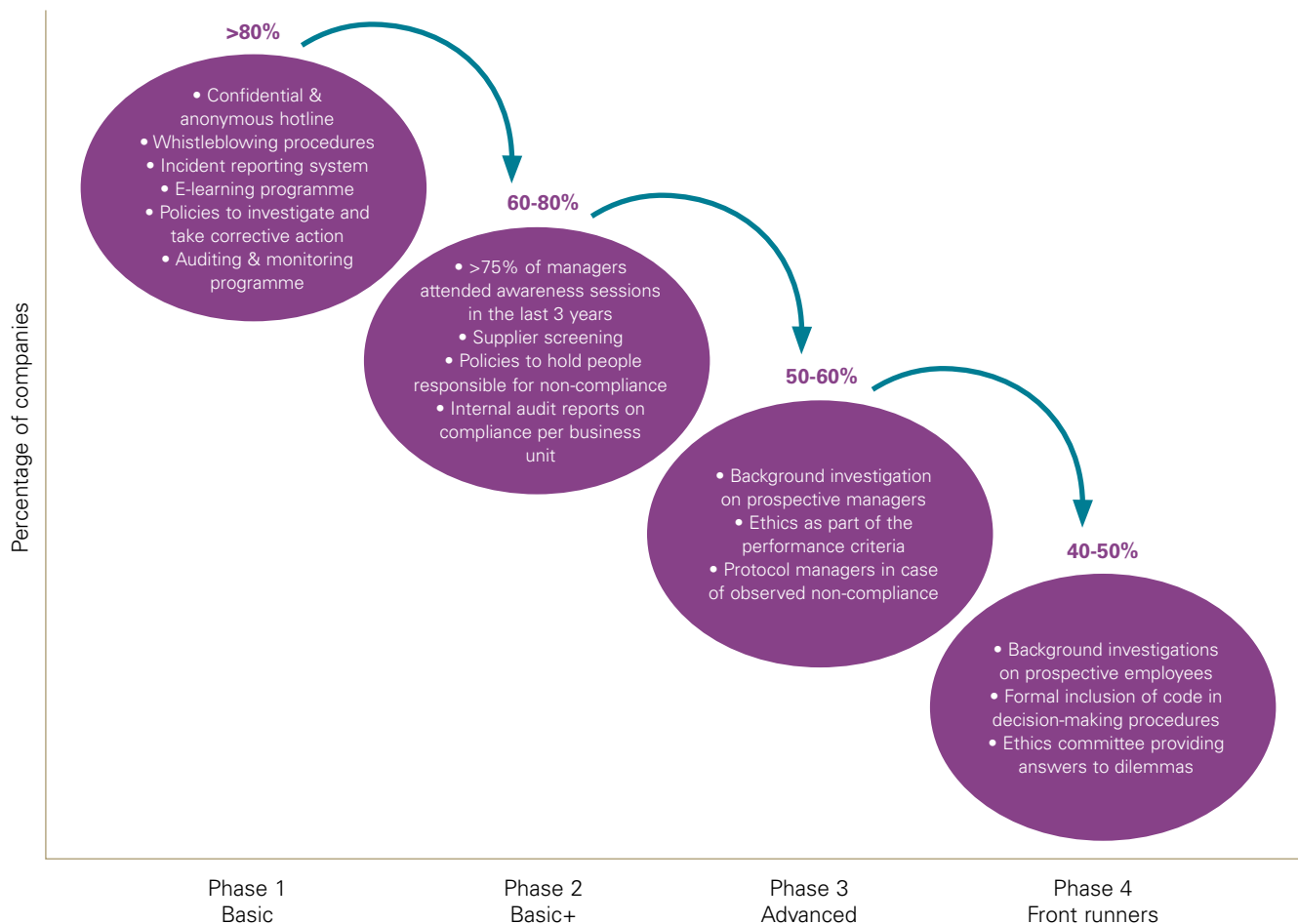


Figure 14: Overview of code-enhancing measures at Fortune Global 200 companies

On average, US companies have taken more measures to implement their codes compared to their European counterparts, while Asian companies have taken the fewest measures.

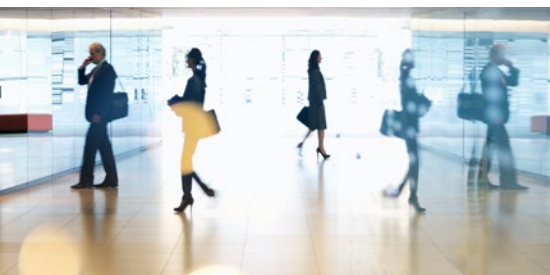
Based on the data received, four phases can be distinguished in the way businesses approach code implementation. These range from the instruments in:

- Phase 1, the basic programme, applied by more than 80% of the companies;
- Phase 2, the basic + programme, applied by 60% to 80% of the companies;
- Phase 3, the advanced programme, applied by 50% to 60% of the companies;
- Phase 4, the front-runners programme, applied by 40% to 50% of the companies.


A pattern can be discerned in code and implementation programme development. Phase 1 contains the instruments that are mostly associated with the implementation of a code: having a confidential and anonymous hotline and whistleblowing procedures, using an incident reporting system, providing employees with e-learning programmes, and having clear policies to investigate and take corrective action in case of misconduct. When these results are compared to those of 2008, there are no major differences. This indicates that these measures really are the most basic ones that companies implement.

Fewer firms engage in all of the practices described in phase 4: these firms tend to be the front-runners. Front-runners have integrated their codes into the strategic decision-making process and not only prospective managers but every prospective employee is screened (and recruited) against the code. In addition, there is an ethics committee that provides answers to dilemmas regarding the content of the code.

With respect to these front-runners, we found different results from those in 2008. In 2008, only 40%-50% of all companies used the code in major decision-making procedures, had their internal audit departments reporting on compliance per business unit and used performance evaluation criteria. These measures have now been adopted by a higher percentage of companies. This means there is evidence that companies are taking more measures to implement their codes.



10. Conclusions



Based on our research into the prevalence, content, and embedding of codes among Fortune Global 200 companies, and the Swiss code of conduct benchmark 2015, we can draw the following conclusions:

1. Not all of the Swiss Top 50 companies have a published a code of conduct

From the 50 biggest listed companies in Switzerland 42 have a code of conduct published on their website. Eight companies don't have a published code of conduct, and therefore do not act in line with which is considered by Economiesuisse as best practice. Indeed, although companies of different size or with different risk profiles need to take unlike compliance measures, the enactment of a code of conduct belongs to the five basic elements of an effective compliance program according Swiss Holdings and economiesuisse .

2. Swiss codes are short and principle based

The Swiss codes tend to be short and written in a principle based style. The topics are often mentioned but not elaborately described. The most common topics in Swiss codes are:

- Conflict of interest
- Fair and free markets/anti-competition
- Protecting company assets
- Workplace responsibilities
- Bribery
- Confidentiality of information
- Insider trading
- Whistleblowing

3. The presence of codes per world region is increasing: the focus now is on effective implementation

Although the overall percentage of Global 200 companies with a code has decreased, this is due to the fact that more Asian companies are now in the Global 200.

4. The content of codes differs more and more: the search is now for authentic codes

The size and content of codes differ greatly and the trend is for companies to develop a code that is tailored to their own situation, linking it to the organisation's strategy, identity, and average dilemmas. In Switzerland the average code comprises 15 pages, the range of pages differ from 1 to 60. Particularly those companies that, in recent years, developed a code too rapidly are expected to focus more on what should make their code unique when updating it.

5. There is a shift from external to more intrinsic motivations for having a code: the main aim now is to create a shared company culture

Comparing the results from 2008 to the results in 2014, we can see that the reasons that companies give for having a code have changed. Where earlier these reasons were more directed at complying with rules and regulations and the reputation of the company, today it seems that intrinsic values play a larger role. In 2014, the most important reason for having a code is to establish and foster the right company culture.

6. Most codes are a combination of rule and principle-based: companies want the best of both worlds

The most common structure of a code is that first the company mission and corresponding values are explained, after which these are translated into more specific rules and guidelines. This makes the codes a mix between principles and rules. A trend is visible of companies combining a principle-based code with a more rule-based part regarding specific topics. This might be due to increasing legal requirements that require stricter rules for certain areas, coupled with a tendency to provide more freedom to employees to make their own decisions. The more principle based codes are especially found among European companies while US and Asian companies tend to have more rule-based codes. In this respect the Swiss codes show a different distribution. Swiss codes tend to be very different in form. The percentage of principle based codes is in Swiss companies much higher than their global counterparts.



7. A multitude of measures for implementing the code is visible: keeping the code alive is more than just drafting a code

The research shows that codes are being implemented in various ways. Code training by means of classroom meetings and web-based modules are common in many companies. More companies are taking structural measures to stimulate compliance with the code. A lot of companies have implemented ethics hotlines and channels for raising concerns, with accompanying response procedures. In contrast to this results, only 57% of the Swiss codes mention an Ethics Hotline or another anonymous reporting instrument.

It is still not common that stakeholders are screened against the code or that the code is included in the new employee selection process, assessment criteria, and important investment decisions.

The key is to prevent the code from gradually fading into the background. Companies with a “living” code are better able to anchor it in the hearts and minds of their personnel.

8. There is increasing activity in the assessment of the code's effectiveness: internal monitoring per aspect and complete external reporting

In contrary to the Swiss listed companies, most global 200 companies do monitor, to a certain degree, compliance with the code. At the same time, this monitoring varies greatly. Periodic monitoring of each aspect is performed by fewer than half of the companies. Many companies still struggle with the question of how to measure the effectiveness of the code and how it can be included in the regular planning and control cycle. The involvement of internal audit departments in the monitoring of code implementation and compliance is growing. Third parties such as regulators and shareholders will increasingly demand that organisations demonstrate that their code is a living document.

9. There are large differences in the topics covered by the code stemming from companies' origin: the origin of a company effects the content and type of the code

There are clear differences in the inclusion of certain topics and the addressing of responsibilities to stakeholders by companies from various countries. It also turns out that the different regions have different preferences for the style of their codes.

10. There are only a few differences in topics covered by the code stemming from companies' business sectors: the type of business does not play an important role in the content of the code

There are only a few differences between the codes of companies from the various business sectors. It is not only the country of origin but also, to a lesser extent, the type of business that influences the content of a company's code. However, the origin is far more important than the specific sector the company is operating in.



11. Recommendations



Below are our recommendations on how the issues described in this whitepaper can be handled.

Creating an authentic code

To create an authentic code, companies should consider the following:

- Take the company's mission and ambitions as a starting point and derive the content of the code from them;
- Collect input from employees and internal and external stakeholders to identify the desired culture which should be reflected in the code;
- Assess the current risks and challenges that management and employees are facing in the business process. Dilemmas form the building blocks of a good code. Analyse those dilemmas in terms of the conflicts they cause and determine what the code should include to resolve these dilemmas;
- Pay attention to issues that are specific to the business sector that the company is involved in;
- Be aware of cultural bias in the code, stemming from the national culture;
- Try to include issues for which there is no clear cut answer yet;
- Ask stakeholders what they expect from the company in terms of mission, responsibilities, values, norms, and rules;
- Ask internally and externally what makes or ought to make the company unique and how it can distinguish itself from other companies in the sector;
- Circulate new drafts of the code and ask people inside and outside the company to come up with suggestions for improvement;
- Select one or more issues for which the company can present innovative viewpoints;
- Determine relevant social trends and developments and reflect their impact in the code;
- Identify future legislation, challenges and issues that can be included in the current code;
- Discuss with senior management to what extent the code describes the company that they want it to be.

Keeping the code alive

To keep their codes alive, companies should:

- Pay periodical attention to the code in meetings, speeches, training etc.;
- Assess at least once every three years whether the code still reflects the current situation and issues, or whether the code should be updated;
- Create a corporate culture in which ethical dilemmas around the content of the code can be raised without fear of repercussions and discussed productively;
- Be aware of the cultural differences between various branches of the company and address them in the code;
- Make the code part of the competencies of managers as well as of their coaching, development, and review process;
- Search for creative, original, and unexpected means of communicating the code, for example by using applications on smartphones and the use of serious gaming. Infuse people with pride, energy and awareness to fully commit themselves to the code;
- Include the code in performance appraisal reviews. Ask staff about their experience with the code and evaluate them on compliance with it;
- Include the code in strategic dialogues with stakeholders. Discuss the code and ask them to give their perceptions and suggestions on how its practical application can be improved.

Monitoring the effectiveness of the code

To monitor the effectiveness of their codes, companies should:

- Assess the corporate ethical climate or culture periodically (for example, using a tailored code survey among staff);
- Monitor not only on compliance with the code per unit, but also include it in the business planning cycle. Set targets on what to improve;
- Assess the effectiveness of supporting measures and instruments (e.g. awareness around the whistleblower channel and transparency of enforcement actions);
- Ask staff about their experience with the code and the room they see for improvement;
- Determine what follow-up activities have been undertaken after implementation of the code;
- Analyse the reports of violations of the code for recurring problems and opportunities for improvement;
- Request the ethical office to report on its activities and experience;
- Perform code-based risk assessments on a periodic basis;
- Include the code in root cause analysis of incidents;
- Develop a dashboard with relevant key performance indicators on the effectiveness of the code.

Appendix I – Methodology for the Swiss Benchmark

Swiss benchmark

This study covered the 50 largest companies listed on SIX Swiss Exchange and follows a method of content analysis of the code of conduct publicly available, i.e. that were published on the companies' website. The framework used in the content analysis is described in Appendix II.

First the companies listed on SMI expanded were selected, resulting in 48 unique companies. Then, two companies stocked on SPI with registered shares showing the largest turnover and the largest capitalization have been added to our list. These 50 companies (see Appendix 3) constitute the most highly capitalized security in the Swiss equity market and represent around 95% of the capitalization of the Swiss equity market⁶.

Secondly we collected all the codes of conduct in line with the definition employed on the companies' website. 42 out of 50 companies were found to have a code published online.

Thirdly we looked at the completeness and relevance of the codes by checking the presence of 56 items (see Appendix 2) which are often addressed within codes of conduct. Although this method allows an objective assessment and comparison between organizations, it does not give a qualitative assessment on how well the text is written. It only reviews if the topic is mentioned. However, this is a first and more objective way of comparing the codes. We do advice companies to consider additional criteria such as the coherency, consistency, clarity, achievability and enforcement of a code's content. In addition, this study is industry-neutral and reflects considerations that are generally relevant to large organizations. Each organization is unique and requires a unique code of conduct, which covers the topics that are truly relevant for its business. Hence, a code does not have to address all 56 items to be considered as good.

⁶ See <http://www.six-group.com>

This study covered the 2013 Fortune Global 200 companies. Firstly, each company's website was checked in the summer of 2014 to ascertain whether the company had a code. A code was regarded as constituting all documents covered by the definition included in this whitepaper. If no code was referred to on the website, the company was telephoned (usually the ethics office, corporate communication and/or human resources), and discussions were held with as many different people and departments as was needed to establish whether the company had a code or not. A final decision as to whether a company had a code was taken after we had examined a copy of any relevant documentation. We received definitive answers from almost all companies by 1 May 2014.

The codes were analysed using the model developed and described in the article "Business codes of multinational firms" (M. Kaptein, *Journal of Business Ethics*, 2004).

All companies that have a code were sent a questionnaire, with full anonymity being guaranteed. They were then telephoned and/or emailed to request their participation. In total, 17% of the companies returned a completed questionnaire.

Appendix II – Parameters

General

- 1 Message from chairman
- 2 Introduction
- 3 Values and/or Principles
- 4 Responsibility for stakeholder
- 5 Examples and clarifications within Code of Conduct
- 6 Number of pages

Compliance with laws and regulations

- 7 Cooperation with authorised investigations
- 8 Fair and free markets & Anti trust/ anti-competition
- 9 Tied business dealings
- 10 Foreign corrupt practices act or similar laws
- 11 Anti money laundering
- 12 Suspicious activity reporting

Protecting company assets

- 13 Care of company assets
- 14 Proper business use of company assets
- 15 Respecting company's property rights

Workplace responsibilities

- 16 Equal employment opportunities
- 17 Fostering diversity
- 18 Harassment
- 19 Discrimination
- 20 Healthy and safe work environment
- 21 Child Labour
- 22 Forced Labour
- 23 Working hours
- 24 Freedom of organisation
- 25 Remuneration
- 26 Alcohol and drugs



Accuracy of records and reporting

- 27 Ensuring full, fair, accurate, timely, understandable disclosure
- 28 Appropriate retention of records
- 29 Fair tax reporting

Conflict of Interest

- 30 Personal investments
- 31 Outside business activities
- 32 Use of company's reputation and or resources
- 33 Corporate opportunities
- 34 Related party business dealings
- 35 Personal business dealings
- 36 Conflicts of Interest in the procurement process
- 37 Political activity

Improper payments Gifts and entertainment

- 38 Accepting gifts and entertainment
- 39 Giving gifts and providing entertainment
- 40 Facilitation payments
- 41 Bribery
- 42 Lobbying

Confidentiality

- 43 Protecting confidentiality information
- 44 Privacy of customer information
- 45 Privacy of employee information
- 46 Respecting Chinese Walls



Investments and Securities trading

- 47 Insider trading
- 48 Personal investments in company's securities and/or in other securities

Sustainability

- 49 Corporate Social Responsibility/ Corporate citizenship
- 50 Environment/sustainability
- 51 Reference to more detailed policy

Electronic communication policy

Gift Policy

Retention of records policy

External communications policy

Approved supplier policy

Privacy policy

Information barrier policy

Insider trading policy

Whistle blower policy

Anti corruption policy

Anti trust policy

Export controls policy

Travel policy

Compliance with the Code of Conduct

- 52 Whistle blower procedure
- 53 Protection from retaliation
- 54 Ethics Hotline or other anonymous reporting instrument
- 55 Human resources available for ethical guidance
- 56 Human resources available for monitoring compliance

Appendix III – Table of companies

Table of the top 10 of the 50 listed companies on SMI expanded of the SIX Swiss Exchange, complemented with 2 companies stocked on SPI with registered shares showing the largest turnover and the largest capitalization. These 50 companies constitute the most highly capitalized security in the Swiss equity market and represent around 95% of the capitalization of the Swiss equity market⁷.

Ranking	Companies	No. of Items*
1	HOLCIM	44
2	ABB LTD	41
3	ACTELION	40
4	CLARIANT	39
5	SGS	38
6	ROCHE	38
7	SULZER	37
8	ZURICH INSURANCE	36
9	SWISS RE	34
10	UBS	34

* See page 46 for an overview of the parameters

⁷ See <http://www.six-group.com>

Acknowledgements

The following people assisted in the preparation of this whitepaper:

- Friso Bons
 - Merel Jansen
 - Veroni Feenstra-Vonk
 - Chloé Augsburg
 - Fabienne Huber
 - Arlinda Perkola
 - Muel Kaptein
-

About KPMG

KPMG has considerable experience and expertise in the field of supporting companies and not-for-profit organisations with the development, implementation, and monitoring of their codes. For twenty years we provide support to a large number of companies in this area. KPMG has a wide international network of advisors who have knowledge of local issues and trends relating to codes. Precisely because a code is a multifaceted instrument, KPMG has multidisciplinary teams of experts in the fields of business administration, legislation, behavioural sciences, communication sciences, accounting and control, governance, and didactics.

As to the development of codes, we use proven methods, for example, to identify current dilemmas managers and employees are facing which can serve as building blocks for the code. We also maintain a database on codes. As to the implementation of codes, we have a wide range of instruments at our disposal, including games, discussion methods, e-learning modules, simulations, case studies, and risk analysis protocols. When it comes to measuring, monitoring and auditing code compliance and effectiveness, we have developed an online monitoring system for our clients and also a proven survey methodology for managers and employees.



About Rotterdam School of Management, Erasmus University

RSM is the international business school of Erasmus University Rotterdam. One of its departments, the Department of Business-Society Management, teaches and advises on the complex and challenging relationship between business and society. With 30 staff members and at least 60 master students each year, the department is unique in the world. The department holds a variety of academic chairs such as in the fields of corporate communication, corporate governance, sustainability management, non-profit and civil society, and business ethics.

Contact us

Should you desire any further information on this study or wish to discuss the issues presented, or require any other information about KPMG's services in the development, implementation, and monitoring of codes, please contact:

Martijn de Kiewit

Head of Ethics & Compliance Management

E.: martijndekiewit@kpmg.com

T.: +41 58 249 77 74

Matthias Kiener

Partner Forensic

E.: mkiener@kpmg.com

T.: +41 58 249 21 35

KPMG AG

Badenerstrasse 172

PO Box

8036 Zurich

kpmg.ch

© 2015 KPMG Holding AG/SA, a Swiss corporation, is a member of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss legal entity. All rights reserved. Printed in Switzerland. The KPMG name and logo are registered trademarks.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.