

Media Release

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CEO's the 'absent champions' from company codes of ethics.

A study of the codes of ethics (or conduct) of the NZX 50 listed companies reveals that 70% of CEO's do not formally personally champion their company's code as part of the code itself, a missing step to achieve better outcomes from such codes according to researcher and director of The Ethics Conversation, Jane Arnott.

"A code of ethics works to set the ethical tone from the top and provides a framework for behaviours that underpin trust in companies and their reputation. When CEO's shy away an opportunity to lead is lost," Ms Arnott says.

"It's disappointing and a missed opportunity to more deeply embed ethics and good conduct when the highest paid executive fails to make themselves visible in endorsing ethical behaviour, and its importance, given the NZX requirement for a code."

Ms Arnott's view was endorsed by Professor Karin Lasthuizen, Brian Picot Chair in Ethical Leadership, Victoria University of Wellington.

"A code of ethics reflects how a company responsibly manages its business model and ensures an ethical organisational climate. But a code of ethics can only become a real living document that keeps the business moving in the right direction if there is strong leadership support. There is no doubt about the importance of ethical leadership in upholding the code of ethics."

Institute of Business Ethics

Ms Arnott has replicated a review done by Institute of Business Ethics UK (IBE) of FTSE Top100 companies, applying the same methodology used by the IBE. She intends to conduct the review annually to measure progress in establishing effective codes of ethics within New Zealand companies.

The highest ranking companies in the study were Fisher and Paykel, Spark, Meridian, Z Energy, Vector, Fonterra, Air New Zealand, Trustpower, Westpac, Fletcher Building and Heartland Group.

The clanger award goes to the dual listed company with a branch network throughout New Zealand that states its "Purpose" within its Code of Conduct as "Helping Australians Succeed¹".

NZX

The NZX Governance Code states, within Principle 1, *that the board should document minimum standards of ethical behaviour to which the directors and employees are expected to adhere (a code of ethics)*. It is understood that the NZX regulatory arm, RegCo, will be undertaking a review of the uptake of the Principles later in the year.

Ms Arnott noted that for many companies their code of ethics appeared to cut and paste from the NZX supplied information and lacked any genuine commitment.

¹ The company has since been contacted and have advised that their Board had recently agreed to a revision to the Purpose to embrace New Zealanders.

“While good guidance is given from the NZX they are identified as the minimum standards. Businesses who are genuinely committed to meeting the NZX Corporate Governance Principles, as evidenced by the highest-ranking companies, consider their particular place in the economy and in society and have a code that is applicable to the risks faced and the audience to whom it is directed – employees and stakeholders.”

Another concern was the absence of clearly articulated values within such codes, with only 22% of companies specifying what their company values were and explaining how the application of values worked in practice.

“To not have any values attached to a code is to believe that ethical behaviour amounts to either following or breaking rules. The code becomes inordinately black and white and punishment oriented. Discretionary judgement however is often based on values so overlooking the role that values play and leaving things to chance introduces risk.”

Whistleblowing

Whistleblowing or “speaking up” was another area where more effort was needed, Ms Arnott said.

“The most effective codes are those that use simple language and are positive in tone so that speaking up is encouraged and issues are raised early. Resorting to coercive language and a bullying tone (“you must immediately report a breach”) as some codes seemed to do, showed little insight into the practical challenges, doubts and reluctance whistleblowers experience.

“Much more realistic were the companies who placed some context around the importance of speaking up, highlighted the support that was available and included details about the process. In conducting the review the inclusion of an external whistleblowing option, while not a requirement of the NZX Governance Code, was marked positively.

“Whistleblowing can be seen as biting the hand that feeds – so enabling an employee to turn to a neutral and professional third party to help manage the issues raised is generally a good thing.

Methodology and conclusion

The methodology used by Ms Arnott was based on that developed by her counterparts at the IBE for their recent report on FTSE 100 Codes of Ethics. She noted that in some areas New Zealand companies were ahead of their UK counterparts, such as having a recent version (updated within three years) of their code readily available on their website.

This suggested that the NZX requirement to have a code of ethics was being acknowledged and accepted. But it was the quality of the codes that could benefit from improvements and more commitment, Ms Arnott said.

“I suspect the concern was always that companies would simply fall into line. What this research highlights is that the uptake and having a code is vastly different to ensuring it is fit for purpose.”

IBE Code dimensions

- Style, language and tone - maximum 3 points
- User friendliness - maximum 2 points
- Speak Up - maximum 3 points
- Leadership - maximum 2 points

End.



About The Ethics Conversation

The Ethics Conversation operates as market commentator and researcher, reporting on ethical matters of substance. The Ethics Conversation also provides training, facilitated workshops, research and advisory services across ethical leadership, culture, values and speak up processes.

About Jane Arnott MNZM

Jane is the director of the Ethics Conversation. Prior to this she was the first offshore Associate and Country Representative for the Institute of Business Ethics (IBE), UK, a position she held for over ten years. Her appointment followed the completion of her post graduate study in Professional Ethics and further study undertaken in London.

She co-authored the IBE publication 'Setting the Tone: A New Zealand Perspective on Ethical Business Leadership', involving interviews with leading NZ Chairs and CEO's. In June 2021, Jane became a recipient of a Queens Birthday Honour reflecting her work as an advocate in race relations and conservation.

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