

FROM RULES TO VALUES: EFFECTIVE CODES OF CONDUCT

2019

LRN[®] *Inspiring Principled Performance[®]*



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INTRODUCTION

LRN's mission, “Inspiring Principled Performance,” emphasizes a commitment to understanding what makes ethics and compliance (E&C) programs effective. At the core of every E&C program lies a Code of Conduct, the purpose of which is to affect behavior — to reinforce good behavior and discourage bad behavior — so your organization can achieve positive outcomes and thrive. A leading Code inspires principled performance, guides employees in how to live the organization's values, and enables them to be aware of risks and make ethical decisions.

Each year in [LRN's E&C Program Effectiveness Report](#), we research the extent to which Codes of Conduct help E&C professionals reach specific goals. We have found that high-impact programs align values-based behaviors with business goals, inspire commitment to ethical behavior, connect people with purpose, and integrate values through behaviors.

To break these goals into more actionable practices and identify gaps in Code of Conduct development, we assessed nearly 100 publicly-available Codes using an objective and standardized framework described in Fig. 2, the results of which are discussed in this report.

FIGURE 1: CODE OF CONDUCT GOALS
DOES YOUR ORGANIZATION'S CODE OF CONDUCT MEET THE FOLLOWING GOALS?

■ HIGH-IMPACT ■ MEDIUM-IMPACT ■ LOW-IMPACT



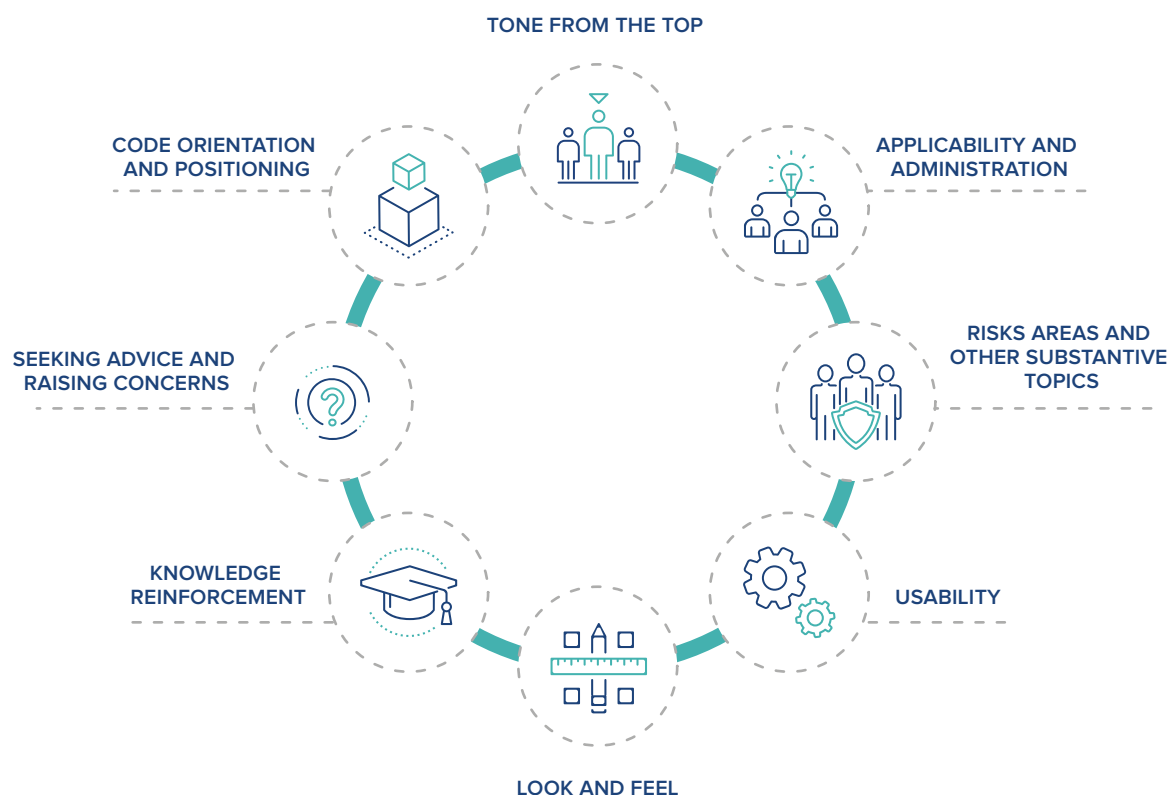
*Figure 4 from 2019 [E&C Program Effectiveness Report](#)

“*The purpose of a Code of Conduct is to affect behavior — to reinforce good behavior and discourage bad behavior*”

ASSESSING CODES OF CONDUCT

LRN assessed 96 Codes against eight dimensions of code effectiveness and maturity. Our code assessment framework is aligned with the [New York Stock Exchange](#) (NYSE), [Nasdaq](#), and the [U.S. Department of Justice](#) (DOJ) guidelines, but also delves deeper into best practices, through assessing criteria such as values orientation and alignment to mission.

FIGURE 2: EIGHT DIMENSIONS OF CODE EFFECTIVENESS AND MATURITY



NASDAQ REQUIRES LISTING COMPANIES TO HAVE A CODE OF ETHICS (OR CODE OF CONDUCT) THAT:

- Applies to all directors, officers, and employees, and is publicly available
- Includes a mechanism to ensure prompt and consistent enforcement, protection for persons reporting questionable behavior, clear and objective standards for compliance, and a fair process by which to determine violations
- Outlines standards regarding the ethical handling of conflicts of interest, full and fair disclosure, and compliance with laws, rules, and regulations
- Requires that any waiver for Executive Officers or directors may be made only by the board and must be disclosed to shareholders, along with the reasons for the waiver

Each of the 8 dimensions are assessed against a number of objective criteria that are rated on a score of 1 to 5. These criteria scores are averaged to identify the strength of a Code's performance on that dimension as Strong, Average, or Weak. By averaging all eight dimension scores, we categorize Codes into tiers of Developing, Established, and Optimized, the distribution of which is outlined in Fig. 3. Throughout this report, we will refer to Codes by tier, and dimension criteria by strength.

For this report, we assessed 96 Codes of Conduct over 16 industries and 7 countries. The overall Code scores fall into the following tiers:

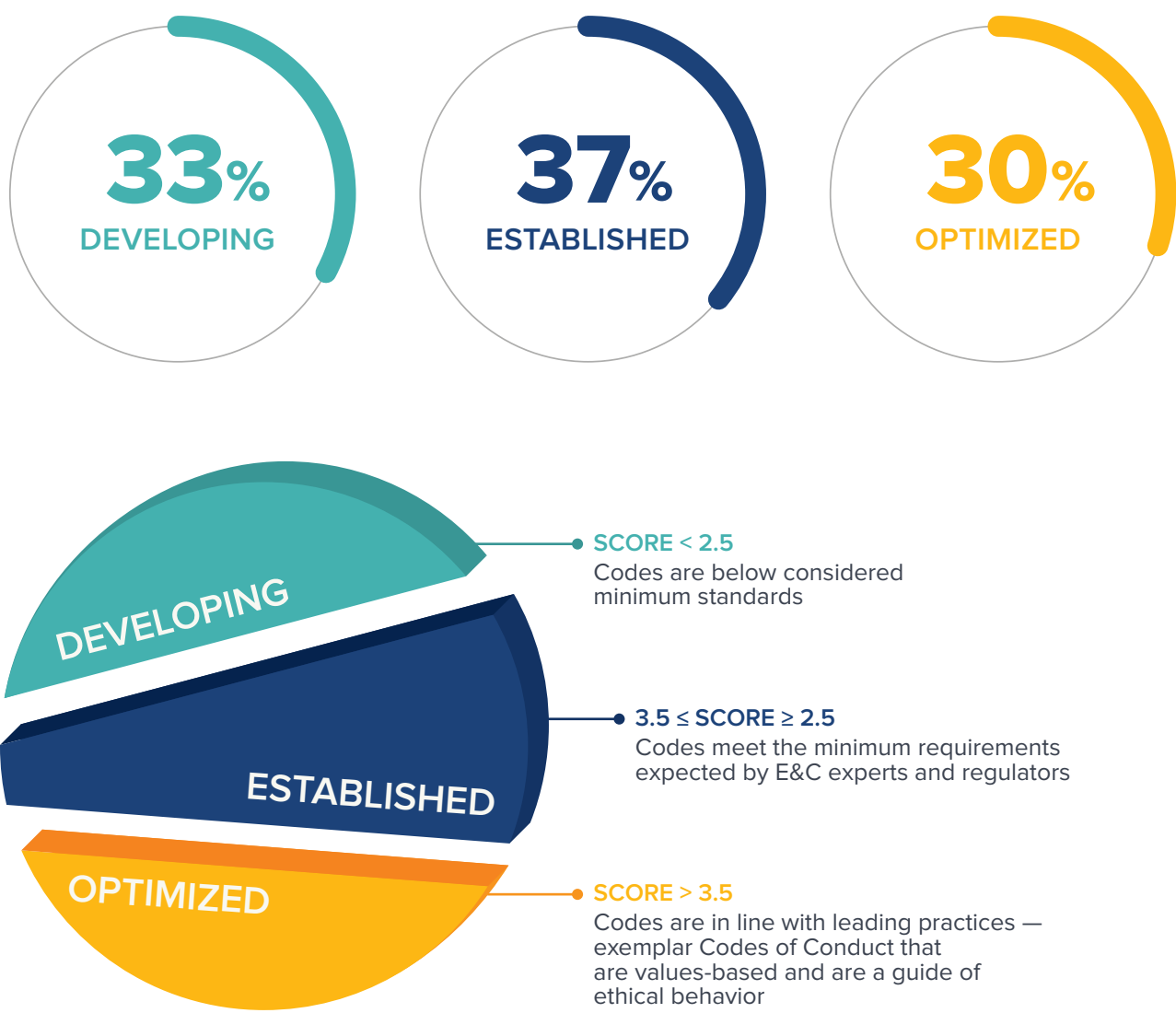


FIGURE 3: OVERALL BREAKDOWN OF COMPANIES IN TIERS

The distribution of Code dimension strengths highlights areas where Codes are aligning closely with best practices, as well as suggests areas of focus that can elevate the impact of Codes of Conduct on organizational behavior.

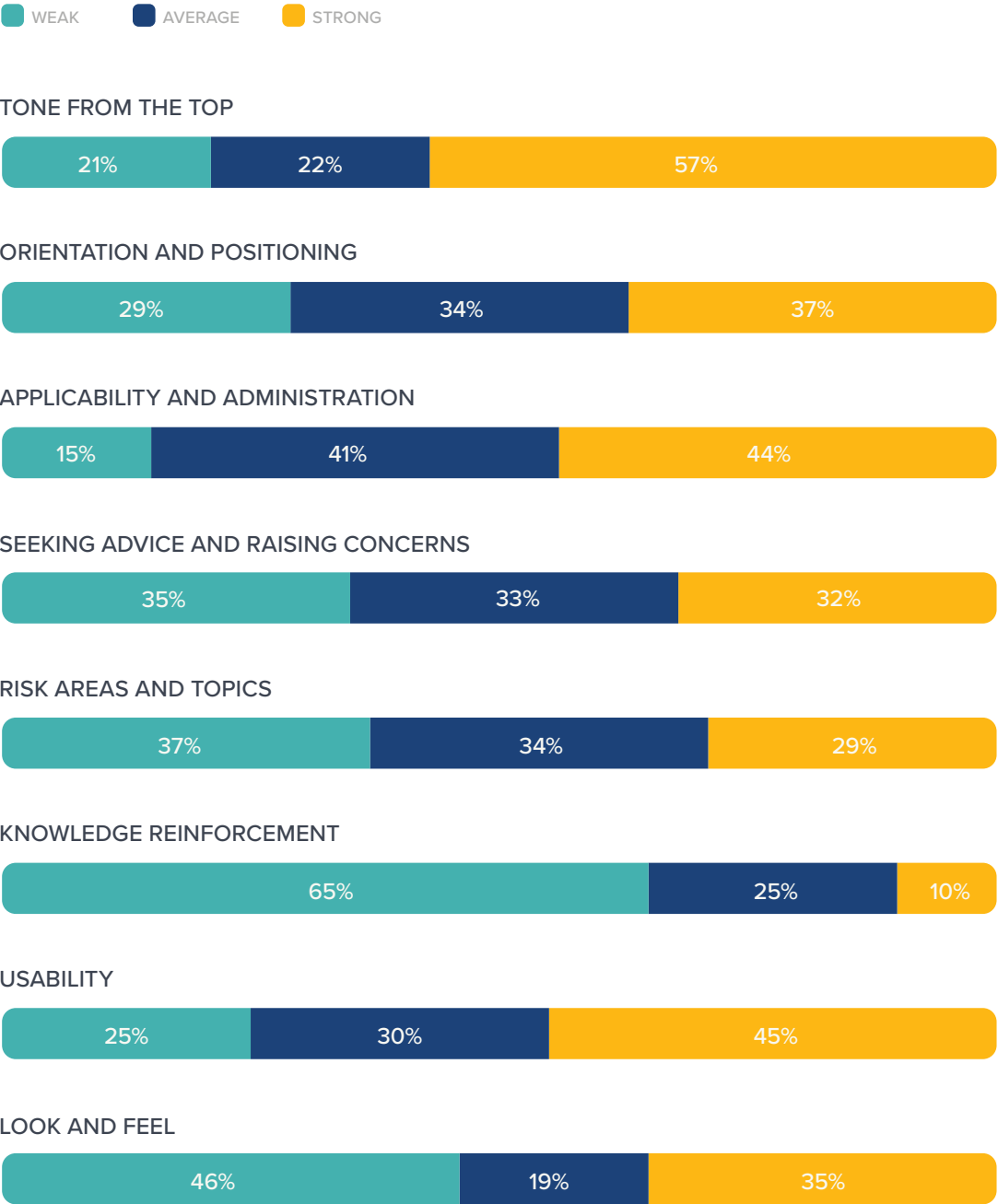


FIGURE 4: SUMMARY BREAKDOWN ACROSS DIMENSION



EXECUTIVE SUMMARY

LRN characterizes Codes by the tiers of Developing, Established, and Optimized. Our research finds that Optimized Codes are more effective at:

- Communicating a leadership message that connects stakeholders to purpose and company heritage
- Integrating and providing behavioral guidance around their values and mission
- Referencing specific responsibilities and expectations of stakeholders
- Giving plenty of details on the resources for reporting concerns and making those resources accessible
- Covering important risk areas and giving values-based business rationale for risk-mitigating measures
- Incorporating multiple types of reinforcement tools throughout the document
- Ensuring the document is laid out as a guide: linked, easy to read, and logically organized
- Unifying the document with company branding and reinforcing the culture visually

In addition to what sets Optimized Codes apart, the data reveal some overarching trends, such as:

- Only 30% of Codes are considered Optimized, suggesting significant opportunities for improvement
- A majority of Codes scored high in Tone from the Top, Accessibility, and Usability
- Few Codes, including those categorized as Optimized, scored high in Knowledge Reinforcement — a surprising trend given the significant learning opportunities to reach employees
- Most Codes are either Weak or Strong in Look and Feel, suggesting that minimal investment can result in high impact in this dimension.

TONE FROM THE TOP



FIGURE 6: DISTRIBUTION OF TONE FROM THE TOP

[LRN's 2019 E&C Program Effectiveness Report](#) found that in high-impact programs, the C-Suite understands the compliance risks facing the organization and supports mitigation measures. An impactful way to cascade this tone is through an inspiring message from the CEO that demonstrates a commitment to ethical behavior and living the values of the organization. The most effective CEO messages set out the purpose and values of the organization and align them to the Code.

Only **50%** of Developing codes include a CEO message, compared to **100%** of Optimized codes, indicating an easy way to strengthen any Code in this dimension.

Optimized Codes score an average of **37%** higher on values alignment and discussion of unique attributes, such as company history, in the CEO letter.

BEST PRACTICE: Focus leadership messages on what makes your organization unique and inspire employees through purpose, values, and a commitment to ethical business conduct.

ORIENTATION AND POSITIONING

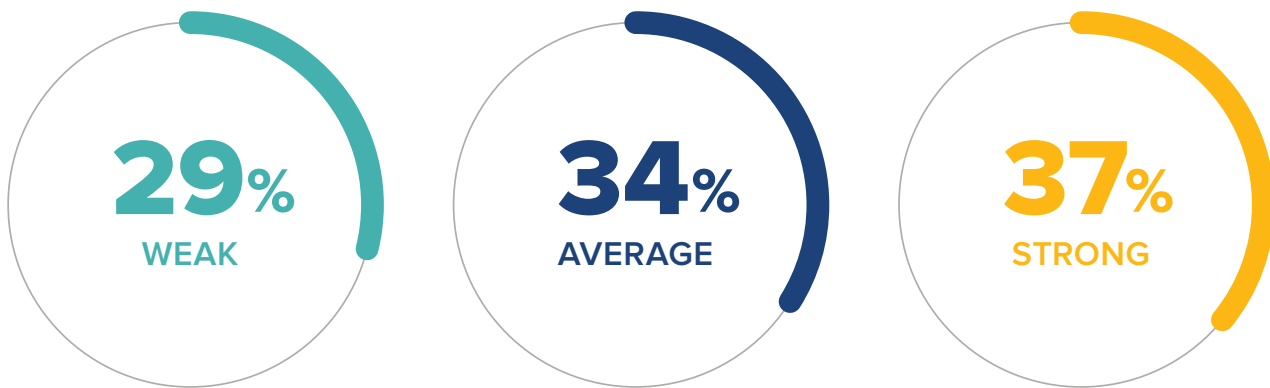


FIGURE 7: DISTRIBUTION OF ORIENTATION AND POSITIONING

Most employees are not E&C experts. A good Code of Conduct will give them a guide to ethical behavior and enough information to make decisions or ask if they need more support. Codes that orient themselves as a guide, rather than a handbook or manual of rules, will instill more trust and autonomy. It will also emphasize organizational commitment to values, ethical performance, and employees' roles in strengthening culture.

Orienting the Code with purpose and branding through a theme is integral to framing it as a guiding document of the business. Themes also present an opportunity to create a memorable and engaging guide that further speaks to employees.

67% of all Codes reference organizational values.

> **50%** of these Codes articulate values in behavioral terms.

100% of Optimized Codes reference organizational purpose and how it relates business operations.

40% of all Codes have a theme.

> **46%** of the themes connect to the purpose and brand identity of the organization.

BEST PRACTICE: Orient Codes as a guide for ethical behavior; a theme, branding, and consistent communication reinforces the Code as a foundational company instrument.

APPLICABILITY AND ADMINISTRATION

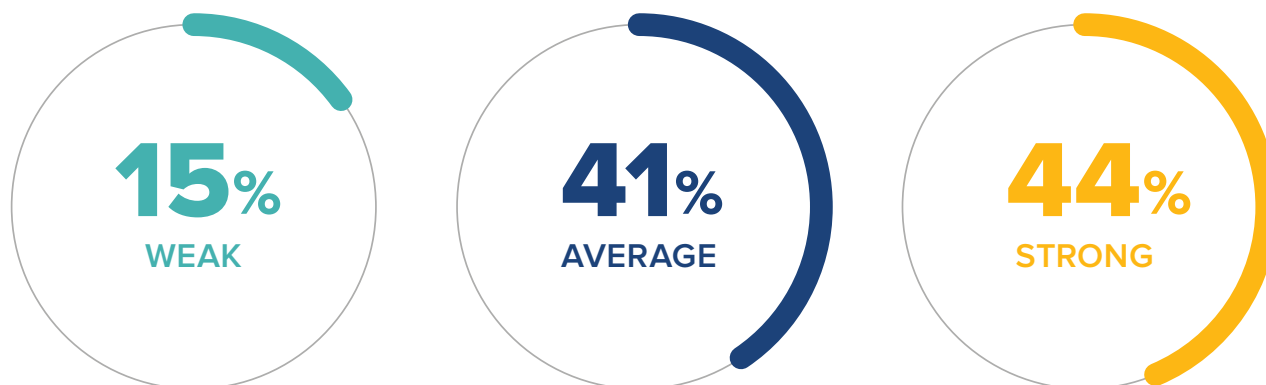


FIGURE 8: DISTRIBUTION OF APPLICABILITY AND ADMINISTRATION

Being clear about to whom the Code applies and how it's implemented and enforced sets expectations up front. By stating responsibilities clearly, the Code encourages a culture of transparency and organizational justice.

92% of all Codes are expressly applicable to employees, officers, and directors.

- > Only **58%** of them extend applicability to contractors, agents, and others working on behalf of the company.

64% of all Codes reference leaders' and supervisors' responsibilities.

- > Optimized Codes are **2.5x** stronger than Developing Codes.

80% of all Codes include details on consequences of violating the Code.

45% of all Codes explain the procedure for investigation of misconduct.

BEST PRACTICE: Ensure Codes are applicable to all employees, leaders, officers, and directors, as well as contractors, agents, and anyone working on behalf of the company. Call out responsibilities specific to those various groups and ground them in values-based behaviors.

HOW CAN CODES EFFECTIVELY OUTLINE LEADERS' AND SUPERVISORS' RESPONSIBILITIES?

Optimized Codes listed leaders as leaders as the first point of contact for raising issues and stating that supervisors should lead by example. Optimized Codes also provided additional responsibilities related to E&C, with particular emphasis on the leaders' and supervisors' roles as "carriers" of the culture and values and leading by example.

THE DOJ DISCUSSES CODE APPLICABILITY IN THEIR 2019 GUIDANCE:

"As a threshold matter, prosecutors should examine whether the company has a code of conduct that sets forth, among other things, company's commitment to full compliance with relevant Federal laws that is accessible and applicable to all company employees."

SEEKING ADVICE AND RAISING CONCERNS

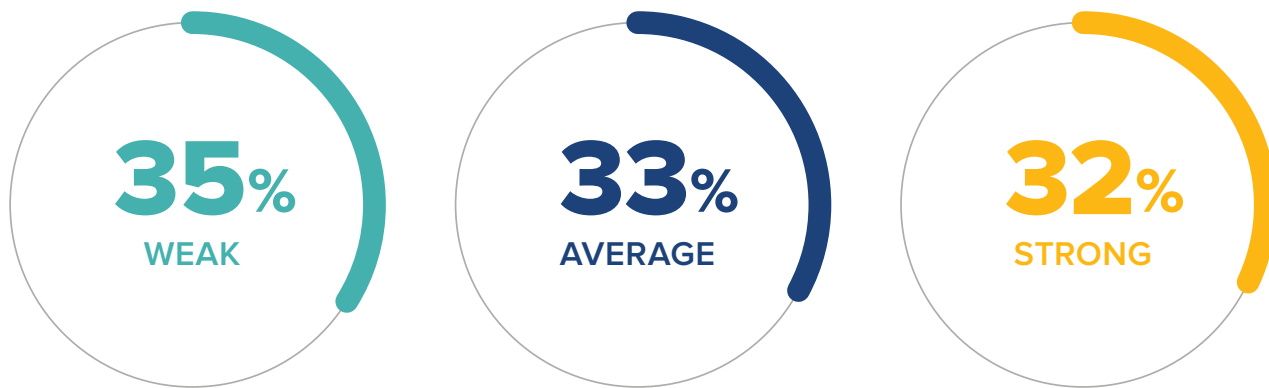


FIGURE 9: DISTRIBUTION OF SEEKING ADVICE AND RAISING CONCERNS

Codes should make it easy to ask questions or seek additional guidance. Having an accessible reporting structure, and including a hotline available in all countries, reinforces the importance of raising concerns. By providing as many details about the reporting process as possible, organizations can foster trust and transparency; stakeholders will know what to expect, where to go, and next steps in the process.

93% of all Codes have a section on seeking guidance.

- > On average, Optimized Codes are **52%** stronger than Developing Codes.

70% of all Codes include details on hotline reporting.

- > Only **35%** discuss confidential reporting.
- > Only **19%** discuss anonymous reporting.

BEST PRACTICE: Include detailed resources of where employees can go for further guidance. Discuss options for reporting and reaffirm the organization's stance against retaliation for reporting.

NON-RETALIATION

It's important for Codes to reaffirm an organization's stance on retaliation. These sections emphasize the commitment to “good faith reporting” and encourage stakeholders to speak up.

This study found that 90% of all Codes include a section on non-retaliation. Sections on non-retaliation are considered strong in 76% of all Codes.

2019 DOJ GUIDANCE ALSO SPEAKS TO THE IMPORTANCE OF HAVING AN EFFECTIVE SYSTEM FOR REPORTING CONCERNS:

"Another hallmark of a well-designed compliance program is the existence of an efficient and trusted mechanism by which employees can anonymously or confidentially report allegations of a breach of the company's code of conduct, company policies, or suspected or actual misconduct."

The DOJ suggests that companies should assess if their reporting program aligns with the following:

- If the complaint-handling process includes proactive measures to create a workplace atmosphere without fear of retaliation, appropriate processes for the submission of complaints, and processes to protect whistleblowers
- Processes for handling investigations of complaints has timely completion of thorough investigations, and appropriate follow-up and discipline

RISK AREAS AND TOPICS

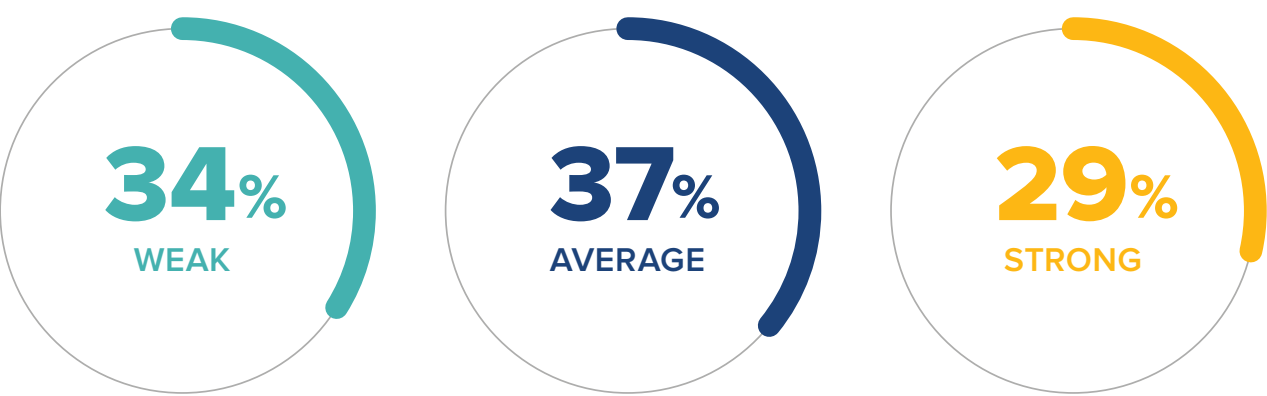


FIGURE 10: DISTRIBUTION OF RISK AREAS AND TOPICS

Codes of Conduct are created as a resource to help mitigate risk through raising awareness, providing behavioral guidance, and enabling ethical decision making. The risk areas, or topics, the Code covers are important issues that stakeholders are expected to be aware of.

- The average number of risk areas covered is 23 — Optimized Codes, on average, cover 27 topics.
- Security and Crisis Management was only covered in 25% of Codes — the least covered risk area.
- Conflicts of Interest is covered in 95% of Codes — the most covered risk area.
- There are four topics that should be included in all Codes, that are surprisingly only found in a smaller percentage:
 - Data Privacy: 68%
 - Social Media: 53%
 - Diversity and Inclusion: 55%
 - Human Rights: 45%

Optimized Codes are **2.3x** stronger in providing business rationale in their guidance than Developing and Established Codes.

BEST PRACTICE: Cover all important risk areas applicable to your industry. Include values-based guidance that focuses on actionable behaviors and connects to the business rationale.

TOP RISK AREAS FOR OPTIMIZED CODES (*RISK AREAS COVERED IN 100% OF OPTIMIZED CODES)

- Conflicts of Interest
- Accurate Records
- Corporate Assets (Fraud and Theft)
- Antitrust & Competition
- Harassment/Respectful Workplace
- Gifts and Entertainment

KNOWLEDGE REINFORCEMENT

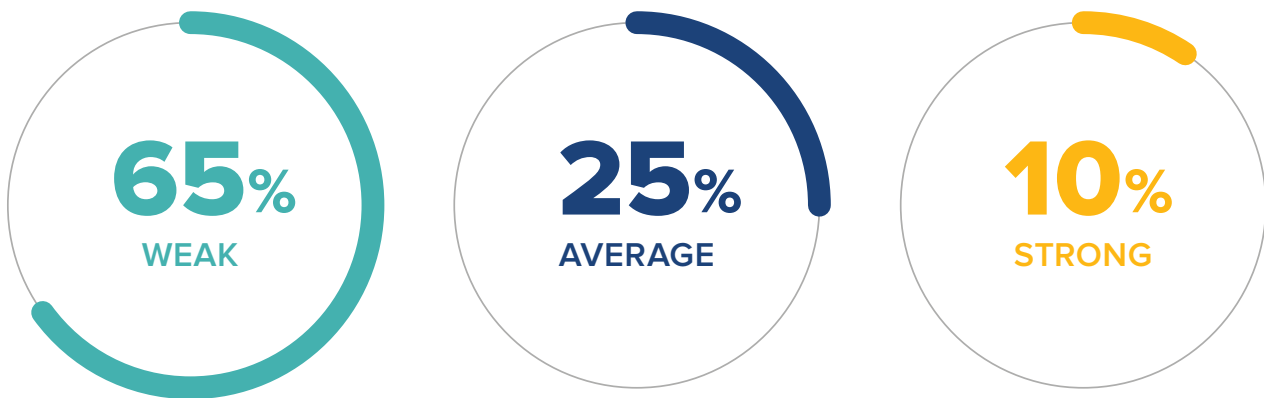


FIGURE 11: DISTRIBUTION OF KNOWLEDGE REINFORCEMENT

E&C programs often separate their compliance training and eLearning from their Code — reinforcing knowledge at various communication points and training sessions. With new ways to engage stakeholders and extend learning to this physical document, there's an increased focus on how content is reinforced through creative avenues.

- 1 Code (out of 96 assessed) had all the criteria of knowledge reinforcement — Q&As, Decision-Making Model, Multimedia, and reference and links to specific policies — it was also the Code with the overall highest average score across the 8 dimensions.

50% of all Codes have a decision-making model.

> Optimized Codes are **2.9x** stronger in integrating values into their models.

60% of all Codes include references to specific policies — only **35%** have such references for each risk area.

BEST PRACTICE: Integrate learning aids, such as real-life scenarios and visual representations, to help all types of learners better connect to difficult topics.

KNOWLEDGE IS POWER

We find that all Codes struggle to be strong in knowledge reinforcement. This tells us that Optimized Codes are trying to implement this feature, but are failing, even when falling in the highest tier and following best practices in all other dimensions.

- Only 10% of all Codes assessed are strong in this dimension, the lowest out of all dimensions.
- Out of Optimized Codes, 21% are weak and 48% are average in knowledge reinforcement.

NYSE CORPORATE GUIDANCE EMPHASIZES THE IMPORTANCE OF EASY TO USE CODES THAT RELY ON VALUES:

Codes that focus on rules rather than values tend to be overly formal and difficult to read, having clearly been written by a team of lawyers. Studies show that companies exhibiting a pronounced emphasis on ethics and trust have higher employee retention rates and attract more prospective employees.

USABILITY

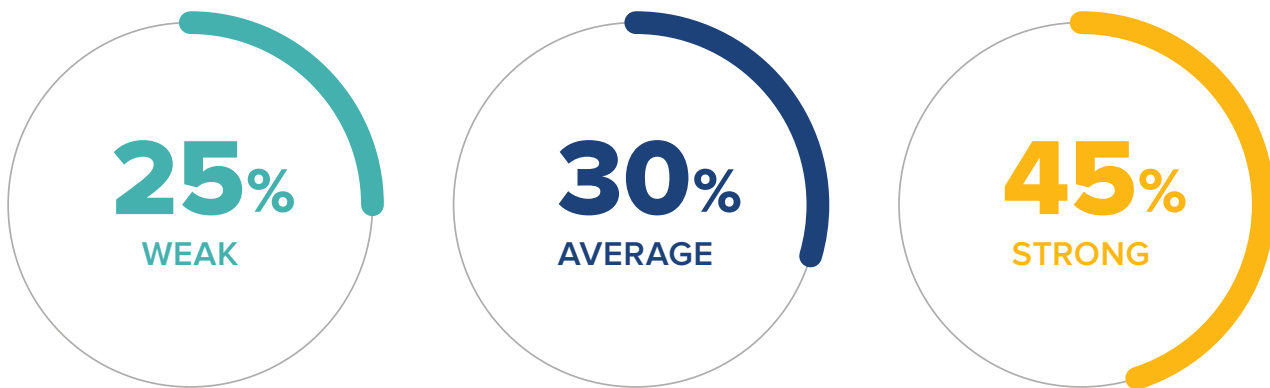


FIGURE 12: DISTRIBUTION OF USABILITY

A Code can be full of great information, but if it isn't usable, employees will not refer to on a regular basis. By focusing on how the content is laid out, organizations can create Codes that employees can easily navigate, read, and utilize. Codes that provide hyperlinked resources, such as reporting websites or emails and policies, are more accessible and usable.

The results show that many Codes have the basic components of usability: a table of contents, structured organization, and some attention to writing style. Many Codes in this dimension fail to take the next step to be in line with best practices in usability — namely, simplifying the language used to make it more comprehensible to everyone in the organization.

- 78% of all Codes have a table of contents, but only 40% include digital navigation through a linked table of contents.
- 82% of all Codes prominently highlight risk area principles, but only 60% of these Codes provide behavioral guidance.
- While 44% of all Codes have accessible language, explanations are still seemingly complex or drawn out — only 33% of the reviewed Codes are strong in use of concise and direct explanations.
- Optimized Codes have an reading grade level of 9.6.

BEST PRACTICE: Target a reading grade level of 8-10 to ensure comprehension by all levels of employees. Applying navigability features enables employees to easily access needed information, included additional resources.

LOOK AND FEEL

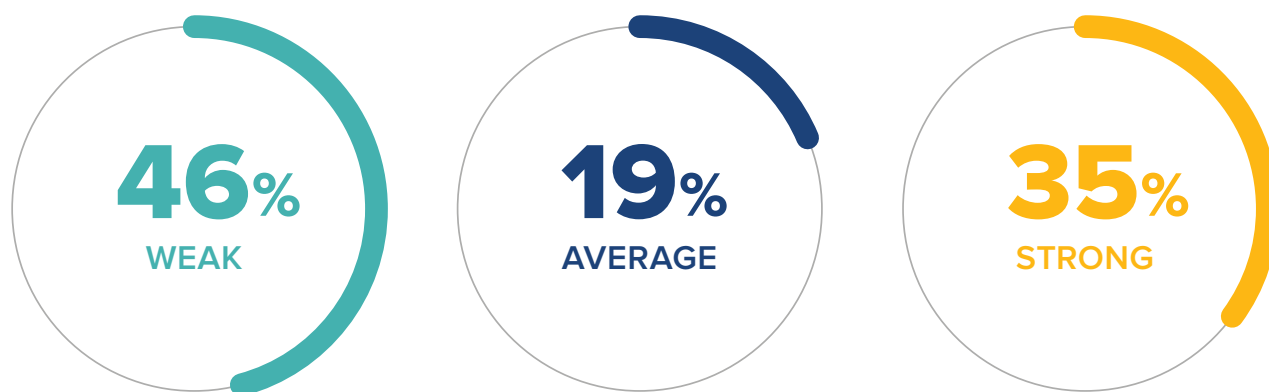


FIGURE 13: DISTRIBUTION OF LOOK AND FEEL

When stakeholders read a Code, it should come across as that company's culture written down. It should include photos of employees, and places and products that represent the company. The Code should also mirror the company's brand. By optimizing these qualities, Codes become an integral document for the company, rather than a document utilized just by the E&C department.

- Many Codes look nice — there is a 50% chance a Code is strong or average in this dimension.
 - Optimized and Established Codes score similarly in their use of white space and avoiding large blocks of text — this suggests that even Optimized and Established Codes struggle in this dimension.
- The gap between Established and Optimized Codes is large — for each criteria, Optimized Codes are, on average, 1.6x stronger in Look and Feel. This suggests that even if a Code has each criteria, they are only meeting the bare minimum. Optimized Codes are:
 - 1.5x stronger in use of meaningful images that enhance the readers' experience
 - 1.7x stronger in use of call-out boxes to emphasize important content
 - 1.6x stronger in use of white space and avoiding large blocks of text, making the Code easier to digest
 - 1.4x stronger in alignment of visual style with the organizations brand

BEST PRACTICE: Apply design elements such as branding and representative imagery that reinforce your company culture and values, and help the Code feel like an integral company document.

There's a 50/50 chance that a Code will be visually appealing, but what does it do?

Codes are more than just a branded document — they should inspire, guide, and enable employees through meaningful and values-based content, accessible language, and meeting employees where they are. While a Code may look like it belongs or is effective, our study suggests that most Codes need development in other dimensions.

CONCLUSION

Codes of Conduct have developed over time — from a Compliance Manual to "Your Culture Written Down." E&C programs are shifting and evolving to be more easily understood and referenced, thereby creating a guide of how employees should operate in day-to-day behavior. Optimized Codes focus on these factors and more; when you give employees the tools to make the right decisions, you instill trust and reinforce your values. Codes of Conduct are becoming a tool for bridging the gap between compliance and ethical behavior — understanding the impact of what an Optimized Code can contribute and integrating these best practices will only help to accomplish this goal.

Your Code of Conduct should inspire principled performance by connecting employees with your organization's higher purpose, aligning them with your shared values, and immersing them in your unique culture, business, and brand. It should guide employees in living out the values, understanding why it's important to the business, and executing what is expected of them. Finally, it should empower employees by facilitating ethical decision-making, elevating risk awareness and understanding of the controls in place to mitigate those risks, and showing them how to get help or more information.

By adopting these best practices, Codes will grow in their importance in operationalizing any E&C program. Your Code should be a "gateway" to your entire E&C program, policies, and training. Employees should come back to your Code time and again — whenever they have questions, need more information, or need support to do the right thing.



DEMOGRAPHICS

In our study of Codes of Conduct, we were able to include a diverse sample, represented by our demographic breakdowns below.

ASSESSED INDUSTRIES

Information Technology Products & Services	12%
Medical Technology, Healthcare & Biotech	10%
Entertainment, Leisure & Hospitality	8%
Financial, Real Estate & Insurance	8%
Manufacturing	8%
Aerospace & Defense	7%
Consumer Products & Services	7%
Energy, Mining & Utilities	7%
Food, Beverage & Tobacco	7%
Automotive, Marine, & Transportation Products & Services	6%
Chemicals, Coatings, Fibers & Plastics	5%
Marketing, Media, Broadcasting & Digital Commerce	5%
Construction Products & Services	2%

Electronics, Connectivity, Controls & Diagnostics	2%
Engineering & Environmental	2%
Pharmaceuticals	1%

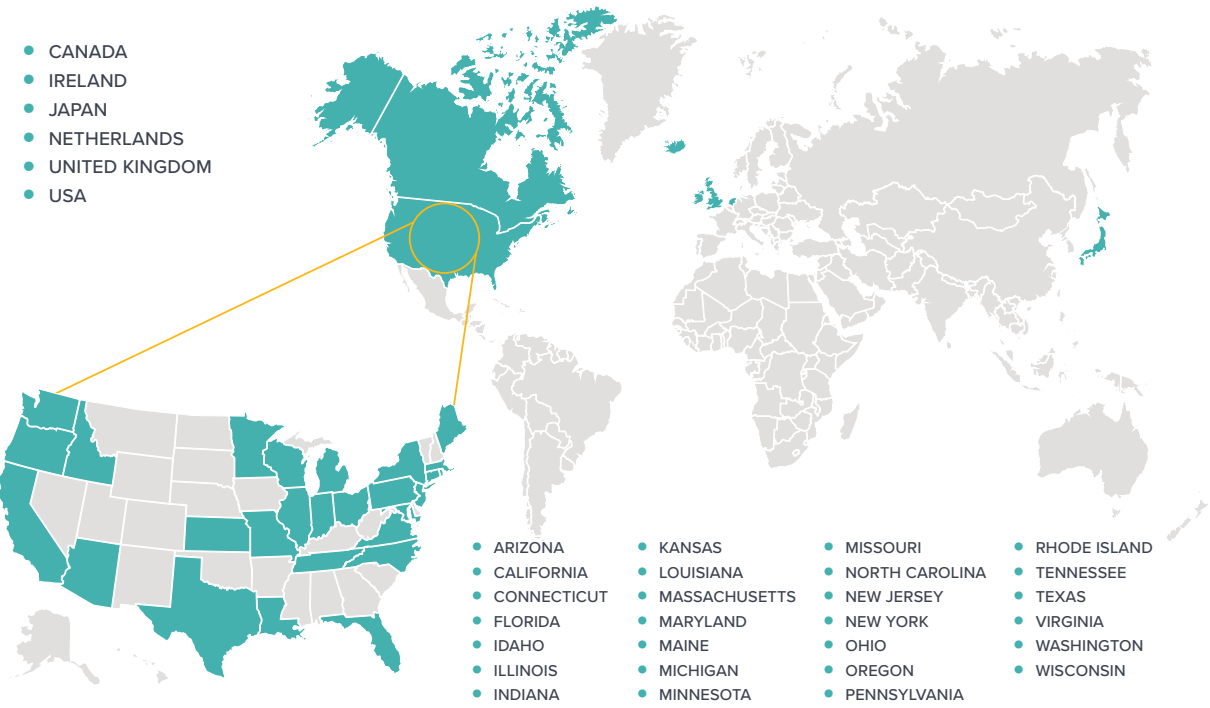
TYPE OF COMPANIES

Public	84%
Private	11%
Non-Profit	4%

COMPANY SIZE

More than 10,000	63%
Between 5,000 and 10,000	17%
Between 2,000 and 4,999	14%
Between 1,000 and 1,999	5%
Under 999	2%

LOCATION OF COMPANY HEADQUARTERS





METHODOLOGY

LRN assessed nearly 100 Codes of Conduct for this report using our proprietary Code of Conduct Assessment Tool. This Tool was originally developed in 2015 by former in-house E&C practitioners and drawing upon current research into E&C program effectiveness. Over time, LRN has updated the Tool to reflect latest research and regulatory guidance, and to incorporate lessons learned from our experience assessing 200 Codes in total. The result is a concrete, objective, and comprehensive tool that assesses Codes via 69 questions that map to the 8 dimensions described in this report.

In our Code Assessments, we categorize Codes as Developing, Established, or Optimized based upon their overall score. To calculate the overall score, we average the results across the 8 dimensions, which in turn reflect the average of the questions within each dimension. Questions are answered on a scale of 1 to 5. An overall score less than 2.5 is considered Developing; greater than or equal to 2.5 but less than or equal to 3.5 is Established; and greater than 3.5 is Optimized.

We identify a Code's strength within each dimension as Weak, Average, or Strong, using the same distribution of scores described above. In this report, we describe both the distribution of Codes across tiers (Developing, Established, Optimized) and individual dimensions (Weak, Average, Strong). Due to rounding, some percentages may not add up to 100%.

