

*In this article we look at why a code of ethics matters to a business, and how different countries in the Middle East codify and regulate corporate ethics.*

## The Importance of a Code of Ethics in an Organization

*In order for a business to regulate its operations, drive performance and mitigate risk, it should have a clearly defined code of ethics.*

## What is a Code of Ethics?

A code of ethics is a set of rules, guidelines, and principles which guide the behavior and activities of an organization and its executives, management, and employees. The purpose of a defined code of ethics is to make sure that employees conduct business with integrity and honesty, beyond the basic legal and regulatory requirements relevant to their roles.

For example, an organization's code of ethics may outline how employees are expected to deal with colleagues, partners, customers, and anyone else they may come into contact within the course of their duties.

Implementing a code of ethics may be voluntary or may be mandated by law. Oman's Code of Corporate Governance for Public Listed Companies, for instance, requires that the board of directors "shall draft an internal code for ethics and professional conduct" and

"monitor the management's compliance with the aforementioned code for professional conduct."

## Why is a Code of Ethics so Important for a Business?

There are a number of reasons why a code of ethics is important for any business.

Firstly, it positions and identifies the company as a place of integrity in which employees are held to high standards of honesty, accountability, and respectful behavior. This makes the organization more appealing to work for from an employee perspective and more attractive to do business with from the point of view of partners, investors, and customers.

It also helps to preserve standards as companies grow and become more complex, providing a reference for employees as they are exposed to new and changing circumstances. The code of ethics equips any representative of the business with the guidance they need to take the right actions in response to any situation which may arise. This ensures consistency of behavior by removing the need for employees to make individual judgments on what is the correct or most appropriate choice.

Examples of situations where employees might seek guidance from a company code of ethics can include:

- Sexual Harassment
- Discrimination
- Bribery
- Nepotism
- Corruption
- Insider Trading

Not only does the existence of a defined code of ethics assist employees in deciding what to do in these scenarios, but it also reassures them that the action they are taking is correct, and in line with company policy. This reduces excessive interruption to their work, as they can quickly and confidently deal with issues, and also unnecessary stress, as they don't have to worry they may have made the wrong choice. This sense of security contributes to better workforce morale.

A company's code of ethics is also an important factor in building and maintaining its reputation within the community, industry, or sector within which it operates. Many customers prefer to only do business with ethical organizations. In fact, more than 60 percent of young consumers in one study said that they considered an organization's ethical values before buying from them.

Adherence to high standards of ethics and behavior is, therefore, a commercial as well as moral consideration. It's important to ensure that the content of the company's code of ethics is in agreement with the prevailing opinions of its customer base, in order to build and preserve consumer confidence.

In addition, depending on the country of operations, there may be legal or regulatory requirements which dictate the form or

application of a company's code of ethics. For example, Oman, Qatar and Bahrain specifically require companies to have a code of ethics in place, and direct boards of directors to review and monitor its implementation.

## How Does a Code of Ethics Tie in with Corporate Governance?

A business's code of ethics is closely related to its corporate governance function - corporate governance is the framework that monitors the effectiveness of the code of ethics and ensures that it is implemented properly. It helps to set the tone and culture of the company, from the board level to management, to employees, embedding the central corporate values which are described in the code of ethics.

One of the main aims of effective governance is to balance the interests of all of the stakeholders of an organization. This can include executives, board members, employees, shareholders, financiers, suppliers, customers, etc. The principles laid out in a code of ethics such as fairness, responsibility, accountability, and transparency are a central part of setting this balance.

## How Does a Code of Ethics in an Organization Encourage Better Performance?

Organizations that go beyond the ethical code and create cultures that promote ethical

practices tend to experience the most benefits. These organizations actually tend to attract workers that are very loyal and committed that make a strong positive impact on their communities.

In 2020, the following companies were listed as being among the most ethical in the world by Ethisphere, a company that rates companies for their ethics:

- Accenture
- Hilton
- HP
- Microsoft
- Sony

One thing that these companies have in common is a focus on transparency and accountability within their organizations. This helps to create and embed a workplace culture where ethical standards are at the center of the decision-making process, rather than an afterthought.

## Why is it Important for Organizations to Follow Up on Codes of Ethics with Policies that Monitor the Code of Ethics?

Documenting a list of agreed ethical standards is only the first stage in creating a truly ethical culture. Without policies in place to monitor and evaluate adherence to the code, and how it is interpreted and applied in real-world decision making and activity, compliance cannot be guaranteed.

Organizations must play an active role in ensuring that all employees accept and support the company's ethical code and that they understand how to apply it to situations that might arise as part of their role. They should be encouraged to engage with the ethical functioning of the business, to ask questions, or raise concerns if any aspect of the code of ethics is unclear, and to suggest additions or updates based on their day-to-day experience if appropriate.

Equally, where violations of the code of ethics occur, these should be taken seriously at a management level, and sanctions applied if necessary.

## Conclusion

A solid code of ethics can help an organization uphold its integrity and make sure that it does not stray into ambiguous and challenging situations. To avoid ethical violations that can be highly damaging to organizations, it is vital for every organization to do its best to encourage and promote the highest possible standards of ethics. Organizations should also go beyond the code of ethics itself and work hard to make sure that a strong culture of ethics is nurtured and sustained within the organization.

### About the Author:



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