

ANTI-CORRUPTION HELPDESK

PROVIDING ON-DEMAND RESEARCH TO HELP FIGHT CORRUPTION

CODES OF ETHICS FOR COMPANIES: GOOD PRACTICES AND RESOURCES

QUERY

Can you provide a short overview on the existing standards and best practices, altogether with the relevant bibliography regarding the adoption of a ethical code and mission statement for energy companies?

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SUMMARY

An ethical code clarifies the objectives a company pursues, the norms and values it upholds and the conduct it expects from its leadership, employees and business partners. They usually include a vision and mission statement followed by more detailed standards and rules for employees, covering issues related to corruption as well as human rights, environment protection, fair competition and the protection of the company's assets.

This answer provides an overview of the main issues related to the adoption and implementation of codes of ethics for businesses and a list of available international standards, guidelines and background studies related to codes of corporate ethics. While these do not necessarily focus on the energy sector, they also apply to companies operating in this field.

1 CODES OF ETHICS FOR COMPANIES: AN OVERVIEW

Overview

Ethical codes for companies are intended to be a central guide and reference for employees, managers, suppliers and other stakeholders. They typically contain open guidelines describing acceptable behaviour and clarify the norms and values the company seeks to uphold and what it can be held accountable for (Kaptein 2004).

International standards, such as the United Nations Conventions against Corruption and the United Nations Global Compact Business Principles against Corruption, underscore the importance of adopting and effectively implementing a code of conduct in the private sector as an anti-corruption tool. These standards also highlight that in order to be effective, the code should be part of a broader anti-corruption programme that takes into consideration the main corruption risks of the sector and region where the company operates.

There are no specific standards regarding the adoption and content of codes of conduct for companies operating in the energy sector. Nevertheless, the more general standards for the private sector are also relevant to the energy sector, and each company should seek to address the specificities and risks of the sector in which it operates in the code or through further anti-corruption compliance programmes.

For a number of reasons, the energy sector is particularly prone to corruption (Ernst & Young 2014), making the adoption of a code of conduct and an anti-corruption programme extremely important. For instance, as energy companies usually operate under a tender process, the risks of bribery and corruption in the award of contracts are enhanced, particularly because energy contracts are often long term and of high value, outweighing the risks of paying a bribe to win the contract. Energy companies often have complex supply chains and recently adopted anti-corruption laws have been punishing parent companies for the behaviour of third

parties¹.

Moreover, the TRACE 2013 Enforcement Report also shows that approximately 20 per cent of all foreign and domestic enforcement actions up to 2013 occurred in the energy sector, with oil and gas companies receiving very high fines due to their engagement in corruption and bribery.

Against this background, energy companies should commit and encourage ethical behaviour among employees, suppliers and third parties.

What should ethical codes cover?

Codes of conduct for companies usually contain the company's values and principles and provisions regulating the company's business practices with regard to stakeholders as well as the conduct expected from employees. A study conducted in 2008 concluded that the majority of codes of conduct (52 per cent) adopted by businesses contain a mix of principles and rules. Thirteen per cent of codes are principle-based and 35 per cent are rules-based (KPMG 2008). The study also shows that the most common cited core values of codes of conduct are integrity, teamwork, respect, innovation and client focus.

Within this framework, the content and provisions of such codes also vary significantly across companies. A study conducted by Kaptein in 2004 assessing 200 of the largest companies in the world found that more than 50 per cent had adopted a code of ethics. A similar study conducted in 2008 found that more than 80 per cent already had their codes. More than half of the codes contain provisions describing the company's responsibilities regarding the quality of products and services; 57 per cent contained requirements of adherence to local laws and regulations; 52 per cent contained provisions on conflicts of interest; and 46 per cent contained provisions dealing specifically with corruption. Other issues regulated included transparency, fairness,

¹ Risk and Compliance Magazine. 2014. "Anti-corruption and Compliance in the Energy Sector". <http://riskandcompliancemagazine.com/anti-corruption-and-compliance-in-the-energy-sector/>

confidentiality and appropriate conduct among employees, among others (Kaptein 2004).

Overall, codes of ethical conduct are structured in the following way: (i) mission and vision of the organisation including the company's strategic objectives and a statement of what the organisation stands for (ii) core values including a general statement of the company's motives and internal culture (iii) business practices responsibilities including the company's responsibilities toward stakeholders such as consumers, shareholders, employees, business partners and public officials, among others (iv) standards and rules for managers and employees indicating what is considered acceptable behaviour, including rules on gifts, use of company's assets, confidentiality, among others (KPMG 2008).

Within this framework, available guidance on corporate ethics and assessments highlight that the following issues related to corruption are usually covered (Transparency International 2009; Ethics Resource Centre 2009):

- Zero tolerance policy to corruption
- Gifts and hospitalities: companies should establish clear rules for the acceptance and offering of gifts. For more information on international standards on gifts and hospitality, please refer to the Helpdesk answer "Best practice for gifts, entertainment and travel policies for businesses"
- Conflicts of interest
- Political contributions
- Lobbying

The effectiveness of codes of conduct for companies

According to Kaptein (2009), an effective code of conduct should be comprehensive, include guidance on ethical dilemmas faced by managers and employees, be consistent with national laws and regulations, be tailor-made in a manner that reflects the company's identity and be feasible.

In addition, the effectiveness of an ethics code

depends to a great extent on how it is developed, introduced, implemented, internalised and institutionalised. The initial process of development of the code is already considered essential to guarantee its correct implementation and enforcement in the future. Internal and external stakeholders should be involved in the discussions of the content to ensure that the daily challenges and dilemmas they face are properly covered and to create a sense of ownership.

Once adopted, codes should be living documents and be embedded in the company's policy. For that, regular communication of the content of the code, training to managers and employees, the establishment of monitoring systems that can support the detection of code violations, including the creation of anonymous helplines, and adequate enforcement are very important for guaranteeing effective implementation (Kaptein 2009; UN Global Compact).

2 GOOD PRACTICE EXAMPLE IN THE ENERGY SECTOR: STATOIL'S CODE OF ETHICS

According to experts consulted, the code of ethics adopted by the Norwegian company Statoil is considered to be good practice in the energy sector. The code starts by highlighting its main objectives and the target group at which it is aimed.

Section three of the code covers business practices, stressing the conduct that is expected from Statoil. It contains provision on the following issues:

- **Correct information, accounting and reporting:** Statoil's business information will be communicated accurately and fully, both internally and externally. All accounting information must be correct, registered and reproduced in accordance with laws and regulations, including relevant accounting standards.
- **Fair competition and anti-trust laws:** Statoil will compete in a fair and ethically justifiable manner within the framework of the anti-trust and competition rules in the markets in which the group operates.

- **Combating corruption:** Statoil is against all forms of corruption. For the purpose of the code, corruption includes bribery and trading in influence. A definition of both terms is provided and it covers the public and private sectors. The code makes a special mention of facilitation payments, stressing that Statoil is against the use of this type of payment even in cases where it may be legal and will work actively to prevent such payments. In addition, the code states that third parties have to adhere to the same rules and procedures that apply to Statoil.
- **Public officials:** the code prohibits employees from giving gifts, payments or offering anything of value to public officials.
- **Relations with suppliers, partners and customers:** suppliers and partners are expected to adhere to ethical standards, which are consistent with Statoil's ethical requirements.
- **Use of intermediaries:** before intermediaries (for example, lawyers or consultants) are hired, the manager in question must ensure that the intermediary's reputation, background and abilities are appropriate and satisfactory. Statoil expects that intermediaries act in accordance with its ethical requirements and this condition must be included in the intermediary's contract.
- **Use of lobbyists:** the use of lobbyists is only permitted if such a person fully discloses to the person or body Statoil wishes to influence that they represent Statoil. It is therefore an absolute requirement that all contracts with lobbyists impose an obligation on the lobbyist to disclose this information.
- **Political activity:** Statoil does not support individual political parties or individual politicians.
- **Equality and diversity:** Statoil will show respect for all individuals and make active efforts to ensure a good working environment characterised by equality and diversity.

Section four of the code covers personal conduct, setting the ethics standards expected from anyone acting on behalf of the company. These include:

- **Protection of Statoil's property and assets:** the use of Statoil's time and assets (including facilities and financial assets) for purposes not directly related to Statoil's business is prohibited.
- **Confidentiality:** the duty of confidentiality should prevent unauthorised persons from gaining access to information that may harm Statoil's business or reputation.
- **Corruption:** the prohibition against corruption described above applies for individuals acting on Statoil's behalf. In case of violations, the group may be fined and individuals may be fined and/or imprisoned.
- **Gifts, hospitality and expenses:** individuals must not accept gifts except for promotional items of minimal value. Hospitality such as social events, meals or entertainment may be accepted if there is a clear business reason. Travel, accommodation and other expenses for the individual in connection with such hospitality must always be paid by Statoil. No individual acting on behalf of Statoil may, in their dealings with customers, suppliers and other parties, offer or agree to pay for gifts, hospitality or other expenses that would violate these principles.
- **Conflict of interest:** the individual must behave impartially in all business dealings and not give other companies, organisations or individuals improper advantages. The individual must not become involved in relationships that could give rise to an actual or perceived conflict with Statoil's interests or could in any way have a negative effect on their own freedom of action or judgement. Appendix B of the code includes requirements for certain employees to disclose business interests.
- **Insider information:** irrespectively of how the

- information is obtained, no individual may use, or contribute to others using, insider information about Statoil or other companies to subscribe for, or trade in, securities, either privately or on Statoil's behalf.
- **Maintaining records:** Statoil is committed to transparency and accuracy in all its dealings, while respecting its confidentiality obligations. Individuals therefore have the responsibility to maintain necessary records of Statoil's business and business relations.
- **Purchase of sexual services:** Statoil is against the purchase of sexual services. The individual must refrain from buying sexual services when on assignments and business trips for Statoil.
- **Intoxicants:** Statoil is a drug-free workplace. Accordingly, it is not permitted to be under the influence of intoxicating substances, including alcohol, while at work for Statoil.

Section five covers the implementation and enforcement of the code. Among other things, it contains provisions on whistleblowing and reporting mechanisms. Individuals can report breaches of the code to their superior, to the internal entity responsible for handling ethical cases or to Statoil's ethics helpline (www.Statoilhelpline.com), which is available in all countries in which Statoil is represented. Anonymous reports are allowed and the code ensures that no sanctions in any form will be implemented against those reporting breaches.

3 RESOURCES ON CODES OF CORPORATE CONDUCT

International standards and guidelines

There are a few international standards and guidelines that require/recommend companies to develop codes of conduct as a means to prevent corruption. They include:

United Nations Convention against Corruption (UNCAC)

The UNCAC requires companies to adopt codes of conduct or standards to ensure the correct performance of commercial practices. Article 12 §2 (b) required "the development of standards and procedures designed to safeguard the integrity of relevant private entities, including codes of conduct for the correct, honourable and proper performance of the activities of business".

Reporting Guidance on the 10th Principle against Corruption

United Nations Global Compact 2009

<https://www.unglobalcompact.org/resources/154>

The 10th principle says that "businesses should work against corruption in all its forms, including extortion and bribery" and commits UN Global Compact participants to not only avoid bribery, extortion and other forms of corruption, but also to develop policies and concrete programmes to address corruption, including by establishing an ethics code. The publication highlights that principles and codes are rarely sufficient in themselves and have to be accompanied by training and follow-up, ensuring that an ethical culture is developed within a company through a consistent strategy.

Building corporate integrity systems to address corruption risks

Policy Position 04/2009: Transparency International
http://www.transparency.org/whatwedo/pub/policy_position_04_2009_building_corporate_integrity_systems_to_address_cor

This Transparency International policy position highlights the main features of an effective corporate integrity system including the adoption of a code of conduct, which is seen as instrumental. The adoption and enforcement of global ethical standards that bind businesses and employees to shared principles (values, policies and attitudes) and practices (norms, systems and processes) is the first necessary element of a corporate integrity system. The publication stresses, however, that due to their voluntary nature and their frequent lack of independent verification, it is difficult to assess whether in practice they achieved the desired results. For that, it is essential that the code be embedded within the company and employees' practices. As such, how a code is introduced, implemented,

internalised and institutionalised can mean much more than what it actually covers.

Good practice guidance

Ethics Toolkit

Ethics Resource Centre

<http://www.ethics.org/page/ethics-toolkit>

The Ethics Resource Centre, a non-profit, research organisation dedicated to independent research that advances high ethical standards and practices in public and private institutions, provides a set of guidelines regarding the adoption of ethical standards by companies. The ethical toolkit developed by the organisation includes tips and guidelines for writing codes of ethics, an ethics glossary, values definitions and other short articles on the practice of organisational ethic.

For instance, with regard to [values](#), the guidance stresses that when developing a code of ethics, businesses need to identify a set of values that represent the ideals and message they want to send to employees, business partners and customers. In addition, it is fundamental that the company provides a definition for each of the values identified as important. Employees should know how companies view these values. A list of values and their definition is also provided in the guidance.

The tool kit also highlights some of the common provisions of codes of corporate conduct. Those can vary quite substantially depending on the type of business, country of operation as well as main objective of the code, but they usually cover (i) employment practices (ii) conflicts of interest (for example, family member, gifts, political donations, outside employment) (iii) public information/communications (iv) environmental issues (v) ethical management practices, among others.

In addition, guidance on [code construction and content](#) as well as on [how to write effective codes of conduct](#) are available.

Background papers

The living business code: improving corporate

integrity and reducing corruption from the inside.

Kaptein, M. 2009. Global Corruption Report Private Sector. Transparency International.

http://www.transparency.org/whatwedo/publication/global_corruption_report_2009

This article is part of the 2009 Transparency International Global Corruption Report on the private sector. It discusses the main reasons companies adopt codes of content, common features of their content, previous research on their effectiveness as well as the main challenges faced by companies to implement such codes. The publication draws on the findings of the 2008 assessment conducted by KPMG, which is discussed below.

Assessments

Business Codes of the Global 200: their prevalence, content and embedding.

KPMG 2008

<https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/business-codes-global-200-0804.pdf>

This study assesses the results of a survey conducted by KPMG and the RSM Erasmus University on business codes. It discusses the prevalence, content and embedding of business code among Fortune Global 200 companies. It finds that the majority of codes contain provisions stating the company's main mission and vision, its core values, responsibilities to stakeholders as well as standards and rules. The latter provides more detailed guidance regarding the way employees, directors and managers are expected to behave. The study also provides information on the main strategies used by companies for the adequate implementation and enforcement of the code.

Business Codes of Multinational Firms: What Do They Say?

Kaptein, M. 2004. *Journal of Business Ethics* 50, no. 1: 13-31.

<http://link.springer.com/article/10.1023/B:BUSI.000021051.53460.da#page-1>

This paper presents the results of the assessment of the codes of the largest corporations in the world. Of the 200 largest companies, 52.5 per cent have a

code. The results of this inquiry present a benchmark for the evaluation and development of both individual and international business codes.

Other resources

Anti-Corruption Ethics Compliance Handbook

OECD

<http://www.oecd.org/corruption/Anti-CorruptionEthicsComplianceHandbook.pdf>

This handbook has been developed to serve as a useful, practical tool for companies seeking compliance advice in one, easy to reference publication. The handbook is divided into three sections. The first section provides an overview of the international anti-corruption framework within which companies conducting international business must operate. The second section provides a brief introduction to how companies can assess their risk in order to begin developing an effective anti-corruption ethics and compliance programme. The third and most significant section brings together the major business guidance instruments. A comparison of these instruments reveals that they all largely include the same basic anti-corruption ethics and compliance elements. These elements are further illustrated using real-life, anonymised case studies provided by companies. Finally, the handbook includes as an annex a quick reference table providing a cross comparison of all the major business guidance instruments referenced in this handbook.

Anti-Corruption Code of Conduct for Business

APEC

http://publications.apec.org/publication-detail.php?pub_id=269

This document highlights four key business integrity and transparency principles for the private sector. It stresses that business should work with employees and stakeholders to develop a programme to prevent corruption. The main issues to be covered are also those usually included in codes of conduct and therefore the document may also serve as a guide. They include rules on (i) charitable contributions (ii) gifts, hotlines and expenses (iii) facilitation payments (iv) political contributions.

Anti-corruption and ethics in the energy sector

Managing bribery and corruption risks in the oil and gas industry.

Ernst & Young 2014

[http://www.ey.com/Publication/vwLUAssets/EY-Managing-bribery-and-corruption-risk-in-the-oil-and-gas-industry/\\$FILE/EY-Managing-bribery-and-corruption-risk-in-the-oil-and-gas-industry.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Managing-bribery-and-corruption-risk-in-the-oil-and-gas-industry/$FILE/EY-Managing-bribery-and-corruption-risk-in-the-oil-and-gas-industry.pdf)

This publication discusses the main reasons why bribery and corruption are ongoing challenges for the oil and gas sector and outlines practical considerations for companies looking to manage corruption risks. They include conducting a risk assessment to understand where the main corruption risks lie, followed by the development of a corporate anti-corruption policy. This policy should be a clear and unambiguous statement of the company's position that both governmental and commercial bribery on any scale will not be tolerated. It should discuss the company's commitment to accuracy in reporting and recording transactions and having in place internal controls to ensure proper control, accountability and safeguarding of shareholder assets. The publication also underscores the importance of conducting anti-corruption compliance trainings and monitoring the programme.

Achieving greater disclosure in the oil and gas industry.

Policy Position 05/2011. Transparency International
http://www.transparency.org/whatwedo/pub/policy_position_05_2011_achieving_greater_disclosure_in_the_oil_and_gas_ind

Transparency International's policy position covers the main arguments in favour of greater disclosure in the oil and gas industry. It recommends companies operating in the sector adopt and publicise anti-corruption programmes, conduct independent assurance of their anti-corruption programme, publish details of their subsidiaries and fields of operations and increase their reporting on a country-by-country basis.

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