

# Use of Codes of Ethics in Business

2007 survey & analysis of trends

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# Contents

	Page
<b>Authors</b>	<b>4</b>
<b>Acknowledgements</b>	<b>4</b>
<b>Foreword</b>	<b>5</b>
<b>Executive Summary</b>	<b>6</b>
<b>Introduction</b>	<b>7</b>
<b>Chapter 1 Survey Results</b>	<b>10</b>
A. Uses and Relevance of Codes	10
B. Who Administers the Code?	11
C. The Communication of the Policy and Code	12
D. What About Training?	14
E. Means for Employees (and Others) to Raise Ethics Concerns or Questions	17
F. Codes and Employment Contracts	17
G. Monitoring the Code	18
H. Corporate Culture	19
I. Reporting on Ethical Performance	20
J. Important Ethical Issues	20
K. Environmental Responsibility	23
<b>Chapter 2 Business Ethics and Climate Change</b>	<b>24</b>
by Nicole Dando	
1. IBE research – a review of codes	25
2. IBE 2007 survey - climate change in ethics and CR programmes	28
<b>Chapter 3 Illustrations of How Companies Use Codes of Ethics</b>	<b>30</b>
1. A code is just the beginning ... by Niall Gallagher	30
2. Codes for ethical sourcing by Lutz Preuss	33
<b>Appendix: Questionnaire on Company Use of Codes of Business Ethics 2007</b>	<b>37</b>
<b>Recent IBE Publications</b>	<b>41</b>

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## 2. Codes for ethical sourcing

**By Lutz Preuss, School of Management, Royal Holloway, University of London.**

An ethics policy with an accompanying code of ethics has become a major tool to manage ethical challenges in business. They are typically company-wide codes, which aim to provide guidance for all organisational members. Parallel to these, companies have been drafting codes that address specific aspects of their operations, such as ethical challenges in their supply chains.

This section will discuss the spread and content of Ethical Sourcing Codes adopted by the FTSE 100 firms as of 1 April 2007. The documents were in their majority gleaned from the FTSE 100 web pages; where such a code did not seem to exist, the company was contacted by e-mail or by letter.

### Prevalence and titles of codes

Forty four of the FTSE 100 companies currently have an Ethical Sourcing Code in place. The length of these documents varies from a single page (e.g. Liberty International, Reckitt Benckiser or Unilever) to a ten page booklet (AstraZeneca or Sainsbury). Most codes address a range of corporate responsibility issues, whereas some have a limited scope. For example, the codes of Capita, Prudential and Scottish Power focus specifically on environmental aspects of purchasing and supply.

The spread of codes shows significant differences between industries. All the pharmaceutical companies and all the manufacturers of alcoholic beverages within the FTSE 100 have an Ethical Sourcing Code in place; as do most retailers and chemical companies. However, none of the companies in the hospitality and leisure industries, in construction, transportation or in the oil and gas extraction industries do (although the latter tend to have quite elaborate codes of conduct that include supply chain issues).

Code titles fall into three categories. Retailers seem to prefer the term 'ethical', as in the 'Global Ethical Sourcing Policy' of DSG International, which seemingly reflects the Base Code of the Ethical Trading Initiative (ETI). A wider group of companies, outside retailing, uses corporate responsibility terminology, including the 'Corporate Responsibility Procurement Policy' of British Land. A smaller group of companies applies a wider range of terms, for example the 'Supplier Management Values' of Standard Life.

### Code content

Codes cover two principal areas. On the one hand, they may express a commitment to treat suppliers in a particular fashion. Here relatively vague commitments to a partnership with suppliers (30%) or to values like fairness or honesty (both 23%) dominate. On the other hand, the codes cover quite a range of environmental and social issues that suppliers to the FTSE 100 companies are to address.

### Environment

In terms of environmental issues, a rather general commitment to environmental protection is often required of suppliers (68% of all codes), followed by various issues of the low-hanging fruit type, such as improving the efficiency of their resource use (27%) or minimising their waste generation (25%) (see Table 1).

In addition, there are stipulations of a more resource-intensive nature that may not necessarily provide an immediate pay-back, for example reducing the environmental impact of the supplied product (14%). A number of currently hotly debated environmental challenges like biodiversity (11%) or climate change (9%) are also addressed, although at present only in a small number of codes.

**Table 1** *Environmental protection issues in Ethical Sourcing Codes*

Environmental issue	(n = 44)
Commitment to environmental protection	68%
Compliance with local laws	66%
Improvement of resource efficiency	27%
Minimisation of waste	25%
Reduction of energy consumption	23%
Control of emissions/pollution	14%
Use of environmentally friendlier technology	14%
Environmental impact of product/service	14%
Protection of biodiversity	11%
Minimisation of climate change contribution	9%
Protection of animal rights	5%

### Working conditions

Requirements regarding working conditions in supplier plants range from compliance with local laws (73% of all codes) through the provision of a living wage, or at least a legally stipulated, minimum wage (57%), to not exploiting vulnerable groups, such as children (68%) or illegal immigrants (9%). This list is an interesting example of mimetic processes in the adoption of ethics tools as the entire range of issues (with the exception of the last item) is contained in the Base Code adopted by the ETI. This code seems to have served as a model for ETI members and non-members alike. At the same time, the Base Code criteria are adopted in a selective fashion. For example, equal opportunities for employees (68%) is demanded of suppliers noticeably more often than the provision of regular employment (14%).

**Table 2** *Employment issues in Ethical Sourcing Codes*

Employment issue	(n = 44)
Compliance with local laws	75%
Safe working environment	75%
No child labour	68%
Equal opportunities/no discrimination	68%
Employment freely chosen	66%
Freedom of association	64%
Living/minimum wage	57%
No inhumane treatment/harassment	52%
Non-excessive working hours	48%
Written contract	14%
Regular employment	14%
Avoid employing illegal immigrants	9%

**Other challenges** By comparison to environmental and supplier employment conditions, other ethical challenges in modern supply chains receive little attention. For example, only a minority of the codes express support for small businesses or recognise a need to pay suppliers promptly (5% each). Not a single document discusses pricing issues, although it has been a recurring theme in modern supply chain management that suppliers see themselves subject to two often conflicting demands, namely price reductions and greater flexibility on the one hand and ethical requirements on the other.

It is hence noticeable that large corporations are more willing to impose ethical standards on their supply base than they are to acknowledge the consequences of an uneven power distribution in the supply chain.

**Code implementation** Implementation mechanisms mentioned in the FTSE 100 codes can be grouped into three categories (see Table 3). They begin with relatively vague stipulations, such as a general encouragement of suppliers to improve their CSR performance (61% of all codes). These are followed by a range of actions the buying company commits itself to undertake, like monitoring and auditing supplier CSR performance (52%), which is also a requirement for ETI membership. Notable in this category are statements that the supply relation will be terminated if the supplier CSR performance remains unsatisfactory (41%), although this is buffered by a commitment to working with suppliers that are willing to improve (39%).

A third group of implementation issues concerns actions that are required of suppliers. These are quite detailed in some cases and range from requiring suppliers to have a CSR policy (32%) through establishing a management system for environmental and social challenges (18%) to providing CSR training for their employees (16%).

**Table 3** *Implementation mechanisms in Ethical Sourcing Codes*

Implementation mechanism	(n = 44)
Encouraging improved supplier CSR performance	61%
Audit/monitoring of supplier CSR performance	52%
Supplier to manage CSR in own supply chains	45%
Supply relation terminated if performance unsatisfactory	41%
Commitment to work with supplier where breach	39%
CSR policy required of supplier	32%
Minimum requirements of supplier set	37%
CSR as part of supplier selection/evaluation	27%
CSR responsibilities assigned at customer	23%
CSR responsibilities assigned at supplier	23%
CSR management system in place at supplier	18%
CSR training of supplier employees	16%
CSR included in supply contract	7%
CSR included in purchasing specifications	5%

Interestingly, 45% of codes include a stipulation that suppliers should pass social and environmental requirements to their own suppliers and manage their CSR performance too. Such requirements may create an environmental and social multiplier effect along the supply chain, where suppliers can use their investment into meeting CSR standards of demanding customers to gain additional business.

At the same time, however, there is a danger that large firms impose inappropriate environmental and social conditions on their supply chains. Not least small businesses often struggle to find the resources needed for addressing these issues.

### Box 1

#### Examples of Comprehensive Codes

- AstraZeneca: *CR Principles in Purchasing*  
<http://213.225.137.108/sites/7/archive/responsibility/astrazeneca-corporate-responsibility-purchasing-principles.pdf>
- Diageo: *Corporate Citizenship Supplier Standards*  
<http://www.diageo.com/NR/rdonlyres/0FE8B5AA-0E34-43CE-906B-1C3C6C1998F2/0/PartneringwithsuppliersupplierstandardsEnglish.pdf>
- BT: *Sourcing with Human Dignity Standard*  
<http://www.selling2bt.bt.com/Downloads/TheGS18standard.pdf>
- Legal and General: *Ethical Purchasing Principles*  
<http://www.legalandgeneralgroup.com/about-us/ethical-purchasing-principles.html>
- The Base Code of the Ethical Trading Initiative  
[http://www.ethicaltrade.org/Z/lib/base/code\\_en.shtml](http://www.ethicaltrade.org/Z/lib/base/code_en.shtml)

**Conclusions** The Ethical Sourcing Codes of the FTSE 100 corporations achieve a comprehensive coverage of the CSR terrain. Three distinct groups of CSR issues were identified, namely employment conditions, environmental protection and economic issues affecting supplier firms, although these are far from uniformly addressed. Working conditions for supplier employees have received the greatest attention, while economic issues for suppliers are mentioned in isolated cases only. Environmental issues occupy a middle position with some requirements being frequently included, while most of the more concrete stipulations receive attention in a minority of codes only. Implementation procedures are discussed at considerable length both in terms of the range of implementation mechanisms and in terms of the number of times these are included in the documents.