INTERNATIONAL BUSINESS ETHICS REVIEW

A PUBLICATION OF THE INTERNATIONAL BUSINESS ETHICS INSTITUTE

VOLUME 8, ISSUE 1

Are Standards Becoming Standard Operating Procedures? An International Update

By Dr. Anita B. Baker

Over one thousand company codes of conduct are now in existence. Self-regulation by companies, indicate A. Crane and D. Matten, is the fastest growing method of corporate regulation on a global scale, and they suggest that company codes of conduct are the prime instruments for regulating the impact of business. Codes of multinational enterprises, observe Gare Smith and Dan Feldman, have great significance as they provide the closest form of rule of law within the workplace in some low-income countries.

Underlying and informing these company codes are over 100 sets of international standards and guidelines. They come from a variety of multilateral, governmental, non-governmental, and industry interest groups. Their purpose is to influence, guide, or regulate the operations of companies on a multitude of issues. Desiree Abrahams' recent study details 20 main principles, codes, and charters developed by industry for its own self-regulation; 32 regulations from multilateral organizations; 24 multi-stakeholder initiatives and regulations; examples of national legislation from 7 countries; and 16 recent proposals and initiatives. We are just beginning to sort out and evaluate the extent to which multinational enterprises incorporate the plethora of international guidelines into their own company codes, as well as into their operational policies and practices.

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Writing an Effective Global Code of Conduct*

By Lori Tansey Martens

Writing a code of conduct that is suitable for a global workforce can be challenging. This article outlines a process intended to help organizations with this undertaking. While the precise method used to draft codes will vary based on the size, industry, strategy, and organizational structure of the company, the steps discussed in this article are particularly effective in developing codes appropriate for a diverse workforce. Companies that are revising existing code documents may also wish to follow this process.

STEP 1: FORM AN INTERNATIONAL ADVISORY GROUP

The first step entails forming an international advisory group to assist with the development of the code. Below are suggestions regarding the objectives/responsibilities and composition of the group, as well as some discussion of logistics for group meetings.

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Special Focus: International Standards and Global Codes

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From the Editor

Note: The Institute's President, Lori Tansey Martens, is on maternity leave. In her absence, "From the Editor" replaces "From the President."

Over one thousand company codes of conduct are now in existence. As codes continue to become an important tool for regulating business around the world, organizations are increasingly concerned about ensuring they have effective standards for their diverse employees and business partners.

Our first article, "Are Standards Becoming Standard Operating Procedures? An International Update" by Dr. Anita B. Baker, looks at the over 100 sets of international standards and guidelines from a variety of multilateral, governmental, non-governmental, and industry interest groups. The article provides an overview of the extent to which multinational enterprises incorporate the plethora of international guidelines into their own company codes and tracks the application of these standards in practice. The findings point to significant variations by industrial sector and to the importance of industry-specific initiatives.

The second article, "Writing an Effective Global Code of Conduct," outlines a process intended to help corporations in developing effective codes of conduct for a diverse workforce. The steps discussed in this article can be particularly effective in developing codes for multinational companies. This article is an excerpt from the Institute's forthcoming report, *Reflecting an International Workforce*: *The Comprehensive Guide to Developing an Effective Global Business Conduct Program*. More information on this study is included on page 19.

This issue of the *Review* also includes some general interest items, including an overview of the most recent Ethics Officer Association conference. The Institute's Director of Professional Services, Jeff Salters, attended the conference and reports on sessions that focused on challenges faced by international companies. Finally, this issue includes a short article on the revised Federal Sentencing Guidelines for Organizations (FSGO) that recently came into effect.

Editor's Note: In keeping with our international focus, we have not attempted to standardize our contributors' styles in this issue of the *International Business Ethics Review*. All style variations were accepted.

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International Business Ethics Review
Volume 8, Issue 1 Spring 2005
A publication of the
International Business Ethics Institute
1725 K Street, NW, Suite 1207
Washington, DC 20006 USA
Tel: 202.296.6938
Fax: 202.296.5897
E-mail: info@business-ethics.org
Web: www.business-ethics.org

President.. Lori Tansey Martens

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Director, Professional Services.............. Jeff Salters
Program Associate................................. Roland Riebl
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Are Standards Becoming Standard Operating Procedures? *(continued from page 1)*

This article draws on my presentation to a recent International Business Ethics Institute Roundtable, which identified this international framework, summarized major impacts on company codes, and tracked application in practice. The findings in this article point to significant variations by industrial sector and to the importance of industry-specific initiatives. My presentation and this article are derived from, and also serve to call attention to a neglected resource, the growing number of well informed but not widely accessible studies on international standards (see the bibliography at the end of this article). These studies commissioned by a variety of organizations, including the World Bank, International Finance Corporation (IFC), the International Labor Organization (ILO), the U.S. Department of State, the United Nations, and the Organisation for Economic Co-operation and Development (OECD), address the issues raised for business ethics by the practical application of international guidelines and company codes.

Any firm with foreign operations or subsidiaries, vendors and suppliers, would be well advised to review these recent studies. They include examples of "best practices" and lessons learned in developing and implementing ethics and compliance programs for foreign operations, as well as pertinent international guidelines and benchmarks. This recent research also contributes to the general, on-going debate on what a company's obligations are in fulfilling society's expectations across the broad spectrum of business ethics, including the relationship between national governments, international guidelines, and the private sector.

All of these issues will receive extra attention this year. The UN High Commission on Human Rights will publish a study, under preparation since 2003 that attempts to codify existing human rights standards applicable to private enterprise. In addition, the International Organization for Standardization (ISO) is starting work on a document to guide business in respect to social responsibilities.*

The Data

The studies reviewed for this article (which are listed in the bibliography at the end of the article) use different methodologies and questions, but reach similar conclusions. The majority of data relates to the agribusiness, apparel, footwear, gas, light manufacturing, mining, oil, and tourism industries. They rely either on document analyses or on an analysis of the actual implementation of codes and practices through field research and interviews. For example:

- The two-volume study by Smith and Feldman, conducted by members of Foley Hoag LLP on behalf of the World Bank Group, analyzes codes of conduct and information on policies available publicly from Web sites and annual reports of over 75 major multinational enterprises and 50 non-governmental organizations representing five industry sectors.

- M. Urminsky reviewed codes from 258 multinationals, employers' organizations, trade unions, governments and NGOs, and academic institutions for a study of self-regulation in the workplace.

- J.E. Berman (Political and Economic Link Consulting) and T. Webb (Ethical Corporation), conducted in-depth interviews with executives of 107 multinational enterprises, the largest purchasers and investors, for a study commissioned by the World Bank.

- H.B. Jorgensen and P.M. Pruzen-Jorgensen (PWC Denmark), M. Jungk (Danish Institute of Human Rights), and A. Cramer (Business for Social Responsibility) examined global supply chains for the World Bank through interviews with about 400 people — 200 workers and 200 individuals representing 55 buyers (multinational enterprises), 75 suppliers, and 72 stakeholders.

- Ivanka Mamic conducted actual field research — visiting 74 factories of 20 multinational enterprises and interviewing 330 managers and workers plus a variety of government and non-governmental representatives — in order to analyze the implementation of codes and lessons learned. This 300-page study was sponsored by the ILO and the U. S. Department of State.

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- Jean-Francois Arvis (World Bank) and Ronald E. Berenbeim (The Conference Board), relied on document reviews to analyze actual practice and implementation. They provide detailed information on the efforts of Western and Asian companies to develop and implement ethics and compliance programs in their East Asian operations. Their data was derived from a variety of companies doing business in the East Asia. The 14 detailed case studies address the issue of unique national and business cultures, so often thought of as obstacles in implementing good business practices.

Questions and Issues Covered

The questions that the studies address include:

- The international standards and benchmarks that exist on major business ethics issues to guide corporations;
- The content of codes and the extent that they are derived from international standards;
- The ongoing challenges confronting corporations in implementing their policies, the mechanisms they use, and lessons learned;
- The relevance of guidelines for domestic employees and their applicability in overseas operations (e.g., Can organizations devise one set of principles for all countries in which they operate?);
- The barriers to, and options for, suppliers implementing codes of conduct of multinational enterprises;
- The influence codes may have on multinational corporations' choice of local partners and investment decisions.

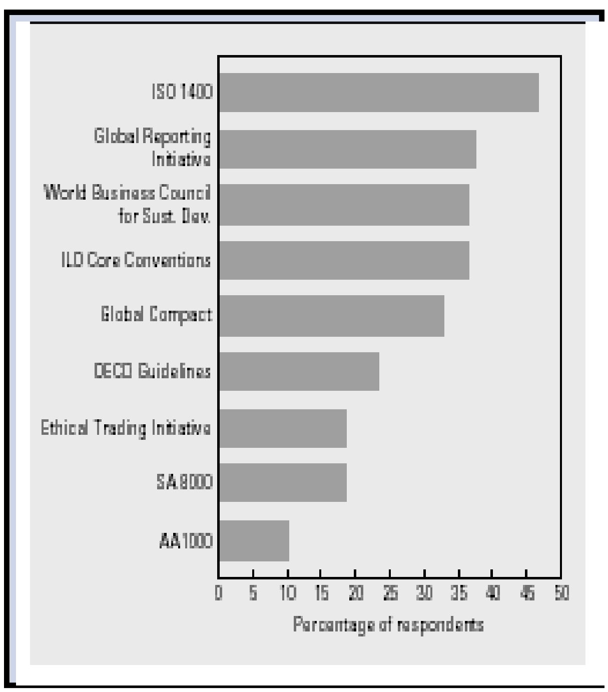
The surveys also cover a broad spectrum of major issues on business ethics and social responsibility. Smith and Feldman, for example, present major international guidelines, along with examples of how multinational enterprises translate them in their codes on each of the following topics in more than 500 pages of informative and helpful matrices:

- *Human rights and labor rights*: Forced and child labor, wages, terms of employment, hours of work, non-discrimination, diversity, harassment/abuse, freedom of association, security practices, labor and management relations;
- *Environmental standards*: Health, safety, energy, water, pollution control, hazardous substances, waste management, suppliers, transport;
- *Social, economic, and community-related issues*: Bribery, corruption, facilitation payments, political contributions, financial transparency, competition, pricing, local economic development, indigenous people, land rights, resettlement/displacement.

Major Findings

The data suggests that while the *role of international standards is limited, their influence has grown in the last five years.* In spite of the large number of guidelines, industry codes appear to be converging on certain issues of content. There is now less concern with content overall than the inconsistent implementation of codes.

The *guidelines that companies most often use* are their own internal standards, national legislation, international labor standards, and industry benchmarks — company codes still play a major role. In respect to international guidelines, Berman and Webb (Figure 13, p. 14) list the multi-sector standards and forums identified by most multinational enterprises as influencing their business (see chart).



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The data also suggests that *geography plays a role*. Berman and Webb note that the ILO Core Conventions, the OECD Guidelines for Multinational Enterprises, and the UN Global Compact carry greater weight with West European and Japanese multinational enterprises than with North American (United States and Canada) and Australian organizations. Crane and Matten explore the possible sources for these geographical differences in their instructive discussion on European and American approaches to business ethics.

Major Trends - Convergence on Some Issues
There is convergence around some issues. For example:

- On *labor issues*, there is convergence around ILO Conventions and Recommendations, UN Norms, the Universal Declaration of Human Rights, SA8000, and the Ethical Trading initiative. The greatest convergence among labor issues is found on *forced and child labor prohibitions, non-discrimination,* and *health and safety*; these reference ILO conventions, SA8000, and the Ethical Trading Initiative. On matters related to *wages, benefits,* and *terms of employment*, local laws or industry standards prevail.

- Virtually all companies studied provided some guarantees against *discrimination,* but, more often that not, codes provide them only "in conformance with local and national law" or prohibit "unlawful discrimination."

- Smith and Feldman identify *security practices* as "perhaps the single most important human rights issue to extractive companies."

- On *facilitation payments*, the trend is to prohibit all forms of bribery and corruption even though most companies do not endorse UN Agreements. Some companies want to eliminate all forms of facilitation payments. In 2002, for example, BP rejected all facilitation payments throughout its group, and is attempting to eliminate these payments by its agents as well. BP's policy actually exceeds the standards as defined by the U. S. Foreign Corrupt Practices Act. This company regards "small facilitating payments as bribes and will not make them."

The studies indicate that there is also a lack of convergence in some areas. For example:

- On *environmental and human rights issues* (except for labor rights), the studies suggest a lack of convergence and international standards (Smith and Feldman). The Jorgensen study notes little interest in human rights (except for labor rights) and environmental issues from their respondents, concluding that these two areas are not promising for "code development."

- *Freedom of association, collective bargaining*, and *security of employment* represent the "thorniest issues" (Smith and Feldman) because national laws vary greatly. Company codes seldom address these topics and ILO Conventions are rarely invoked. There are great variations in coverage and specificity is often lacking.

- Few international standards cover *harassment and abuse*; UN Norms are most often invoked on these topics. Virtually all companies surveyed prohibit such abuse, but the codes tend not to specify the behavior that is not tolerated.

- There is also a lack of any international standard for *socio-economic, community-based issues, bribery/corruption, political contributions, financial transparency*, and the *applicability of standards to agents and suppliers*. On these matters, the most frequently referenced standards are the International Covenant on Civil and Political Rights, UN Norms, OECD, SA8000, and Transparency International guidelines. Most companies make public commitments to financial transparency, although the levels of commitments vary greatly. There is no one international benchmark on political contributions. According to Smith and Feldman, such companies as BP, Odebrechts, Occidental, Shell, Statoil, and Total prohibit political contributions in the countries in which they operate. Other companies allow contributions to "the extent allowed by applicable domestic law."

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Are Standards Becoming Standard Operating Procedures? *(continued from page 5)*

Significant Sectoral Differences Emerging

Different industries seem to concentrate on different international standards. For example, the Ethical Trading Initiative, SA8000, and Fair Trade Label are important to agribusiness, but less so to gas, oil, and mining companies. On the other hand, those in the extractive enterprises look to the World Business Council for Sustainable Development for guidance.

Labor issues receive the most detailed attention in the codes of apparel, footwear, and light industry, but are not addressed to nearly the same extent among extractive companies. On the other hand, environmental responsibilities are increasingly spelled out in extractive and light industries, often in order to facilitate implementation of Environmental Management Systems and ISO 14000.

More generally a number of the studies note that by introducing their company codes and international standards, multinational enterprises have improved environmental performance in their subsidiaries. In contrast, these multinationals face challenges when implementing ethics guidelines on labor issues where national and local law usually prevail. Some companies in the clothing/footwear industries, for example, find that trying to implement international standards on overtime work that are meant to protect workers, prompt some workers to oppose them as a restriction on their wages.

Extractive industries also tend to have stricter policies on community-related issues, political contributions, bribery, competition, and pricing. Smith and Feldman indicate “virtual unanimity regarding the importance of these topics.” Increasingly, codes include policies that limit gift-giving, one of the perennial problems for companies with foreign operations.

Vendors, Suppliers, and Third-Parties

Are companies applying their standards to suppliers and agents? Mamic concludes that “the great conceptual innovation of modern codes is their expansion to include employees of suppliers and subcontractors who are not direct hires of the company authoring the code.” Berman and Webb indicate that 51 percent of companies surveyed require local partners to adhere to the multinational enterprise’s company code. Jorgensen et al. further observe that these codes usually cover immediate suppliers, but do not always move further along the supply chain. Practices on this issue appear to vary considerably by location and industry.

In contrast to some critics of multinational enterprises, data by Jorgensen, Berman and Webb suggest that they do not regard a “race to the bottom” (the lowest acceptable minimum standards) as an attractive strategy. The companies surveyed found strong national laws covering the major business ethics issues to be desirable. They did not consider them a barrier to investment.

When acting as purchasers rather than producers, multinational companies unsurprisingly maintain that host country governments should uphold social and environmental standards in supply chains, arguing that unevenly enforced laws by local governments encourage corruption. How forthcoming national and local governments are in addressing these issues is increasingly influencing multinationals in their choices of where to locate their business and what organizations to select as business partners.

Company codes of conduct cannot, however, make up for the shortcomings of existing national legislation and regulation. Avery and Berenbeim conclude that “private sector initiatives cannot be substitutes for actions and reforms by the public sector…the company cannot do it all.” Jorgensen et al. observe that there is a sense that multinational enterprises are suffering from “code exhaustion,” a sense that they may “have gone as far as they can, where they operate, without a stronger public sector enforcing laws, providing roads, water and housing.”

Criticisms of the international standards, the company codes, and their implementation remain. Some suppliers in the Jorgensen study questioned the premise that codes of conduct are a “useful mechanism for addressing social and environmental issues.” Trade union representatives suggest that collective bargaining agreements and enforcement of laws would be more effective in addressing the wider social and environmental issues. Some interviewees suspected that companies’ codes of

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conduct are merely “reputation management” for the multinational corporations, and that company codes and standards are being imposed without adequate consultation and that code provisions are inconsistently interpreted and applied. They argue this top-down approach is insufficient. Implementing code provisions is expensive, they note, and multinational enterprises have not made a “business case” for adopting these new practices and guidelines. Workers surveyed, however, did report that the company codes had benefited them in a variety of ways.

The Road Ahead

Multinational enterprises are responding to criticisms from both their overseas employees and suppliers, the surveys suggest. They understand that top-down approaches need to be modified and are moving towards more local approaches, working together at the country level with other international companies, regional companies, suppliers, and intermediaries. Companies are working to improve their methods in the monitoring and auditing of code implementation, often involving third-party inspection. They are also reviewing their current codes, focusing on improving the methods used to communicate the content and intent of codes to their employees and suppliers located abroad. The studies cited have surely made a major contribution on this process by focusing our attention on methods to increase the effectiveness of company codes in foreign operations. The data on at least some industry-specific initiatives point to a promising trend - that with time a consensus is being reached on ethical behavior on a global scale.

Endnote: * As this article went to press, the ISO had its first meeting in Salvador, Brazil to begin the process of developing an international standard on social responsibility (March 2005). The ISO also recently signed a Memorandum of Understanding with the International Labour Organization (ILO) providing the ILO with authority to veto labor-related sections of the standard if it deems parts inconsistent with current ILO conventions and guidelines. This agreement further demonstrates the increasing convergence around the ILO labor standards.

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Organization Spotlight:

UN Global Compact

The UN Global Compact seeks to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. The UN Global Compact brings together more than 1800 companies from all regions of the world with UN agencies, labor, and civil society to support ten principles in the areas of human rights, labor, the environment, and anti-corruption.

The Global Compact has two objectives: mainstream the ten principles in business activities around the world and catalyze actions in support of UN goals. To achieve these objectives, the Global Compact offers facilitation and engagement through several mechanisms: Policy Dialogues, Learning, Local Structures, and Projects.

The Global Compact relies on public accountability, transparency, and the enlightened self-interest of companies, labor, and civil society to initiate and share substantive action in pursuing the principles upon which the Global Compact is based.

For more information about the ten principles and activities of the UN Global Compact, contact:

The Global Compact Office
United Nations
Room S-1881
New York, N.Y. 10017
USA
E-mail: globalcompact@un.org
Web: www.unglobalcompact.org

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Dr. Anita B. Baker currently teaches business ethics in the Business Department, University of Maryland University College. She is the former Manager of the World Bank Group's Office of Business Ethics and Integrity and held senior management positions at Lockheed Martin for 14 years. Starting in 2003, Dr. Baker has consulted and conducted programs on issues related to implementing business ethics and corporate governance for international audiences, most recently in Russia as a consultant with Casals & Associates and MSI, and in Dubai with the Dubai Ethics Resource Center where she serves as a Senior Advisor.

Recent Contributors to the Institute

The Institute wishes to sincerely thank the following individuals and organizations for your generous contributions. Your gift will greatly assist our ongoing efforts to promote responsible global business practices and provide practical solutions to business ethics dilemmas. Your support and patronage of our mission, goals, and activities are greatly appreciated.

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Mr. Jason Brueschke
Dr. Phil DuBois
Mr. Daniel Karslake
Mr. Hyman Krieger
Mr. Jason Lunday
Dr. Josef Martens and Ms. Lori Tansey Martens
Ms. Debra Parrish

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Writing an Effective Global Code of Conduct

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Objectives and Responsibilities

The advisory group has many objectives and responsibilities, including:

- *Provide Content Expertise* – Members of the advisory panel are responsible for providing input on content, ensuring that the document addresses relevant issues in each of the major geographical areas where the company operates, and discusses the standards in a way that is meaningful in each culture.

- *Become Local "Champions" for the Code* – Ideally, once a company launches the code, advisory group members can publicly articulate support for the document. The presence of champions at the local level, especially internationally, is a key function of the group.

Composition

The advisory group should represent a true cross-section of the company and be composed of 12 to 24 members, depending on the degree of geographic diversity and functional diversity within the organization. The advisory group should be:

- *Functionally Diverse* – The group should include representatives from all major functions (e.g., manufacturing, marketing, research, etc.), as well as from key staff functions, (e.g., finance, human resources, legal).

- *Geographically Representative* – The advisory group should include representatives from all major locations in which the company operates. Not every country in which the company operates needs to be included, but all major regions, such as Asia, Africa, Central and Eastern Europe, Latin America, Middle East, North America, and Western Europe, should be represented.

  Companies should be careful when seeking geographic representation that they do not default to including Western-based ex-pats who have spent time in the particular geographical region. The experience of an ex-pat, while helpful, will not provide the same detailed understanding of a culture that will be necessary in order to build an effective code.

  In some cases, the company may also wish to include representatives from countries or regions where it has a minor presence if the uniqueness of the culture may help to ensure that the code will gain acceptance in that area. For example, a company may not have large-scale operations in the Middle East; however, given the uniqueness of the culture from a Western-based multinational standpoint, it would be important to have representation of the Middle East culture as part of the advisory group.

- *Representative of Target Markets* – Companies should consider target markets for growth and include representatives from such locations (i.e., if a company were planning an expansion to China, then having a representative from that country would be important).

- *Representative of the Company and Management Structure* – The advisory group should include representatives from all levels (e.g., senior management, middle management, first-line supervisors, hourly employees, etc.). Involving employees at various levels can help ensure that the code will gain acceptance at all levels of the organization and be understandable to all employees.

  However, if the company plans to disseminate different codes for management and hourly employees, both advisory groups do not need to be representative of the company as each code will target a particular segment.

Logistics

While in person meetings are preferable, they are difficult to arrange if the group is truly geographically representative. Accordingly, emailing the document and holding teleconferences can suffice.

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Writing an Effective Global Code of Conduct

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STEP 2: SET CLEAR OBJECTIVES FOR THE CODE

The second step in creating an effective international code is to establish clear and realistic objectives for the document. Companies often tend to be overly optimistic when it comes to what their code can achieve. It is far better for an organization to be realistic about its objectives. In addition, it is crucial to secure senior management input regarding the objectives at the very early stages of the process so that there is no confusion regarding the objectives. For example, if compliance requirements are the sole motivation for the creation of a code at the senior management level, it is very difficult for the advisory group to put together a values-driven document because there will not be the consensus necessary for its implementation at the senior-most levels.

Companies should ensure that they will be able to follow through with enforcing a code once it is in place. If this does not occur, employees may become very cynical about the standards and view the code as a Public Relations scheme.

Code Objectives

There are many potential objectives for the code. Some of the most common are:

- *Compliance* – Due to legislation in the U.S., particularly the Sarbanes-Oxley Act, many companies are required to adopt a code of conduct. As a result of this legal imperative driving the creation of codes, many are written "by lawyers for lawyers" to meet the necessary requirements. Typically, the law is the sole basis for the company's standards in such codes. Compliance codes are generally not effective if a company wants to reach out to the employee population, particularly international employees.

- *Corporate Social Responsibility* – A second objective for a code can be to communicate the company's commitment to Corporate Social Responsibility (CSR). This is more common among Western European-based companies than it is among North American-based companies. CSR codes consist mostly of a discussion regarding the commitments that the company is making to its external stakeholder groups. While this type of commitment can be important, companies should be aware that their employees need to understand what is being asked of *them*, and that this may require a separate document or some discussion in the code.

- *Suppliers/Partners* – Codes can also set standards for suppliers and business partners. After a number of high profile scandals of ethics problems in the supply chain, stakeholders are increasingly demanding that companies take a close look at whom they are doing business with and ensure these business partners are also taking reasonable steps to maintain their operations to meet high standards of conduct. Accordingly, today, companies are increasingly requiring their suppliers and business partners either to develop their own standards, or to comply with the company's standards in order to do business with them.

- *Values-based* – Values and the beliefs of the organization serve as the foundation for values-based codes. As each core value is imparted, employees receive the standards necessary to support that value. The best values-based codes make concrete connections between values, standards, and the behavior of employees. When employees understand and appreciate the relationship between a specific standard and how that standard reinforces a key value, they are much more apt to respect the standard.

STEP 3: DRAFT CONTENT

The third step in developing an international code of conduct is to draft the actual content of the document. This stage includes determining the issues, developing standards, and reviewing the preliminary draft of the code.

Determining the Issues

It is best to assign one or two individuals the task of drafting the document. This will require a significant time commitment over a 6-8 week period and the individuals should receive enough time in addition to their day-to-day responsibilities to accomplish it. Some companies have tried passing out sections of the code to various individuals so as not to overburden any one person. However, this rarely works due to differences in style, tone, and format. Ultimately, one person ends up having to recreate the document, and it is more effective if one or two people draft the document from the outset.

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Prior to drafting the document, the individuals responsible should request input from the advisory group on the topics and issues to address in the code. It is imperative that all issues receive feedback from the functional, geographic, and management level point of view. It is helpful to provide a list to the group asking them which issues they believe are most critical, as well as to ask the group to identify additional areas that they think the company should address.

Companies can use books on international codes and benchmark against other companies in order to develop the list for the advisory group. Once the advisory group members have submitted their responses, the individuals managing the process should tabulate the responses to determine the issues to address in the code.

Developing Standards

After identifying the issues to include in the code, the responsible individuals draft the individual code standards. Code writers can use existing company policies to determine the basic content of standards. However, it is likely that a company may not have existing standards or company policies that address some of the emerging issue areas that require coverage in a code. For example, until recently, many companies failed to have corporate policies detailing the appropriate and inappropriate ways of gathering competitive information.

Companies can look at codes collected from other organizations for ideas on how to treat new or emerging standards. This might also reveal examples that resonate within their own company. In every case, the individuals charged with drafting the code will have to check with the relevant departments and individuals to ensure that the standards they are drafting are both legal and acceptable to the organization.

Four key components should be included in each major standard:

1. *Provide a Rationale to Explain the Need for the Standard* – It is important to ensure that the rationale will be effective globally. If it is too closely tied to one particular culture, it will likely be meaningless in other locations. For example, a section on proprietary information and its protection needs to include a clear rationale of why protection of proprietary and confidential information is important. There are parts of the world, including communist countries such as China, where the notion of private property and private property rights have not been fully integrated into the culture. Therefore, code authors need to make sure that rationales are explicit in educating employees on the "why," as well as the "what."

2. *Provide a Clear Definition of the Issue* – The definition must be clear and detailed so that employees understand the concept.

3. *Provide Clear Guidance (through examples, questions and answers, bullet points, or other techniques) so that Employees Understand Their Responsibilities* – Employees need to clearly understand what behavior is acceptable or unacceptable, and examples of each should be provided in the standard.

   An issue that often arises is how restrictive to make the standard. Companies should avoid hyperbole, as well as language such as, "never," "at any time," or "under any circumstances" in code standards, except where the company truly means this. In many of the cases, the company may make exceptions and employees will be quick to note inconsistency.

   Companies should consider including an exemption process to accommodate circumstances where company standards may be impractical. For example, having a strict standard of, "no gifts at any time or under any circumstances," is unrealistic in parts of the world. Companies that use such language but do not enforce standards send a message to employees that the organization is not serious about enforcing the code. Alternatively, if companies do try to impose restrictive practices, the behavior is often driven underground. It is far better that the standard allows employees to obtain approval for an exemption where this might be warranted.

4. *Discuss Additional Resources for Information* – Finally, it is important to include some discussion on where employees can obtain more information or clarification on how standards may apply to a situation that they are facing. Standards should specify resources the employee can access (e.g., HR, Ethics Office, etc.) in each situation.

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Preliminary Review of Draft

The next step involves circulating the draft to the advisory group for review. It is important to provide the advisory group with clear objectives regarding how they are to evaluate the standards. Providing specific criteria will result in targeted feedback from the group. Some of these parameters might include:

- Are standards clearly written?
- Is the rationale of the standards sufficient?
- Do standards provide enough guidance to the average employee?
- Are the standards culturally sensitive and effective?

Once the advisory group has returned their comments to the author(s) of the document, the author(s) should incorporate this feedback and send the code for the necessary internal approvals. At this point, the company should also consider conducting focus groups to review the draft document. It is ideal if the focus groups also receive a preliminary graphic design for discussion purposes.

STEP 4: GRAPHIC DESIGN

Appropriate graphic design is the fourth step in developing an effective code. Cultural sensitivity plays a key role in graphic design and is required in the following areas:

- *Use of Color* – Companies should take care in considering color choice and be aware that colors can have different meanings in different cultures. Having a code, for example, that is predominantly red in color might prompt employees in parts of Asia to link it to Mao Tse-tung's "Little Red Book."

- *Use of Symbols* – Code documents should not rely solely on country-specific symbols. For example, the dollar sign ($) should not be used solely to represent currency. Instead the code might use symbols from various countries in which a company operates to represent currency, such as Euro (•) or Yen (¥).

- *Use of Photos* – It is important to ensure that the photos represent the international character of the company, and not one or two particular geographies. This entails, for example, making sure that none of the depiction of individuals in the code will be offensive in part of the world.

It is also important to pay attention to the overall look of the code. A problem with many codes is that there is not enough white space and too much text on each page. Generous use of white space may result in a longer document, but one that is more inviting and reader-friendly.

Companies must decide how to layout the code and present the standards. Organizing standards either around the company's value statements or by stakeholder (e.g., all customer-related issues such as product quality, gifts, and fair competition could form one section) can be effective. This type of organization give employees a framework and immediately puts those standards into a relevant context.

STEP 5: HOLD FOCUS GROUPS AND FINALIZE CONTENT

Once a preliminary graphic design is complete and the draft code is ready, conduct focus groups in all major geographic regions in which the company operates. If possible, subordinates should never be included in focus groups with a member of their management chain. This will stifle discussion and dissent within the group.

If budgets allow, translate the code before conducting focus groups. Providing translations allows people to react to the particular language used in the document and gives a much more accurate representation of how employees will receive the document. If, for budgetary reasons, translating the code into multiple languages is not possible, companies should devise alternatives (i.e., in Europe, conducting focus groups in Scandinavia and particularly Sweden typically will yield a high number of employees with English fluency).

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It is best to conduct focus groups in the native language of participants whenever possible, even if using an English-language copy of the code. This allows for much freer and fuller discussion of the issues. The company can use internal personnel or external consultants to conduct focus groups. If a company uses internal personnel, however, try not to use a member of management from the focus group country. For example, companies should not ask a member of the HR team for Argentina to run focus groups in Argentina. Instead, send the HR manager from Chile or Venezuela. Using managers from the focus group country creates problems in terms of ensuring candor of participants, as well as making certain that the group is providing accurate feedback.

The individuals managing the process should then collect comments from all focus groups and incorporate the feedback. A company may also wish to have the advisory group review the new draft before submitting a final version for approval. Finally, secure formal senior management and board-level approval.

STEP 6 : TRANSLATIONS

The final step is to have the document translated. It is important that companies understand when to translate the code and how to select translators.

Importance of Code Translation

When introducing a code within a global organization, it is important that organizations translate code documents into the languages and language variations (e.g., French and Canadian French, etc.) that exist in the locations where they have operations. While many of the employees of multinational organizations speak the language of the company's home country, translating the document ensures that all employees can fully comprehend the information contained in the code. Additionally, translating the materials demonstrates that the organization cares about its workforce and sends a strong message about the commitment of the organization to the initiative.

For U.S.-based multinational companies, translating materials is a particularly important step in gaining acceptance for the code by international employees. International employees are particularly cynical regarding business practices programs from U.S. companies and are likely to charge the company with ethnocentrism and disregard the document if it is only available in English.

When to Translate the Code

Translating materials into multiple languages can be costly. In many cases, a company's ability to translate the code will be contingent on the organization's budget. If the budget is constrained, a company might have code documents translated and print copies from a word processing program, rather than paying for color booklets.

Generally, if the company has:

- *Fewer than 10 employees in a particular location* – Companies will need to assess what to do on a case-by-case basis and should begin by determining the level of risk in the location. Based on this, companies might only need to translate the most relevant sections of the code that impact the workforce in that location. Additionally, companies should assess the level of fluency in other languages by employees in the area when making a determination regarding translation.

- *10-25 employees in a particular location* – Provide a translation of the code, but it is not necessary to reprint the code with graphics or in color.

- *More than 100 employees in a particular location* – Invest in translation and color reprinting of the code.

Translation Guidelines

Organizations should provide specific directions to translators, including guidelines on how the text should read, instructions on word usage, and an overview of approaches to avoid. Providing such instruction is important in ensuring that the document is appropriate for all relevant audiences.

Companies often strive to get the text "just right" in the language of its home country: the proper terms, avoidance of unfavorable expressions, conveying the individual messages in a clear manner without jargon. During the translation

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process, however, a translator, even one with experience translating codes, can unknowingly bring to the translation everything code authors were trying to avoid (e.g., “helpline” becomes “hotline,” “seeking guidance” becomes “reporting”).

Selecting a Translator

It is important that companies select translators based in the country that the translation is intended for. The company’s field office can help in identifying qualified translators. While it might be tempting for a multinational to use a translation firm within its home country, it is important to recognize that language changes. If a translator has been removed from a location for more than five years, there is a possibility that they will not be up-to-date on changes in regional language and that the translation might include terms no longer commonly used in the region.

Translators that have experience working with fiction often do the best job of translating code documents, as they are accustomed to understanding nuances in tone and meaning. Companies should be cautious about using technical translators who frequently translate scientific or medical text, as they can often be too literal in their translations.

Approve the Translations

Once the draft translations are complete, the English and foreign language copy of the document should be sent to representatives from each of the languages, preferably members on the advisory group if possible, to do a reverse-translation of the document to ensure that it is correct. Once final changes are complete, the code is ready for printing, publication, and dissemination.

CONCLUSION

Ensuring that code standards are suitable for a global audience is an ongoing challenge and one that was articulated at the recent Ethics Officer Association conference, according to the article by Jeff Salters in this issue of the *Review*. However, the steps outlined in this article can greatly assist organizations in embarking upon this task.

Endnote: *This article is an abbreviated chapter from the Institute’s new report, *Reflecting an International Workforce*: *The Comprehensive Guide to Developing an Effective Global Business Conduct Program* (forthcoming), which provides a comprehensive overview of how international companies can develop codes and business conduct programs that are appropriate for a diverse workforce.

Lori Tansey Martens is President of the International Business Ethics Institute.

Federal Sentencing Guidelines for Organizations

Recently, revised Federal Sentencing Guidelines for Organizations (FSGO) came into effect in the United States. This article briefly discusses the FSGO and addresses the impact of a recent Supreme Court ruling on these guidelines.

History of the FSGO

The United States Sentencing Commission, a governmental body, developed the Federal Sentencing Guidelines (FSG) for individuals in 1987. The FSG standardized sentences for individuals convicted of similar federal crimes.

On November 1, 1991, sentencing guidelines for organizations were added to this legislation (as “Chapter 8”) and called the Federal Sentencing Guidelines for Organizations, which judges are to consider when sentencing corporations convicted of federal crimes. The FSGO created an incentive for companies to modify or create compliance programs and to come forward if aware of systemic misconduct, as the FSGO mandated higher fines for organizations that did not adhere to the guidelines.

Recent Changes to the FSGO

In 2002, the US Sentencing Commission formed an ad hoc advisory group to review the effectiveness of the FSGO and to provide recommendations for change. The revised FSGO came into effect on November 1, 2004. Significant changes include:

- *Organizational Culture* – Whereas previously corporations only had to have an ethics program, the revised standards require that organizations go a step further and “promote an organizational *culture* that encourages ethical conduct and a commitment to compliance with the law.”

- *Ethics Officer* – Large organizations that have yet to appoint an ethics officer might be encouraged to do so by the provision that "high-level personnel" is to oversee the ethics and compliance program.
- *Risk Assessment* – The new criteria require organizations to periodically assess the risk of criminal conduct and adjust their ethics programs accordingly.
- *Board Oversight* – The Board of Directors must now be knowledgeable about the company's ethics and compliance program, and exercise reasonable oversight over the program.
- *Training* – All staff, including the Board, must now receive training.

Current FSGO

Overall, the new FSGO require that organizations prevent and detect criminal conduct, and "promote an organizational culture that encourages ethical conduct and commitment to compliance with the law."

In order to fulfill the above requirements, the guidelines provide seven criteria for a corporate compliance program that organizations must meet. These include:

1. Organizations must establish standards and procedures to prevent and detect criminal conduct.
2. Organizations must follow guidelines regarding oversight of the program, including:
    a. The governing authority (e.g., Board of Directors, Senior Management, or other highest-level governing authority) must be knowledgeable about the ethics initiative and assume "reasonable" oversight of the implementation and effectiveness of the program.
    b. High-level personnel (e.g., director, functional unit head, etc.) must be assigned overall responsibility for the ethics and compliance program and ensure the program is effective.
    c. Individuals with sufficient resources to execute the program must be delegated day-to-day responsibilities for the ethics and compliance program.
3. Organizations must not employ individuals in positions of "substantial authority" (i.e., individuals who exercise a substantial measure of discretion while acting on behalf of the organization) who have been involved in illegal activities or who have exhibited unethical behavior previously.
4. Organizations must communicate standards and other elements of the ethics program by conducting effective training programs for high-level personnel, "substantial authority personnel," employees, and appropriate agents.
5. Organizations must take steps:
    a. To ensure the ethics program is followed and conduct audits to detect criminal conduct.
    b. To periodically evaluate the program's effectiveness.
    c. To publicize a system that employees and agents can use to report misconduct anonymously or confidentially without fear of retaliation.
6. Standards must be enforced through:
    a. Appropriate incentives for compliance with the ethics program.
    b. Appropriate disciplinary measures for violations of the ethics program.
7. If criminal conduct is detected, organizations must take steps to respond to this conduct and to prevent similar conduct in the future.

In implementing the seven above requirements, organizations must "periodically assess the risk of criminal conduct," as well as take steps to reduce the risk of criminal conduct.

Supreme Court Ruling

In January 2005, the U.S. Supreme Court ruling on the FSG garnered a great deal of attention (United States v. Booker and United States v. Fanfan). The Court ruled that the FSG are unconstitutional because they violate a defendant's Sixth Amendment right to be tried by a jury. The ruling indicated the guidelines should be "advisory" rather than mandatory. Judges are now permitted to deviate from the sentencing guidelines outlined in the FSG as they see fit.

Most legal experts believe that this ruling will not severely affect the importance of the revised Federal Sentencing Guidelines for Organizations. Although no longer mandated to follow the guidelines in determining sentences, experts speculate that since the revised Guidelines provide a comprehensive check-list for assessing a company's commitment to ethical conduct, judges will continue to evaluate ethics and compliance programs for adherence to the FSGO when considering cases.[1]

Endnote:

[1] Hunton and Williams, "Client Alert," January 2005 www.hunton.com; Foley and Larder, "Law Watch," January 18, 2005 www.foley.com.

Ethics Officer Association Conference Overview

By Jeff Salters

The Ethics Officer Association (EOA) held its 12th annual conference (October 19 – 22, 2004) in Scottsdale, Arizona. Attended by approximately 550 participants, the conference is believed to be the largest gathering of ethics and compliance professionals to date.

The conference provides ethics professionals with the opportunity to attend sessions where experts and practitioners discuss ideas and best practices aimed at strengthening organizational ethics programs. Over 50 sessions at the 2004 conference covered a wide variety of subjects, from the impact of Sarbanes-Oxley legislation and the new Federal Sentencing Guidelines, to innovations in training and corporate communications.

The conference offered a number of sessions directed at organizations with global operations. These sessions focused on topics such as creating a global culture of compliance, how to apply corporate standards globally, international ethics training, and Japanese business ethics.

During these sessions, participants discussed the most significant challenges to creating a global ethics infrastructure. These include:

- *Cultural Understanding* – Perhaps the most fundamental challenge faced by organizations with global operations is the ability to understand and relate to cultures outside their home country. This failure complicates all business operations, including those in ethics and compliance.

- *Codes of Conduct* – Many organizations find writing a code of conduct that is appropriate for every part of the world to be challenging.

- *Training* – The myriad of issues and different methods for delivering training make it difficult for organizations to create a "one-size fits all" training program. Some organizations reported challenges connected to the great expense of developing training that is tailored to specific countries or regions.

- *Global Compliance* – Since laws and cultural practices differ internationally, many organizations find ensuring global compliance to be difficult.

Participants at one session, titled "Doing Business Ethically Around the World: Are There Workable Standards?", had an opportunity to identify and address some of the most challenging topics ethics professionals must face. These include:

- *Giving and Receiving Gifts and Entertainment* – Generally, participants expressed frustration at trying to implement a global standard. For example, if a U.S.-based firm attempts to impose a "zero tolerance" policy (where employees are prohibited from giving or receiving gifts under any circumstance) it immediately puts employees at a competitive disadvantage in countries where exchanging gifts is expected. Participants offered a number of solutions including setting local dollar limits on gift giving and receiving, creating local gift and entertainment registers (where employees record gifts they have given or received), and establishing an approval process for giving or receiving gifts.

- *Raising Concerns* – Participants described the difficulty in getting employees to raise concerns about business practices or to report suspected misconduct. To overcome this challenge, participants are using several strategies including hiring third party vendors and implementing communication strategies that are designed to clarify organizational expectations.

Other key challenges mentioned during this session included conflicts of interest, use of agents, and facilitation payments.

More information on the EOA, including details on membership and the annual conference, can be found at www.eoa.org/home.asp.

Jeff Salters is Director of Professional Services at the International Business Ethics Institute.

Global Roundup

Recent activities and efforts in the field of business ethics from around the world.

Global

- The Extractive Industries Transparency Initiative (EITI) agreed to adopt strict guidelines in order to eradicate bribery in the oil, gas, and mining business at a conference in London. The guidelines require signatory governments to publish all payments to them from oil and mining companies operating in their country, to subject all such revenues to an independent audit, and to consult with local non-governmental organizations about the monitoring of the industry. (www.csreurope.org)

- The International Organization for Standardization (ISO) had the first meeting in Salvador, Brazil to begin the process of developing an international standard on social responsibility. In addition, the ISO and the International Labour Organization (ILO) executed a Memorandum of Understanding (MOU) providing the ILO with some authority to veto labor-related sections of the standard that it considers inconsistent with ILO guidelines. (www.pacinst.org)

- A recent study indicated that 50 percent more CEOs reported on Corporate Social Responsibility (CSR) in 2004 than in previous years. The study by a US-based investor relations firm, andBEYOND Communications, analyzed the letters to shareholders in annual reports published from 1999 to 2004 to see how CEOs described CSR. The number of CEOs who reported on their philanthropic, community, and volunteer activities in 2004 increased 125 percent, while those reporting on how they are measuring their social responsibility actions rose by 600 percent. (www.csreurope.org)

Japan

- The cabinet in Japan approved an ordinance to enforce a law providing immunity for whistleblowers. Scheduled to take effect on April 1, 2006, the law will protect corporate employees and civil servants who expose illegal acts by their organizations from dismissal and other forms of retribution. (www.japantoday.com)

- Corporate Japan is increasingly focused on sustainable development. Recently, corporations have decreased the use of lead and other toxic substances in industry, embracing solar energy and making biodegradable plastic. The automobile and electronics industries have been at the forefront of environmentally friendly production. Japanese industry is responding both to the pressures from the Kyoto Protocol and to new anti-pollution directives in the European Union. (www.csreurope.org)

Namibia

The Anti-Corruption Act, aimed at rooting out corrupt practices in Namibia, is expected to come into effect in May 2005, shortly after the National Assembly resumes business. Once the Act becomes law, an Anti-Corruption Commission will be established to investigate suspected corrupt practices. (www.allafrica.com)

United Kingdom

UK Prime Minister Tony Blair unveiled the UK's Sustainable Development Strategy 2005 along with a Shared Framework for Sustainable Development. Called 'Securing the Future,' the new initiative is a review of the government's 1999 Sustainable Development Strategy. In the new strategy, the government has highlighted four key areas of priority: sustainable production and consumption, climate change and energy, protecting natural resources, and environmental enhancement and sustainable communities. (www.csreurope.org)

United States

Business Ethics magazine has released its annual survey of the 100 best corporate citizens in the U.S. for 2005. To arrive at its list, *Business Ethics* enlisted the help of KLD Research and Analytics in Boston to provide the social reporting data for the companies on the list. All companies are scored in eight categories: total return to stockholders, community, governance, diversity, employees, environment, human rights, and product. Cummins, Inc., based in Columbus, Indiana, was listed at the top of the 2005 list. (www.csrwire.com)

Institute News

New Collaboration for the Institute

The International Business Ethics Institute has embarked on an exciting new collaboration with two other organizations: Diversity Forums and the International Institute for Sustained Dialogue (IISD). Together we have formed an alliance to enhance the success of business, government, and civic organizations by facilitating constructive dialogues on divisive questions about race, class, gender, globalization, and opportunity in our society. We are offering speakers, one-day panel discussions, longer-term discourse, and follow-up education and training programs designed to open and improve communication, increase team effectiveness, and overall improve productivity for organizations.

Diversity Forums, a new non-profit organization made up of fellows from the Rockefeller Foundation's Next Generation Leadership program, spearheaded this exciting partnership. Diversity Forums was created to help tap the extraordinary potential of our diverse society. Their panelists are accomplished leaders from varied professional and cultural backgrounds who model discussions and challenge their audience to broaden their thinking on divisive issues. By leading one-day panel discussions on difficult but constructive social issues, they are helping to open barriers and improve communication in educational and corporate institutions.

The International Business Ethics Institute, along with the IISD, will be working with colleges and universities around the U.S. who, after participating with Diversity Forums, want to further the dialogue on these ethical issues through additional trainings, discussions, lectures, and course work.

In July 2004, Diversity Forums invited the International Business Ethics Institute to join them in two panel discussions at Roosevelt University in Chicago on preserving the strength of diversity in our society. Ms. Laura Kriv, Chief Development Officer at the Institute, was one of six panelists leading the discussions. Participants included faculty of Roosevelt University, including the Dean of the Business College and students from the Graduate Leadership Program.

Our next project with this collaboration is to develop a business ethics curriculum for the Lake Forest Graduate School of Management in Chicago. Through a generous grant from the Barat Education Foundation, the International Business Ethics Institute will develop and deliver a curriculum on business ethics aimed at expanding our understanding of the role of the corporation in today's global society, as well as preparing future managers and business leaders on how to effectively anticipate and resolve the most prevalent and important ethics issues facing business today. This course will be delivered to approximately 30 students in July or August 2005.

If you are interested in learning more about Diversity Forums and the unique programs they offer, please visit www.diversity-forums.org or contact Mr. Bob Kallen at 312-944-1421. To learn more of the Institute's collaboration with Diversity Forums or the business ethics curriculum, contact Ms. Laura Kriv at 202-296-6938 x203.

Institute Holds Roundtable Discussion

The Institute hosted a roundtable discussion on December 8, 2004 with Dr. Anita Baker titled "Are Standards Becoming Standard Operating Procedure? An International Update." Dr. Baker presented an analysis of the findings of several recent studies – by the World Bank, OECD, and ILO, among others – on international standards. She also shared her insight into current trends of corporations adopting and integrating internal and external code documents. For more information, see the article by Dr. Baker on page 1 of the *Review*.

Institute Publishes New Report

The Institute will publish a new report entitled, *Reflecting an International Workforce*: *The Comprehensive Guide to Developing an Effective Global Business Conduct Program,* in Spring/Summer 2005.

*Reflecting an International Workforc*e is a "how-to" book that contains comprehensive recommendations to assist corporations in drafting, revising, and implementing an effective global code and training program. The report also contains detailed discussion on how to write specific code standards on issues such as conflicts of interest, gifts and entertainment, and workplace environment.

Since our founding in 1994, the Institute has worked extensively on codes for multinational companies, and the Institute's staff has amassed great knowledge and experience on global codes. The Institute has also conducted hundreds of focus groups with thousands of employees worldwide that focused specifically on codes at multinational companies. In this publication, we share the knowledge gained through these experiences.

In order to supplement our knowledge, Institute staff also reviewed and evaluated current codes for 100 multinational corporations, diverse in size and industry. The usefulness and effectiveness of these codes were assessed, and this evaluation played a role in informing the recommendations made throughout the report.

While other guides on codes of conduct have been published in recent years, this report is unique in that it focuses on assisting multinational companies that have a diverse workforce. Specifically, this guide:

- Discusses language and approaches suitable for employees in various regions, including Africa, Asia, Europe, Latin America, and North America;
- Identifies specific terms to avoid when writing for a global workforce;
- Highlights various issues that require special treatment in a code based on geographical region;
- Offers tips on how to modify training for different regions; and
- Contains a number of checklists that companies can use to help ensure their code, training, and ongoing communication are suitable for a diverse workforce.

In order to purchase the publication, contact heard@business-ethics.org or see www.business-ethics.org/otherpubs.asp.

Institute Internship Program

The Institute has an internship program that provides students with an opportunity to gain knowledge on international business ethics issues. Interns for the winter semester of 2005 were:

Dorothee Heckmann

Ms. Dorothee Heckmann is currently a graduate student at University of Erlangen in Nuremberg, Germany where she is pursuing a graduate diploma in Economics and Social Sciences. She pursued an internship with the Institute while completing a semester at American University in Washington, D.C. Upon graduation in 2006, Ms. Heckmann would like to pursue a PhD and eventually work as a consultant or trainer.

When asked about what she learned during her time at the Institute, Ms. Heckmann said that she acquired "great insight into the field of business ethics, how important it is, and how to include it in everyday work."

Christine Waring

Ms. Christine Waring is an undergraduate student at The George Washington University where she is earning a B.A. in International Affairs, with a concentration in International Politics of Europe and International Economics. She became interested in international business ethics after completing a course on ethical theory and practice. During her time with the Institute, Ms. Waring had an opportunity to strengthen her research skills and contributed to the Institute's "Creating a Non-Retaliatory Workplace" project and development efforts. After graduation, Ms. Waring plans to pursue a graduate degree or attend law school.

INTERNATIONAL BUSINESS ETHICS INSTITUTE
1725 K Street, NW, Suite 1207
Washington, DC 20006 USA
Web: www.business-ethics.org

In This Issue: **International Standards and Global Codes**

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