Business Codes of the Global 200:

Their Prevalence, Content and Embedding

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Foreword

Over the last fifteen years, KPMG has supported many national and international companies in the development, implementation and monitoring of their codes and compliance programs. This Whitepaper illustrates the most important results emerging from a recent study that KPMG conducted in conjunction with RSM Erasmus University into the prevalence, content and embedding of business codes among Fortune Global 200 companies.

A business code is an increasingly important and often indispensable instrument for today's organizations. A well-formulated code may consist of several types of information:

- Mission and vision: The ultimate goal pursued by an organization
- Core values: The organization's drivers
- Responsibilities to stakeholders: What the organization wants to achieve on behalf of others, and what others can expect from the organization
- Standards and rules: The way directors, managers and employees are expected to behave in a detailed way

A good and properly implemented business code is not just a nice thing to have; it is based on an all-encompassing business need. A business code contributes to an organization's strategic positioning, to strengthening its identity and reputation, to an improved corporate culture and work climate, and to improved financial performance. A business code and the compliance program to implement it are the cornerstone of an organization.

Considering the critical importance of business codes and compliance programs in today's business environment, we hope that this Whitepaper will provide you with a clear understanding of trends in code development, implementation, and monitoring. We also hope that it provides new ideas for embedding your business code at your organization.

Muel Kaptein
Director at KPMG and professor at RSM Erasmus University

Key figures

Code Prevalence

- The vast majority of Fortune Global 200 companies have a business code: currently 86%.
- The rate of code adoption has increased in the last decade: the number of codes has doubled over the past ten years.
- Older codes are being updated: two-thirds of the companies that have had a code for longer than three years have updated their codes during the past three years.

Content of Codes

- The three most common drivers for code adoption are:
  1. to comply with legal requirements
  2. to create a shared company culture
  3. to protect/improve the corporate reputation

- The most commonly cited core values are:
  1. integrity
  2. teamwork
  3. respect
  4. innovation
  5. client focus

- Codes are most often directed at employees. Corporate responsibilities to shareholders are discussed in less than half of the codes.
- More than 70% 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.
- Most business codes contain a combination of principles and rules: 13% of the business codes are principle-based, 35% are rule-based. The other 52% is a mix of the two.

Embedding Codes

- On average, American companies have taken more measures to implement their codes than their European or Asian counterparts.
- More than 80% of the companies use e-learning modules to implement the code and have an ethics hotline and whistleblower mechanisms to detect misconduct.
- 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.

Key messages

- A business code is the cornerstone of a company: it serves many purposes.
- A business code is most effective when it is customized to the specific risks, dilemmas, and ambitions of the company.
- A code on its own is not enough; the challenge is for organizations to have a living document that imbues its culture.
- There are many ways to implement, enforce, and monitor a business code: the effectiveness of these activities depends on the right mix. Based on the results, four phases are discerned.

1. Definition

Academics and practitioners alike use widely different names for a business code. These include the following:

- Business principles
- Code of conduct
- Code of ethics
- Code of integrity
- Code of practice
- Credo
- Declaration
- Deontological code
- Philosophy
- Policy principles
- Standards

A business code can be defined as follows:

A business code is a document developed by and for a company as a guideline for the current and future behavior of its directors, managers and employees.[1]

Business codes range from a single page (often the mission statements and value statutes) to sometimes eighty pages (the detailed codes of conduct and company regulations).

1 This definition is discussed in detail in: "The effectiveness of business codes: A critical examination of existing studies and the development of an integrated research model." By Muel Kaptein & Mark Schwartz, 2008. *Journal of Business Ethics,* 77(2): 111-127.

2. Prevalence

There has been increasing activity in the area of business codes over the last thirty years, including rapidly increasing adoption, adoption across wider geographic areas, and more frequent updating of codes to reflect internal or external changes. Our research into the Fortune Global 200 companies shows that, at present, 86% have their own business code. Figure 1 shows the increase in the number of business codes since 1970. In 1990, only 14% of these companies had a code, so since that time there has been a six-fold increase in the number of companies with a business code, and a doubling in the last decade. All North-American firms in the Fortune Global 200 have a business conduct, while 52% of the Asian companies and 80% of the European companies in the Fortune Global 200 have a code. Two-thirds of the companies that have had codes for longer than three years have updated these during the past three years.

Figure 1: The rise of codes among Fortune Global 200 companies

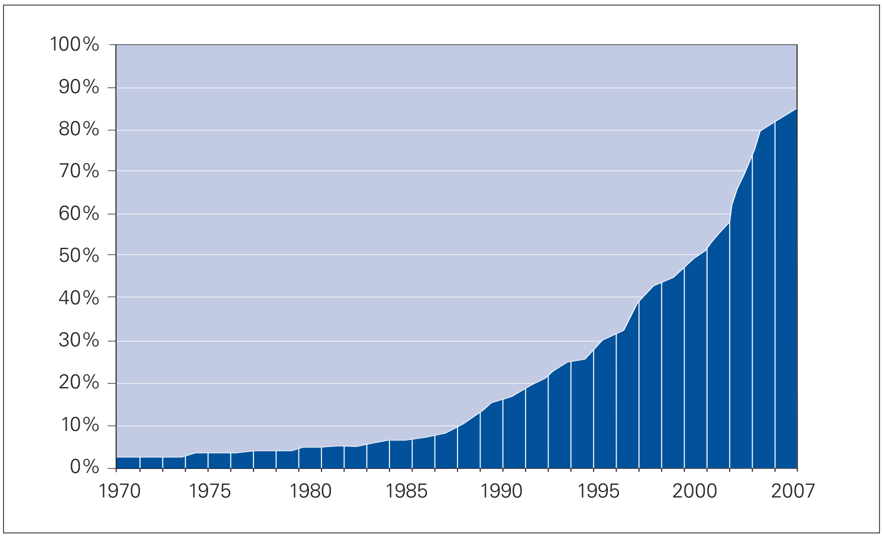
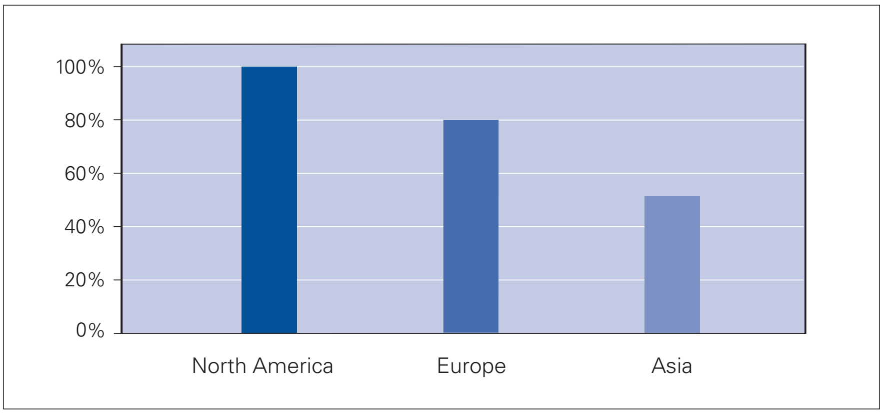


Table 1: The prevalence of codes by region



3. Drivers

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

Table 2: Reasons for having a business code

		Not important	Somewhat important	Important	Very important
1.	To comply with legal requirements	0%	3%	12%	85%
2.	To create a shared company culture	0%	3%	17%	81%
3.	To protect/improve company reputation	0%	0%	22%	78%
4.	To improve staff behavior	2%	10%	22%	66%
5.	To be a socially responsible company	0%	7%	39%	54%
6.	To meet stakeholder expectations	0%	0%	55%	45%
7.	To decrease liability in case of misconduct	2%	24%	37%	37%
8.	To improve the company's competitive position	5%	21%	41%	33%
9.	To prevent additional external regulation	14%	28%	28%	30%

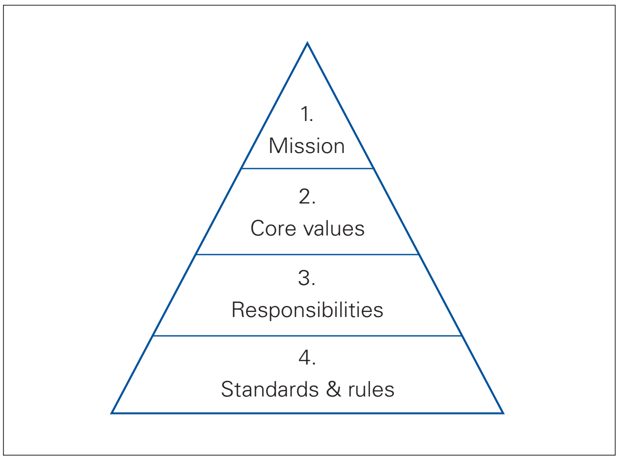
Compliance with legal obligations is regarded as the most important reason for having a code. This reflects the strong emphasis on compliance programs under U.S. law, for example the Sarbanes-Oxley Act, the Federal Sentencing Guidelines, and the Foreign Corrupt Practices Act. It also reflects a plethora of guidance from industry-specific sources in a variety of highly regulated industries, plus trade group-sponsored codes and stock exchange rules.

Other highly important drivers of code development are the creation of a shared company culture and protection and improvement of a company's reputation. Lesser reasons for developing a code are to decrease liability in case of misconduct, to improve the company's competitive position, or to prevent additional external regulation.

4. Content

A business 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 and detailed and technical the information in the codes usually is. At the top is (1) the mission and vision of the organization, with directly underneath (2) the organization'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 moral backbone.

Figure 2: Layers of a business code



1. Mission and vision

The mission comprises a powerful formulation of the company's strategic objectives and states what the organization stands for. It is oriented around the question of the organization's “raison d'être” 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 fourth of the codes of the Fortune Global 200 companies describe the organization's mission and/or vision. For example, Prudential defines its mission as follows: “Help our customers achieve financial prosperity and peace of mind.” Novartis expresses its mission as being: “… to bring value to patients and customers through innovative, high quality products which improve, sustain or restore health.”

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

2. Core values

Core values are often sources of the mission, the organization's motives and the internal culture. Core values focus on the intentions of directors, managers, and employees. They do not, however, give any concrete indications for behavior. For example, General Motors identifies continuous improvement, customer enthusiasm, innovation, integrity, teamwork, individual respect and responsibility as its corporate values. Verizon opts for the core values of integrity, respect, performance excellence, and accountability.

43% of the codes of Fortune Global 200 companies describe the organization's core values. 11% of the business codes include formulations of five or more core values. The most common values are shown in Table 3.

Table 3: The most common core values in business codes

1.	Integrity	40%
2.	Teamwork/cooperation	33%
3.	Respect	28%
4.	Innovation/creativity	28%
5.	Client orientation	26%
6.	Trust	14%
7.	Open communication	12%
8.	Professionalism	12%
9.	Honesty	10%
10.	Responsibility	10%

3. Responsibilities to stakeholders

An organization's mission and values can be translated into responsibilities which the company believes it has towards its stakeholders. Some codes describe the responsibilities to stakeholders in a single sentence. However, responsibilities are often described uniquely for different stakeholders:

- Toward consumers: Unilever describes its responsibilities towards its consumers as: "Unilever is committed to providing branded products and services which consistently offer value in terms of price and quality, and which are safe for their intended use. Products and services will be accurately and properly labelled, advertised and communicated."

- Toward shareholders: Shell defines its responsibilities towards its shareholders as: "To protect shareholders' investment, and provide a long-term return competitive with those of other leading companies in the industry".

- Toward suppliers: Philips defines its responsibilities towards its suppliers and business partners as: "Philips pursues mutually beneficial relationships with its suppliers and business partners. It seeks to awards business to suppliers and business partners who are committed to act fairly and with integrity towards their stakeholders and who observe the applicable laws of the countries in which they operate."

- Toward the environment: Responsibility for the environment is included in, for instance, the code of the Generali Group: "The Group is committed to safeguarding the environment as a primary asset. For that purpose, the Group shall make its decisions ensuring that economic initiatives are compatible with environmental requirements, not only in compliance with current legislation but also taking into account the latest developments of scientific research and best experiences recorded on the matter."

- For human rights: Nippon Oil expresses its responsibility for human rights explicitly as to: "Not be involved in any infringements of human rights by engaging in any child labor or forced labor, in all countries or regions".

- For social involvement: Mitsubishi states in its code: "As a responsible member of society, Mitsubishi Corporation will actively carry out philanthropic programs in an effort to promote the enrichment of society. Moreover, the company will support efforts of its employees to contribute to society." And Bouygues' Code of Ethics refers explicitly to its commitment to a wide range of social themes: "By adhering to the United Nations Global Compact, the group shows its commitment to a constant search for innovative solutions in the field of human rights, labour standards, the environment and anticorruption".

Table 4 depicts the orientation of codes of conduct towards various stakeholders. In about half of the codes, the descriptions of responsibilities towards employees exceed one paragraph. This may be explained by the fact that employees are also the main addressees and representatives of codes. It is striking that less than half of the codes include descriptions of responsibilities towards shareholders. Table 5 depicts the specific responsibilities of companies towards their employees.

Table 4: Responsibilities towards stakeholders

		Brief (1 sentence)	Moderate (1 paragraph)	Elaborate (more than 1 paragraph)	Total
1.	Employees	2%	38%	47%	**87%**
2.	Natural environment	10%	44%	19%	**73%**
3.	Consumers	11%	41%	16%	**68%**
4.	Competitors	5%	35%	23%	**63%**
5.	Business partners	10%	36%	17%	**63%**
6.	Society	8%	34%	19%	**61%**
7.	Government	9%	35%	16%	**60%**
8.	Shareholders	16%	24%	8%	**48%**

Table 5: Specific responsibilities towards employees

	Brief (1 sentence)	Moderate (1 paragraph)	Elaborate (more than 1 paragraph)	Total
Safe working conditions	21%	31%	11%	**63%**
Dignity/respect	18%	36%	1%	**55%**
Equality	14%	30%	5%	**49%**
Personal development of employees	28%	11%	1%	**40%**
Good compensation	11%	3%	1%	**15%**
Privacy of employees	8%	0%	0%	**8%**
Involving employees in decision-making	3%	1%	0%	**4%**
Stable and secure job opportunities	3%	0%	0%	**3%**

4. Standards and rules

The fourth layer consists of the standards and rules and is therefore frequently the most extensive and elaborate section of a business code.

Standards provide guidelines to management and employees 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. For example, the Xerox code states that "If you wouldn't want to read about your action on the front page of your local newspaper, don't do it."

The most common issues that standards and rules apply to are summarized in Table 6. The most common aspect standardized and regulated in business codes is how to deal with confidential or secret information (84%). By contrast, the use of company time is only covered in detail in 15% of cases. A striking feature is that 73% of the codes refer to the acceptance of gifts, whereas 59% refer to the offering of such gifts.

Table 6: Staff responsibilities

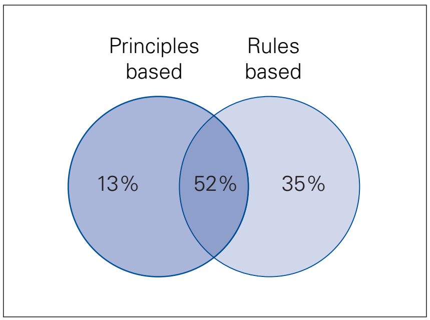
		Brief (1 sentence)	**Moderate** (1 paragraph)	**Elaborate** (more than 1 paragraph)	**Mentioned**
1.	Dealing with confidential or secret information	10%	32%	42%	**84%**
2.	Accuracy of reporting (fraud)	11%	27%	37%	**75%**
3.	Protecting the organization's assets	11%	39%	25%	**75%**
4.	Accepting gifts	11%	28%	34%	**73%**
5.	Corruption and bribery	10%	36%	17%	**63%**
6.	Sideline activities	11%	36%	13%	**60%**
7.	Offering gifts	9%	25%	25%	**59%**
8.	Dealings with each other	15%	33%	1%	**49%**
9.	Contacts with the media	4%	18%	11%	**33%**
10.	Use of company time	6%	8%	1%	**15%**

5. Two types of business codes

Two visions can be identified regarding whether or not to include concrete standards and rules in business codes: 33% of our respondents believe that a good code minimally contains standards and rules. However, 31% completely disagree. Another 36% are neutral! The opinions also greatly differ regarding the extent to which a code should give employees the freedom to follow their own ethical judgement: 37% agree and 40% disagree.

These views appear to impact the content of business codes. 13% of the codes are principle-based: they set out abstract expectations such as the mission, values and/or responsibilities towards stakeholders. 35% of the business codes are rule-based. These codes of conduct mainly contain detailed standards and rules. More than half of the business codes (52%) are a mix of general principles and detailed standards and rules.

Figure 3: Two types of business codes



Rule-based business codes are nearly always significantly more detailed than principle-based business codes and contain, on average, four times as many words. 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. Comparatively, more U.S. companies have such codes than companies based in other continents, which reflects the legal orientation that drives the development of many U.S. codes.

Principle-based codes are more generalized and abstract. They usually consist of a couple of pages at most. They are often written in the first person plural ("I will"), are more positively formulated, prescriptive as well as descriptive ("the way we do things"), and more internally driven. They are not only for internal use but also for distribution among external stakeholders. Comparatively, more European and Asian companies have such codes than U.S.-based companies.

The effectiveness of either type of business code depends on many factors. A code of conduct creates clarity and uniformity, while a principle-based code is more accessible and flexible. A growing number of companies use both types. Codes of conduct 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 extended with standards and rules to make them more concrete.

A growing number of companies have two separate codes. Usually there is one brief booklet including the mission, values, and responsibilities of the corporation and one (or more) detailed codes of conduct. The booklet is conveniently arranged so that it can be effectively communicated internally and externally. The separate codes of conduct can be distributed more easily to specific groups and are also easier to update. For example, Shell has a 4-page Business Principles document as well as a 74-page Code of Conduct.

6. Embedding

Having a business code is only the beginning. A business 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 imbues the behavior of employees.
To realize these benefits, it is important for the code to be properly embedded throughout the organization. The means of implementation can be divided into four clusters:

1. Communication and training
2. Personnel policy
3. Other policy measures
4. Monitoring, auditing, and reporting

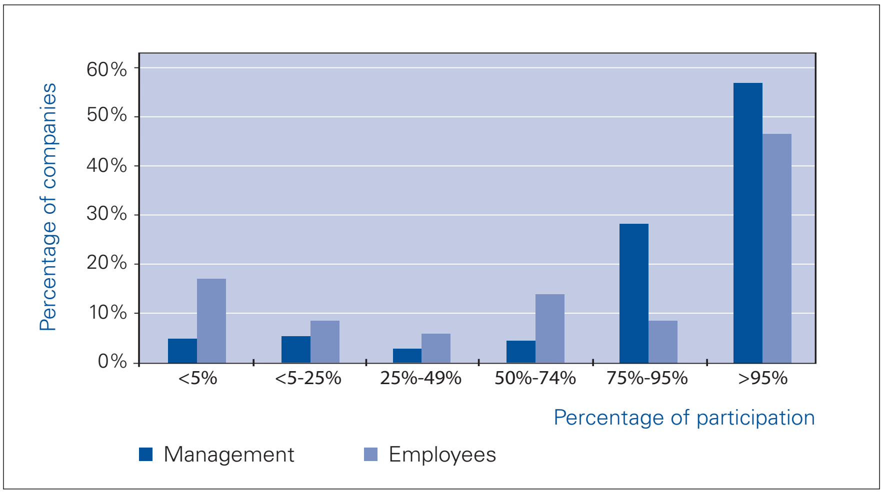
1. Communication and training

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

- By including the code with 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 organization (such as the reception, waiting rooms, and meeting rooms);
- By developing interactive instruments such as a hard copy or digital/online game;
- By organizing special information events and site visits;
- By printing different passages from the code on the agendas and minutes of meetings or on pay slips, or by including them as banners on the website; and
- By referring to the code in speeches (such as at the New Year reception, the company broadcast, or at anniversaries) as well as at meetings and in other consultation gatherings.

Training courses on the code are a much-used resource. At 74% of the companies, at least three-fourth of the managers had attended a classroom training session during the past three years. At 56% of the companies, three-fourth of the employees had undergone face-to-face training during the past three years.
At 16% of the companies which had had a code since more than a year, management had not yet received any code training. At 27% of these companies, employees had not yet received any training.

Table 7: Participation of management and employees in training courses during the last three years



Some of the purposes of a training program are:

- To acquire insight into the importance of the code;
- To recognize the current code in people's personal behavior;
- To establish model behavior;
- To identify and deal with dilemmas; and
- To provide instruments and teach staff to use them in order to implement the code more effectively.

Training courses generally vary in length from two hours to two days. Training courses also vary as to content. E-learning modules – used in 81% of the companies – are often aimed at knowledge, while dilemma discussions and role plays are directed at skills, and image material, speeches and discussions at motivation.

2. Personnel policy

The code is also frequently assigned a prominent place in an organization's personnel policy. It takes on a range of forms.

Applicants

The organization can inform new employees about the code in a variety of ways. At 12% of the companies, the code is referred to during job interviews, but in only 2% of cases is the code referred to in job advertisements. Background checks of future managers and employees are carried out by 53% and 40% of the companies, respectively. At 10% of the companies, the code is in the applicants' information package, and at 56% of the companies the code is part of the employment contract. At no less than 66% of the companies is the code referred to during the introduction program for new employees.

Table 8: Code and its use in connection with new employees

In job advertisement	2%
In information package for applicants	10%
During the job interview	12%
In information package for new employees	10%
As part of the contract	56%
During introduction program	66%

Sign-off

Managers are required to acknowledge their receipt of the code at 65% of the companies, while employees must acknowledge in half of the cases. This signing takes place in various ways. The differences have to do with:

- Timing: personnel may acknowledge the code upon joining the company, once only (when first received) or periodically (as a rule annually);
- 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 oneself or also the persons managed.

Performance and assessment criteria

A code provides criteria for the assessment of directors, managers, and employees. At 44% of the companies, the code is a feature of the performance interview. And at 30%, the remuneration and promotion criteria are directly related to compliance with the code.

Sanctions policy

There are obligations attached to the code. 36% of our respondents believe that a sound indicator for the effectiveness of a code is whether people who violate it are dismissed. However, 40% totally disagree with this view. In any event, it is important that the organization has an effective and fair sanctions policy which describes the steps leading to a sanction being imposed and the penalty per type of violation. More than half of the companies (55%) have a sanctions policy.

3. Other policy measures

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

Risk analysis

Many firms, particularly U.S.-based firms, are encouraged by U.S. law to take a risk-centered approach to their compliance and ethics programs, including code development. This entails applying strategic risk analysis to generate insight into the organization's most significant risks, and shaping the code and compliance and ethics programs around those risks. Strategic risk analysis can also be used to assess, on a periodic basis, whether a company's compliance program is still focused on the firm's most important risks. More than half of the companies (56%) carry out such an analysis on a periodic basis.

Decisions checklist

Decisions checklists are a useful way to drive the code into the everyday business decisions of companies. Almost half of the companies (46%) use a checklist in their operations. These checklists can be used to further a business by adding a question to the checklist as to whether the proposed decision complies with the code.

Screening of business partners

Similarly to members of staff, external stakeholders can also be screened against the code. More and more companies are seeking to push their code out to their agents and suppliers, to find out, for example, whether supply chains involve any child labor. The code can be a useful tool in this respect because it can establish clear standards of behavior. Moreover, including a code in contracts with external business partners allows for screening compliance with the code as a part of the contract provisions. At 60% of the companies, stakeholders are screened against the code.

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 be hindered by 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 organizations, the establishment of a safety net is important in this respect, often legally desirable and perhaps even obligatory. 83% of the companies with a code have a confidential and anonymous hotline or ethics line that employees can use to report misconduct or seek advice. 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. 83% of the companies have such a whistleblower procedure. An investigation protocol, which is also in place in 83% of the companies, describes who carries out which investigation and when, and which procedures are to be complied with.

Ethics committee, office and officers

Slightly more than half of Fortune Global 200 companies have an ethics committee which meets regularly to discuss current issues and any queries that may have arisen. Employees can, for example, submit ethical policy questions, dilemmas, and suggestions to this committee of internal and/or external experts.

An ethics office is often an internal body that carries out a wide range of activities designed to stimulate compliance with the code. Many companies also have one or more compliance or ethics officers (sometimes called ombudspersons). The average number of ethics/compliance officers per 1,000 employees is 0.5 FTE, meaning 20 hours a week per 1,000 employees.

4. Monitoring, auditing and reporting

To ensure that specific attention is paid to raising the level of compliance with the code, it is wise to include the code in the regular planning and control cycle. This is partly because supervising parties 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 business 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. The results can be checked by the company's own accounting department, internal auditors and/or an external party.

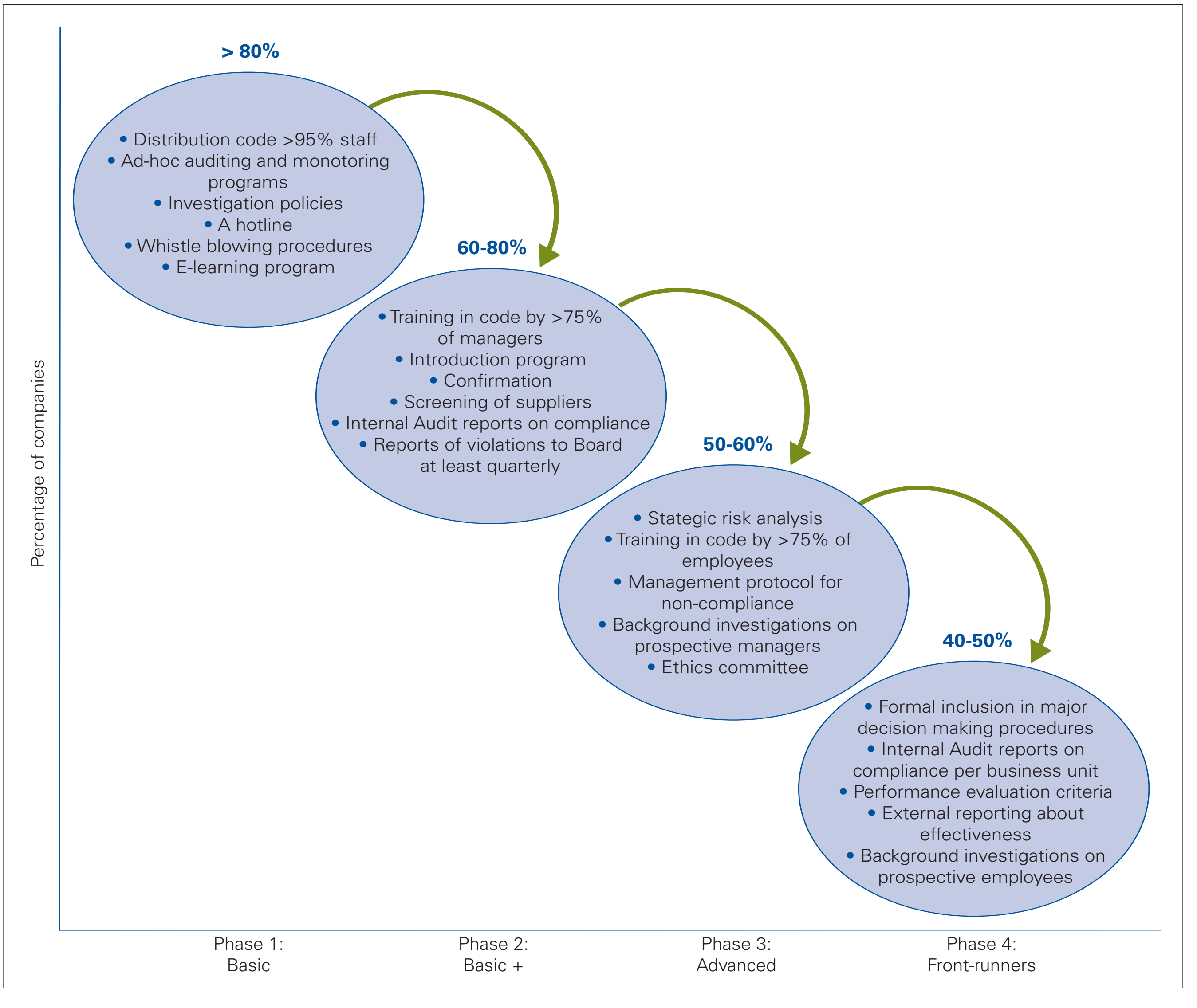
88% of the companies that have a business code monitor compliance with the code. At 66% of the companies, compliance with the business code is reported on periodically. In 44% of cases, monitoring and reporting is even arranged for each business unit. External reporting on the code occurs at 40% of the companies. The Management Board is informed of violations of the code on a monthly basis at 3% of the companies, 60% are informed each quarter, and 37% annually.

7. Four phases

Complete overview

Table 9 shows a complete overview of the measures that Fortune Global 200 companies have taken to implement their code. As a rule, business codes are implemented in various ways. While most companies nowadays have hotlines and whistleblower procedures (the circle furthest to the left), monitoring compliance with the business code per business unit and external reporting on compliance with the code are common practice in less than half of the companies (the circle farthest to the right). On average, American companies have taken more measures to implement their code compared to their European counterparts, again potentially reflecting the U.S. regulatory environment.

Table 9: Overview of code-enhancing measures at Fortune Global 200 companies



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

- phase 1, the basic program, which are applied by more than 80% of the companies,
- phase 2, the basic + program, which are applied by 60 to 80% of the companies,
- phase 3, the advanced program, which are applied by 50 to 60% of the companies, to
- phase 4, the front-runners program, which are found in 40 to 50% of the companies.

A pattern can be discerned in code and compliance program development. Phase 1 contains the instruments that are mostly associated with the implementation of a code: adopting a code, distributing it, installing an ethics hotline or helpline, issuing a whistleblower policy, providing an e-learning program to communicate the code, and doing some ad-hoc monitoring on compliance with the code. Although fewer firms engage in all of the practices described in phase 4, these firms tend be the front-runners in their industries. Here the business codes are integrated in the strategic decision-making process, not only prospective managers but every prospective employee is screened against the code, the code is part of the individual performance system, monitoring and auditing of the effectiveness of the business code is conducted for each unit in a systematic way, and effectiveness is not only reported internally but also externally.

8. Conclusions

Based on our research into the prevalence, content, and embedding of business codes among Fortune Global 200 companies, we can draw the following four conclusions:

- **A doubling of codes: from having a code to proper implementation**
  More and more companies have their own business code. Currently, 86% of Fortune Global 200 companies have a code, which is more than double the number ten years ago. Companies that do not have a code thus often have to explain why they do not yet have one. Companies that have a code also have to demonstrate increasingly that they comply with it. Merely having a code is starting to be less meaningful. The growing emphasis is on proper implementation.

- **Converging content of codes: in search of an authentic code**
  The size and content of codes differ greatly, but at the same time the trend is that the content of the codes is becoming more identical. The challenge is to develop a code that is tailored to the company's own situation, linking up with the organization's strategy, identity, and dilemmas. Particularly those companies that, in recent years, have developed a code in a rushed way are expected to focus more on what makes their code unique when updating it.

- **A multitude of measures for implementing the code: keeping the code alive**
  Our research has shown that business codes are 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. Almost all companies have implemented ethics hotlines and helplines, with accompanying whistleblower procedures. It is still not common for stakeholders to be screened against the code or for the code to be included in the new employee selection process, performance criteria, and important investment decisions. The number of ethics/compliance officers, in FTEs per 1,000 employees, also differs considerably. The key is to prevent the code from gradually fading into the background. Companies with a living code are able to anchor it on a long-term basis in the heads and hearts of their personnel.

- **Increasing assessment of the code's effectiveness: internal monitoring per aspect and complete external reporting**
  Most companies monitor compliance with the code. At the same time, this monitoring is performed in ways that vary 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 implementation and compliance with the code is growing. Whereas 40% of the companies currently report externally on code implementation and compliance, it is expected that this percentage will grow. External parties will increasingly demand that organizations demonstrate that their code is a living document. This also offers opportunities to stand out as a company.

9. Recommendations

Below are our recommendations on how three current issues described in Chapter 8 can be handled.

Creating an authentic business code

To create an authentic business code, companies could consider the following:
- Assess the current risks and challenges that management and staff are confronted with in their business process. Dilemmas are the building blocks for a good code. Analyze those dilemmas in terms of the conflicts they cause and determine what the code should contain to solve these dilemmas.
- 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 and from peers in other sectors.
- Circulate new drafts of the code and ask people inside and outside the company to submit suggestions for improvement.
- Select one or more issues for which the company can present innovating solutions.
- Determine relevant social trends and developments and reflect their meaning in the code.
- Discuss with board members to what extent the code describes the company that they want it to be.

Keeping the business code alive

To keep their business code alive, companies could:
- Create a corporate culture in which moral dilemmas can be raised without fear of repercussions and discussed productively.
- 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. Infuse people with pride, energy and awareness to fully commit themselves to the code.
- Monitor not only on compliance with the business code per unit, but also include it in the business planning cycle. Set targets on what to improve.
- Include the business code in performance appraisal reviews. Ask staff about their experience with the code and evaluate them on compliance with it.
- Include the business 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 business code

To monitor the effectiveness of a business code, companies could:
- Assess the corporate ethical climate or culture periodically (for example, using a survey).
- Assess the effectiveness of supporting measures and instruments.
- Ask staff about their experience with the code and the room they see for improvement.
- Determine what follow-up activities have been taken after implementation of the code.
- Analyze the reports of violations of the business code for reoccurring 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.
- Develop a dashboard with relevant key performance indicators for the effectiveness of the code.

Methodology

This study covered the Fortune Global 200 companies of 2007. First of all, each company's website was checked to ascertain whether the company had a business code. A business code was regarded as constituting all documents covered by the definition included in this report. If no business 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 it. We received definitive answers from almost all companies by 1 October 2007.

The content of the business codes was analyzed independently by two researchers. The code model used for the analysis was the one developed and described in the article entitled ‘Business codes of multinational firms’ by Muel Kaptein in the January 2004 issue of *Journal of Business Ethics*.

All companies that have a code were sent a questionnaire, with full anonymity being guaranteed. They were then phoned to request their participation. In total, 50 companies returned a completed questionnaire; 12 companies returned a partly completed questionnaire. Another 9 questionnaires were returned but were not usable.

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About KPMG

KPMG has considerable experience and expertise in the field of supporting companies and not-for-profit organizations with the development, implementation, and monitoring of their codes. We provide support to a large number of local and international companies. 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 a multidisciplinary team of experts in the fields of business administration, legislation, behavioral sciences, communication sciences, accounting and control, governance, and didactics.

As to the development of business codes, we use proven methods, for example to identify current dilemmas facing directors, managers, and employees which can serve as building blocks for the code. We also maintain a database on business 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 code compliance and effectiveness, we have an online monitoring system at our disposal and a proven survey methodology for measuring the internal controls.

About RSM Erasmus University

RSM Erasmus University 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.

The Department of Business-Society Management is a member of the Erasmus Institute for Monitoring & Compliance. This institute, with fifty participating scholars, aims to generate knowledge on monitoring and compliance in modern advanced economies by conducting interdisciplinary academic research, using theoretical perspectives and methodologies from law, management, economics, and behavioral science.

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Contact us

If you wish further information on this study, a discussion about the issues presented, or any other information about KPMG's services in the development, implementation, and monitoring of business codes, please contact:

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