



How do Codes of Ethics/Conduct of the companies listed in the PSI-20 are compared with those of the companies of the FTSE-100?

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Abstract: This study, based on the methodology of the Institute of Business Ethics (IBE, 2023), presents the results of a comparative analysis of the codes of ethics/conduct of companies listed on the Portuguese Stock Index (PSI). While 93% of PSI companies demonstrate a commitment to transparency through publicly available codes, only 29% meet the "good" quality standard. An average quality score of 5.3 (out of 10 points) means there is room to implement improvements. In the design of the Code, it is recommended the need to shift to values-driven frameworks, prioritizing ease of use, establishing comprehensive guidelines for the Speak Up process, and strengthening Leadership commitment. This study aims to guide companies towards fostering a culture of integrity, transparency, and accountability, thus contributing to the continuous evolution of ethical practices in the corporate environment in Portugal and promoting sustainable governance of organizations.

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The IPCG's mission is to "foster transparency, accountability and corporate ethics". That is why it is crucial for us that Portuguese companies follow the best practices in the implementation of an appropriate, clear corporate ethic that is internalized by organizations. This study carried out by the Fórum de Ética of Católica Porto Business School could not be more consistent with the type of public service provided by civil society that we think is worth encouraging. It presents an objective assessment of listed companies versus a pre-established benchmark. It also draws attention to the inadequacy of companies to accept a mere formalisation and dissemination of a code of ethics/conduct, stressing the importance of the listed principles being absorbed by organisations in their current practices.

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Introduction

Codes of ethics/conduct (Codes) play a crucial role in shaping a company's ethical culture, serving as guidance for employees and setting clear expectations for stakeholders.

The importance of the Codes cannot be underestimated, as they are fundamental documents that outline the principles and values that guide an organization's activities. However, while these Codes may articulate noble ideals and aspirations, their effectiveness often depends on more than just their existence. As Kaptein (2015, p. 5) states: "A code says a lot, but at the same time, it says absolutely nothing! It says a lot in theory, but it does not say anything about practice. It says a lot about the desired situation, but it does not say anything about the current situation." This paradox underlines the importance, not only of having a robust code, but also of effectively integrating it into the organizational culture.

The adoption of Codes has become increasingly widespread, with organizations recognizing the importance of establishing clear standards of ethical conduct. However, as Kaptein (2015, p. 5) suggests, "the true value of a code is often underestimated or underutilized." Mere dissemination of the Code through communication and training channels is insufficient; instead, and to lead to meaningful behavioural change, it must be integrated into the organization's culture.

The challenge lies in bridging the gap between the ideals adopted in the Code and actual practices within the organization. While a Code can outline ethical principles and responsibilities, its effectiveness depends on its integration into daily activities and decision-making processes. As such, the effective incorporation of the Code requires more than just compliance. A cultural shift is needed that internalizes these values and norms across all levels of the organization.

In fact, ultimately, the effectiveness of a Code is determined by its ability to shape behaviour and promote a culture of ethics and responsibility. This requires continuous efforts not only to develop and communicate the Code, but also to institutionalize it in the organization's processes and practices. By doing so, organizations can ensure that their codes serve as living documents that guide decision-making and uphold the values that define their identity.

This study does not focus on the process of implementation of the Codes, but on the analysis of their content. Specifically, it focuses on the analysis of the Codes of the main Portuguese companies, specifically those listed on the Portuguese Stock Index (PSI). Based on the Institute of Business Ethics (IBE) methodology used to evaluate the Codes of the 100 largest UK companies listed on the Financial Times Stock Exchange Index (FTSE-100), this research allows for comparative analysis, highlighting areas of excellence and potential for improvement.

While this research reveals cases of good practice, it also reveals substantial room for improvement. Notably, 93% of PSI companies adopt the good practice of having a Code publicly available, promoting transparency and engagement with stakeholders. However, only 29% of the Codes analysed have a "good" quality standard, defined by the IBE methodology. The main focus is on improving the language and tone of the Codes, highlighting clear writing techniques equipped with tools for employees to make ethical choices and the good use of FAQs, images and other appropriate communication methods. Improvements in user-friendliness, such as accessible design and intuitive navigation structures, are vital to fostering a Code that employees can relate to.

In addition, there is room to improve the involvement of Leadership, including references to the specific responsibilities of managers, but also in the process of communicating or reporting ethical concerns or complaints that violate the Code, standards or legislation, the so-called Speak Up process. While 71% of PSI companies Codes display an explicit commitment to non-retaliation, only 36% clarify the expectations people can anticipate after voicing their concerns. To fill this gap, it is strongly recommended to incorporate clear and comprehensive guidance on the Speak Up process. These should include information on what may happen to the report, elucidate on its processing process, and make explicit a clear commitment to zero tolerance for retaliation against those who signal bad practices. Providing employees with decision-making models, frequently asked questions or illustrative examples will allow them to more easily navigate this vital aspect of workplace culture.

Additionally, we find that only 40% of the Codes updated in the last three years were more likely to be rated as "good" when compared to older or undated Codes. We recommend a regular review of the Codes, at least every three years, to ensure their relevance and effectiveness.

Methodology: Code Quality Assessment

To assess the quality of the codes of ethics/conduct (Code) of PSI companies, we follow the quality scoring system developed by IBE (2023). The analysis of the Codes of these companies was conducted using the Codes publicly available on the companies' websites on June 30, 2023.

The scoring system comprises four key dimensions of quality: (i) Nature, Language, and Tone; (ii) User Friendliness; (iii) Speak Up; and (iv) Leadership. Specifically, the scoring system assigns a maximum of 3 points for Nature, Language, and Tone, 2 points for User Friendliness, 3 points for Speak Up, and 2 points for Leadership, totalling a maximum overall score of 10 points.

Nature, Language, and Tone		Max. 3 points
Rules or Guidance?		1 point
"Legalese" or natural language?		1 point
Values-based approach that promotes concrete ethical guidance?		1 point
Ease of Use		Max. 2 points
Accessible design?		1 point
Ethical decision support tools?		1 point
Speak Up		Max. 3 points
Explanation of how to report concerns/reports?		1 point
Explanation of what can be expected after Speak Up?		1 point
Organizational commitment to non-retaliation?		1 point
Leadership		Max. 2 points
Commitment from Senior Management?		1 point
Role of managers as role-models?		1 point

Table 1 – Classification system

In the Nature, Language and Tone category (max. 3 points), the analysis assesses whether the Code provides clear rules or guidelines for ethical conduct (1 point), assesses the language used to distinguish between natural and accessible language and complex legal language (1 point), and assesses the extent to which the Code inspires people to make ethical decisions and align their actions with ethical principles and values (1 point).

The User Friendliness dimension (max. 2 points) considers the overall design of the Code as a function of accessibility, ensuring that it is easy to read and navigate (1 point), as well as the provision of practical tools (such as decision-making models, case studies or examples) to help make ethical choices (1 point).

The Speak Up dimension (max. 3 points) assesses the clarity and comprehensiveness of information about how people may raise ethical concerns (1 point), assesses whether the Code sets clear expectations for people regarding what they can expect to happen after reporting those concerns (1 point), and assesses the commitment to non-retaliation against people who report ethical concerns (1 point).

Finally, in the Leadership dimension (max. 2 points), the presence of messages at the beginning of the Code signed by the Senior Management and demonstrating their commitment to ethical conduct (1 point) is evaluated, along with the inclusion of references to the specific responsibilities of managers, highlighting their role as ethical role models (1 point).

This scoring system is designed to provide a comprehensive and detailed assessment of the effectiveness of each Code in guiding ethical behaviour and promoting a strong ethical culture within the organization.

Acceptable/Good Quality Standard: A Code of Ethics/Conduct is considered to have an acceptable/good standard if the score is equal to or greater than 7 out of the maximum 10 points. This threshold is chosen to ensure a rigorous evaluation and identification of codes that excel in guiding ethical behaviour and fostering a strong ethical culture within the organization.

Sample: Currently, only 16 companies meet the criteria for admission to the PSI: ALTRI, BCP, CORTICEIRA AMORIM, CTT, EDP, EDP RENOVÁVEIS, GALP ENERGIA, GREENVOLT, IBERSOL, J.MARTINS, MOTA ENGIL, NOS, REN, SEMAPA, SONAE and NAVIGATOR.

In our analysis, however, we considered 15 companies, since EDP and EDP RENOVÁVEIS share the same code of ethics and, moreover, one of the Codes is not publicly available. In this analysis, the name of the companies is presented anonymized with the designation of A to O.

Analysis and discussion of results

The evaluation of the codes of ethics/conduct (Codes) of the PSI companies resulted in important conclusions. A significant majority of PSI companies, 93%, make their Code publicly available, a similar result to that observed in the IBE study, where 90% of FTSE-100 companies have their Code publicly available (IBE, 2023). However, only one-third (29%) of PSI companies Codes meet the "acceptable/good" standard to promote values-based decision-making and the development of ethical culture (*vd.* Figure 1). This result is very low when compared to that obtained by the IBE for FTSE-100 companies, where 63% of Codes are classified as good (IBE, 2023).

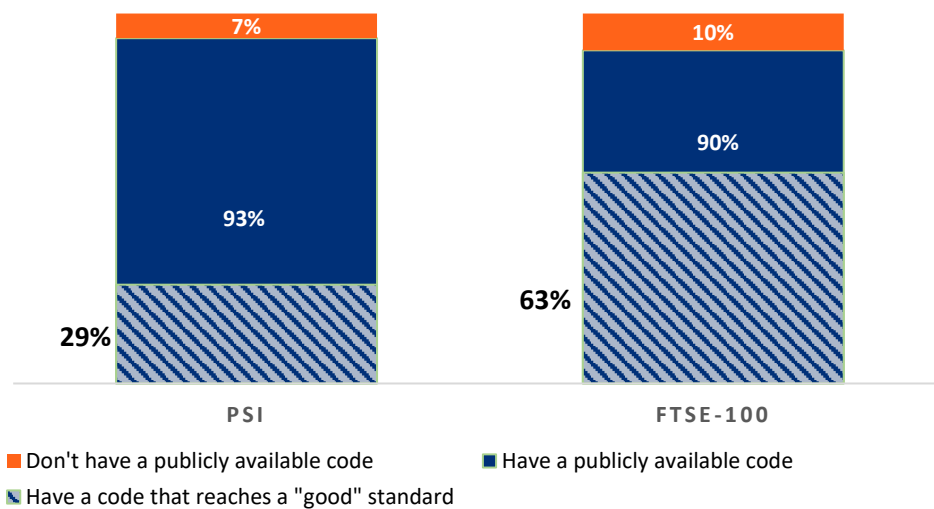


Figure 1 – Comparison of publicly available codes and good (≥ 7) standard codes - PSI vs. FTSE-100.

The average quality score obtained for the PSI companies Codes is 5.3 out of 10 points, indicating a lower overall performance than that obtained by IBE (2023) for the FTSE-100 companies Codes, which average is 6.9 out of 10 points (*vd.* Figure 2).

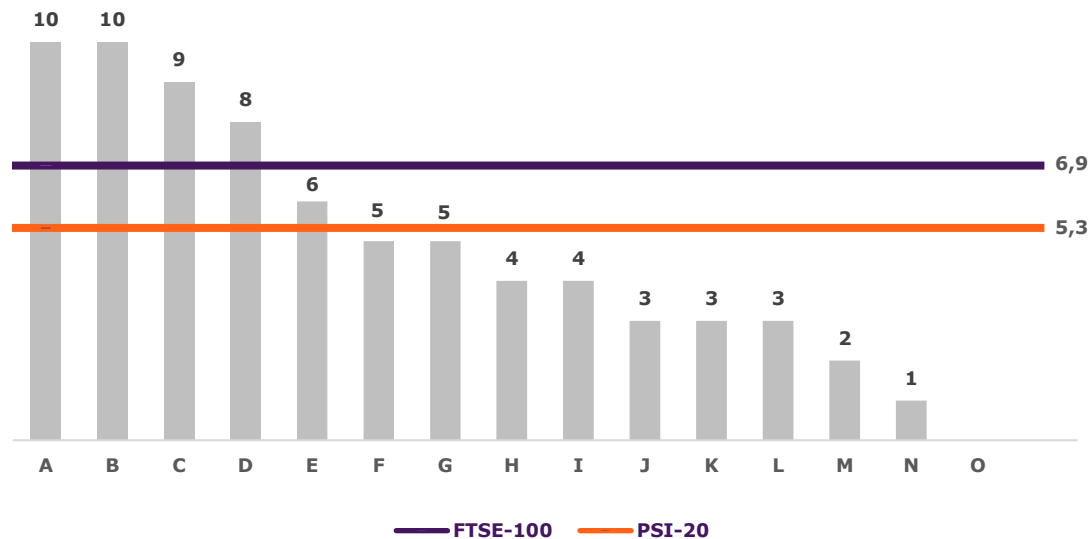


Figure 2 - Quality score for each PSI company and average quality score PSI and FTSE-100

In all four dimensions, the average quality score of the PSI companies Codes is below than that of FTSE-100 companies (vd. Figure 3). The findings indicate a considerable opportunity for companies to increase the clarity and impact of their Codes. Emphasizing improvement in the dimensions of Nature, Language, and Tone, the focus is on improving readability, clarity, and engagement, prioritizing User-friendliness, and expressing strong leadership principles. By recognizing these areas for improvement, companies can move beyond mere compliance, promoting ethical practices. The key is to ensure that the Codes are clear and captivating, while also prioritizing user-friendliness and demonstrating a strong commitment to leadership.

Central to this improvement effort is the incorporation of a comprehensive Speak Up process orientation for employees, addressing gaps in their understanding, setting clear expectations, and reinforcing commitment to a workplace culture intolerant of retaliation.

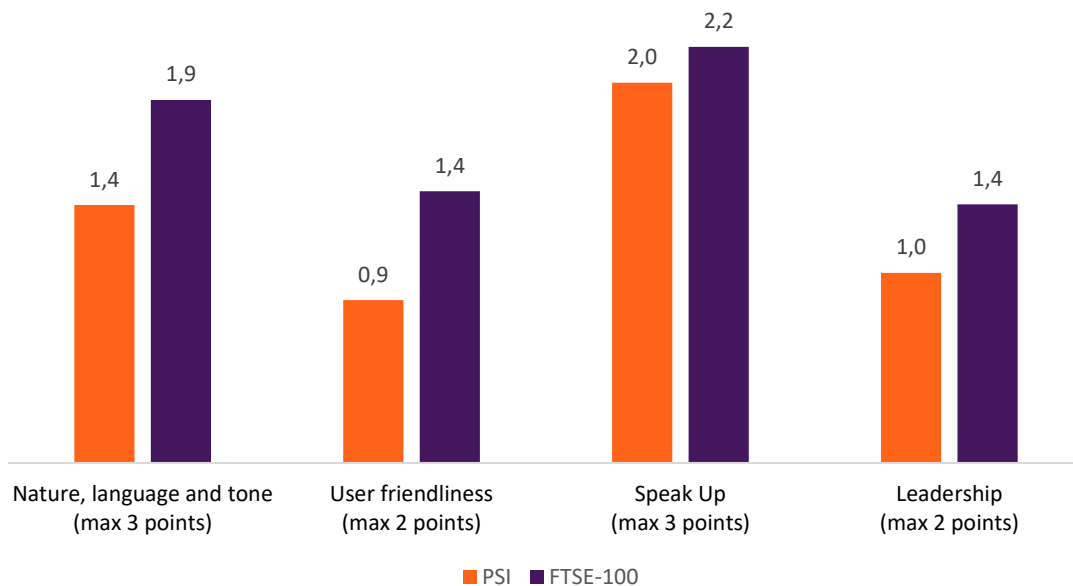


Figure 3 – Average quality score in each dimension – PSI vs. FTSE-100.

Looking at the Nature, Language, and Tone dimension of the Codes, we find that 57% of the Codes exhibit positive and inclusive language, offering guidance and providing valuable recommendations. However, a significant portion (57%) maintain a more formal, technical, or legal approach, which can hinder accessibility and understanding. In addition, only 36% of the Codes follow a values-based approach, with the aim of inspiring people to make ethical decisions that are aligned with ethical principles and values. These results emphasize a diversity in the linguistic approaches used by PSI companies, showing good practices but also areas where improvement could increase the effectiveness of ethics communication.

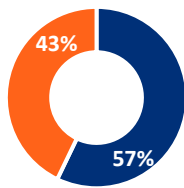
Regarding the dimension of User-Friendliness of the Codes, we find that 50% of the Codes have an accessible design, ensuring readability and ease of navigation for stakeholders. However, a significant aspect for improvement lies in the provision of tools for ethical decision-making, with only 36% of the Codes providing resources such as decision-making models, case studies and examples to help employees tackle ethical problems.

The assessment of the Speak Up process dimension proves to be an excellent practice, as 93% of the Codes comprehensively explain how people can report their concerns, demonstrating a strong commitment to transparency. However, there is a gap in the information provided, with only 36% detailing what whistleblowers can expect after reporting a concern. In addition, a positive aspect is the commitment to non-retaliation, with 71% of the Codes explicitly expressing the commitment to protect whistleblowers (in accordance with Law No. 93/2021 establishing the general regime for the protection of whistleblowers), surpassing the result obtained for the publicly available Codes of FTSE-100 companies (58%).

Turning our attention to the Leadership dimension, 64% of the Codes analysed include a preface or message at the beginning, often written by the CEO or another senior executive, reflecting a commitment to the ethical conduct of senior management. However, there is room for improvement, as only 36% of the Codes incorporate references to the specific responsibilities of managers, highlighting their role as ethical role models within the company. This is a potential area where PSI companies can strengthen their ethical leadership framework for greater impact.

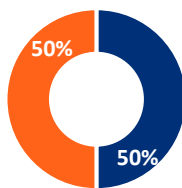
**Nature, language
and tone**

Rules vs. Guidance



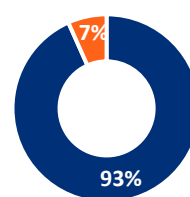
**Ease of
use**

Acessible design



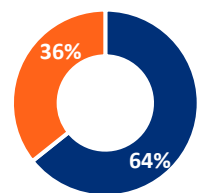
Speak-Up

**Explains how to raise
concerns**

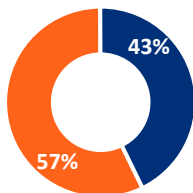


Leadership

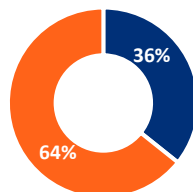
**Senior
Leadership
endorsement**



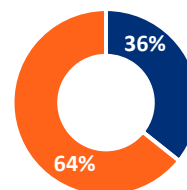
**Legalese vs. Natural
Language**



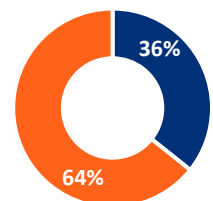
Help make good choices



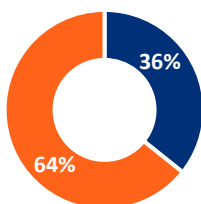
**Explains what is
expected to happen
after speak up**



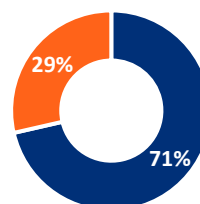
**Managers as role
model**



Values-based approach



**Commitment to non-
retaliation**



■ yes ■ No

Figure 4 – Results of the quality dimensions: PSI companies.

Analysis of the recency of the codes reveals significant trends in PSI companies (vd. Figure 5). A substantial percentage (71%) of the Codes have been published or updated in the last three years. This result is higher than that obtained by the IBE (2023) for FTSE-100 companies, where only 49% have recent updates. Notably, there are no undated PSI companies Codes, which contrasts with the FTSE-100 company Codes, where 23% do not have a publication date.

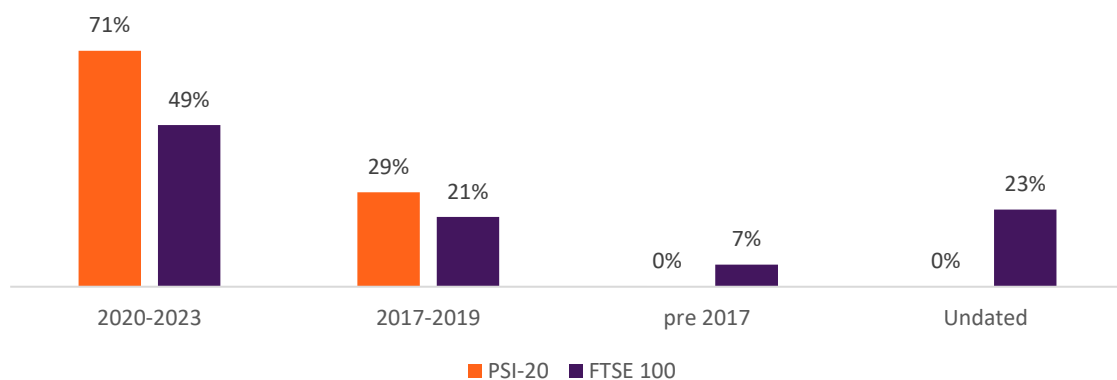


Figure 5 – Update of Codes - PSI vs. FTSE.

Other information from a quality point of view indicates that Codes updated in the last three years are more likely to achieve a good quality rating (≥ 7 points). Only 40% of PSI companies Codes updated in the last three years achieved a good score, showing a positive correlation between recent updates and code quality (vd. Figure 6). This result is below that obtained by the IBE (2023) for FTSE-100 companies, where 73% of the Codes updated in the same period achieved a good quality score (IBE, 2023).

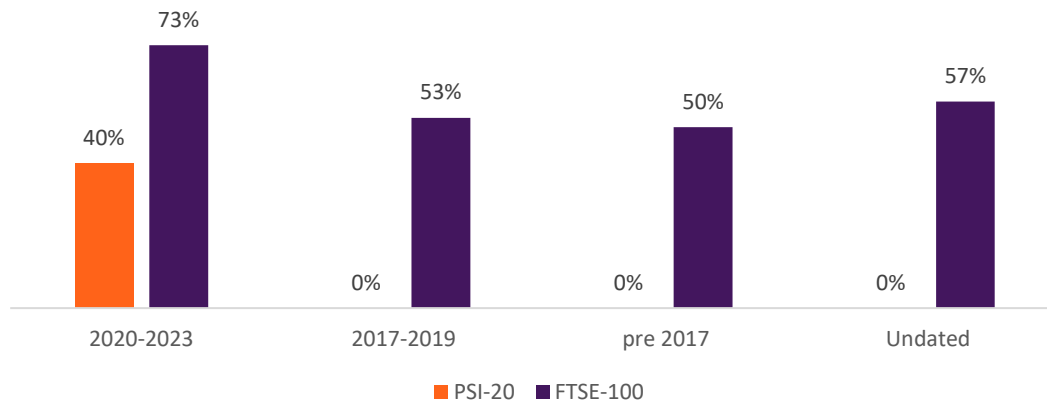


Figure 6 – Good quality codes per year of code publication - PSI vs. FTSE.

In terms of page size, PSI companies Codes exhibit a higher average of 34 pages for their codes, compared to the average FTSE-100 companies Codes of 26 pages.

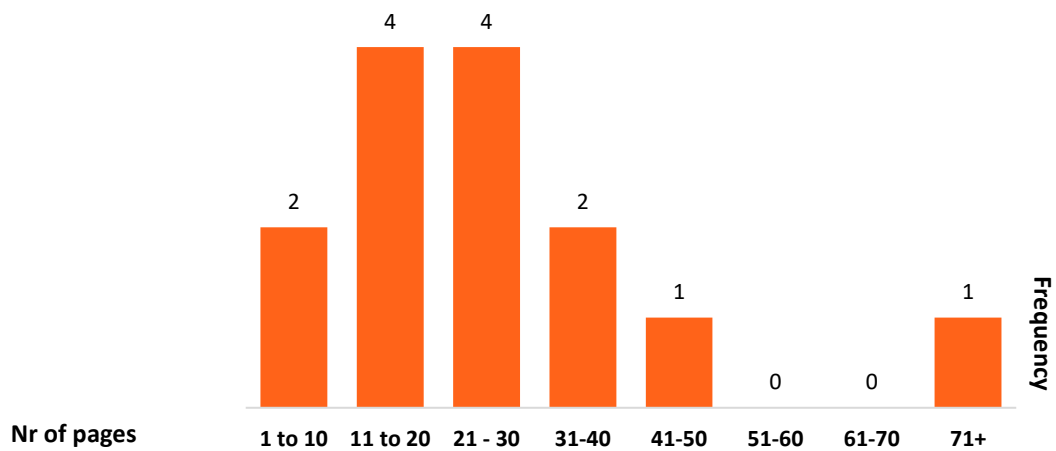


Figure 7 – Length of Codes – PSI.

Recommendations: higher quality of the Codes and impact on organizational culture

The analysis of the codes of ethics/conduct within PSI companies highlights good practices, but also substantial opportunities for improvement. To increase the comprehensibility and impact of the Codes, we have drawn up the following recommendations.

First and foremost, companies must implement the shift from rules-focused to values-driven approaches. Emphasis should be placed on clear and engaging language, moving away from formal, technical, or legal language. Adopting a values-based approach that inspires people to make ethical decisions, aligned with principles and values, will contribute to fostering a (stronger) ethical culture.

Secondly, we believe that it is important to ensure that the design of the Code facilitates its use, including through intuitive navigation structures and user interfaces that improve its understanding. Providing practical tools (such as decision-making models, case studies, and examples) will further empower employees for ethical deliberation and decision-making.

Thirdly, a comprehensive guide to the Speak Up process allows to create a transparent environment, capable of supporting all employees who want to signal bad practices. Companies should not only explain how to report, but also provide clear expectations about what might happen after whistleblowing. It is crucial that organizations commit to an organizational culture that is intolerant of retaliation.

In addition, it is essential to ensure the involvement of the Leadership. The Codes should include opening messages signed by senior management or other senior leaders, thereby demonstrating their commitment to ethical conduct. The inclusion of references to managers' specific responsibilities will further emphasize their role as ethical role models.

Finally, it is recommended that the Codes be regularly reviewed, at least once every three years, in order to ensure their relevance and effectiveness. This periodic evaluation ensures that the Codes are aligned with evolving ethical standards, organizational values, and industry best practices.

These recommendations, when implemented, can significantly contribute to elevating ethical practices within companies, promoting a culture of integrity, transparency and accountability.

Conclusion

The evaluation of the codes of ethics/conduct (Codes) of the companies listed on the PSI reveals a scenario of good practices, but also of significant opportunities for improvement. Although the frequency of the Codes accessible to the public is high, the gap in compliance with the quality standard identified here underlines the need to improve this instrument with an impact on the organizational ethical culture. The average quality score of 5.3 out of 10 suggests that there is room for improvement in the revision of the Codes of the organizations that were analysed.

After a detailed analysis of the four dimensions (Nature, Language, and Tone; User-Friendliness; Speak Up; and Leadership), we have prepared a set of recommendations that can guide companies in consolidating their ethical foundations and integrating them into their Codes of Ethics/Conduct. We have flagged as important steps the shift from rules-focused approaches to values-driven frameworks; User-Friendliness; the implementation of comprehensive Speak Up process guidelines and leadership involvement. Regular revisions of the Codes, at least once every three years, ensure their continued relevance and effectiveness in guiding ethical behaviour.

The trends observed in updating the Codes indicate a positive correlation between recent updates and higher quality scores, highlighting the importance of continuous improvement. PSI companies, with 71% of Codes updated in the last three years, outperform FTSE-100 companies in this regard.

We recall, however, as Kaptein (2011, p.247) states, that "the more an organization communicates its code to employees without adequate attention to the quality of communication, its content, and embeddedness by management, the higher the frequency of observed unethical behaviour". The Code should be seen as a (central) element of the Whistleblowing Channel, which is, in turn, an element of an Ethics Program, which, being comprehensive and systematic, will allow to reinforce the ethical culture and transform the way ethics are managed (and governed).

In the pursuit of ethical performance excellence, it is imperative that we view the Codes, not as compliance documents, but as living frameworks that inspire ethical decision-making, align with organizational values, and foster a culture of integrity, transparency, and accountability. The path to ethical leadership and conduct is underway and this study may trigger a collective effort to strengthen the organizational ethical culture in Portugal.

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The [Institute of Business Ethics](http://www.ibe.org.uk) (IBE) was established in 1986 to advocate for the highest standards of ethical behaviour in business.

The [Forum de Ética](http://www.forum-etica.org), created in 2015, aims to promote business ethics through the exchange of experiences, joint reflection and the creation and sharing of knowledge. Since 2018, it has been a National Partner of the three-year international study "Ethics at Work" by the Institute of Business Ethics.

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