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Delphi

Codes of Conduct in the Swedish Business Sector

KPMG FORENSIC/ADVOKATFIRMAN DELPHI

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Foreword

This white paper is the result of the fourth study on Codes of Conduct within the Swedish business sector conducted by KPMG Forensic and Advokatfirman Delphi.

The study covers the prevalence, content, scope and compliance of the 50 largest publicly listed companies' (listed on OMX Stockholm) Codes of Conduct. The studies of 2009 and 2011 focused on the areas of whistle blowing and anti-corruption, the study of 2013 focused on external parties in general and this year's study takes a closer look on how companies apply their Codes of Conduct on their customers. The survey was conducted in 2014 and completed in February 2015. There are very few studies completed regarding customers and Codes of Conduct due to the novelty and complexity of the subject. Consequently, contemporary understanding of Codes of Conduct is inadequate when it comes to how companies affect their customers' behaviours and Codes of Conduct. However, recent events have made it obvious that companies' brands and reputations are also affected by their customers' actions and not only their suppliers', agents' and other business partners' actions. Therefore, it is a very intriguing area in the field of Codes of Conduct with a lot of potential to contribute to. As customers are often less acknowledged in companies' Codes of Conduct, this white paper will mainly focus on why it may be of an interest to further include one's customers, and how this may be done as efficiently as possible.

The main part of this white paper is divided into two sections; Content and Customers. The content analysis was based on 100 parameters (see Appendix II) grouped into categories covering topics of interest. For further description of the used method, see Appendix I.

The number of companies that could be considered having a Code of Conduct has increased since the study conducted in 2013 (from 42 to 43 companies). Many companies choose to apply specific codes for external parties and regulate the conduct of employees not only through a Code of Conduct but also through separate policies and guidelines. 21 of the 43 companies included in the study participated in a detailed survey further deepening the understanding of their Code of Conduct and its use.

We appreciate and thank all participants for their time and effort and hope that this study will be helpful in the process of revising and developing new Codes of Conduct.

This study was conducted by KPMG Forensic and Advokatfirman Delphi in association with students from Uppsala University and Stockholm University. The group consisted of Martin Krüger and Rebecca Kromp from KPMG Forensic, Per Granström and Fredrik Gustafsson from Advokatfirman Delphi, Madeleine Zuber and Josephine Marby, Department of Business Studies at Uppsala University and Maria Sundström, Faculty of Law at Stockholm University.

Key findings

Prevalence

- A vast majority (86%) of the 50 largest companies listed at OMX Stockholm Large Cap have a Code of Conduct (84% in 2013)

Key Motives

- To be a socially responsible company
- To increase employees' ethical awareness
- To create a united corporate culture

Receivers

- Employees still remain the primary receivers of Codes of Conduct
- 25% of the companies state that their Code of Conduct applies to customers compared to 75% that state that their Code of Conduct applies to suppliers

Content

- Corruption is addressed in 98% of the Codes of Conduct (98% in 2013)
- 91% addressed Observance of their Code of Conduct in some way (81% in 2013)
- Only 14% of the companies address social media usage in their Code of Conduct (12% in 2013)

Implementation of the Code of Conduct

- All of the companies having a Code of Conduct educate their employees in the Code of Conduct
- A clear majority of the companies do not extensively communicate their monitoring routines in their Codes of Conduct. For example, the statement of observance has clearly decreased since 2013 within the codes – in 2013 81% declared observance whereas in 2015 only 67%

Violations of the Code of Conduct

- 65% of the companies have encountered violations of their Code of Conduct (67% in 2013)
- The most common violations are discrimination, the misuse of company assets and conflicts of interest

Customers

- As many as 76% have declined working with a customer due to the risk of the customer not following their code
- Although 88% of the companies would consider renouncing further collaboration with an existing customer, if the customer did not act according to their Code of Conduct; only 29% state that their contractual agreement with their customers usually include a right to end the contract if the customer does not act in agreement with their Code of Conduct
- 71% of the companies see their Code of Conduct as a method to impact their customers' behaviour
- The economic benefit and the customer's reputation are the most important criteria in the evaluation process of a customer (for example when entering into an agreement with a customer)
- 33% of the companies stated that they do not monitor customers' compliance with their Code of Conduct
- Almost half of the companies (44%) do not seem to have a plan for how to revise its Code of Conduct in relation to customers

What is a Code of Conduct?

"A business code is a distinct and formal document containing a set of prescriptions developed by and for a company to guide present and future behaviour on multiple issues of at least its managers and employees toward one another, the company, external stakeholders and/or society in general."[1]

Code of Conduct are sets of rules and ethical guidelines intended to outline responsibilities and proper practices within organisations. Many different terms are used to describe such documents and include, among others, the following:

- Code of Conduct
- Code of Business Ethics
- Code of Ethics
- Business Principles
- Ethical Guidelines

Throughout this paper the term Code of Conduct (or simply Code) will be used to address such documents. The studies conducted by Advokatfirman Delphi and KPMG Forensic prior to this one have all applied the above definition of Codes of Conduct and will thus be recognised by readers of the 2009, 2011 or 2013 study.

Limitations

Sets of documents such as policies or guidelines addressing specific topics have not been considered to fulfil the requirements of a Code of Conduct and have therefore not been included in the study. A few of the companies excluded from this study only have such documents, so did not meet the requirements to be included as a Code of Conduct.

1 Kaptein, M., Schwartz, M. (2008). "The effectiveness of Business Codes: A Cricital Examination of Existing Studies and the Development of an Integrated Research Model". Journal of Business Ethics, Vol. 77(2): 111-127.

Content

General Characteristics of Codes of Conduct
The most important reason for a company to have a Code of Conduct in 2015 is the attempt to be a socially responsible company (see Figure 2). Previous years motive, to increase the employees' ethical awareness, was found to be of less importance this year. This change is confirmed by the increase of companies that mentions their values and principles in their Code of Conduct since the last survey. Now 98% of all the participating companies acknowledge their values and principles in their Code of Conduct compared to 91% in 2013. A number of values are frequently mentioned in the codes examined in this study and the most common values are honesty, integrity, respect, ethics and responsibility (see Figure 1).

The identification of specific receivers has decreased since the last study. Nevertheless, 81% of the companies point out a particular receiver in their Code of Conduct. The primary receivers of the Code of Conduct are the employees; nonetheless external parties such as suppliers and partners are also valued as receivers of many of the companies' Codes of Conduct (see Figure 3). 58% of the companies' Codes of Conduct mention an application on external parties, which is a slight increase compared to the previous year's result.

	2009	2011	2013	2015
Application on external parties	42%	40%	57%	58%

Figure 1. ***Values***

Figure 2. ***Reasons for having a Code of Conduct***

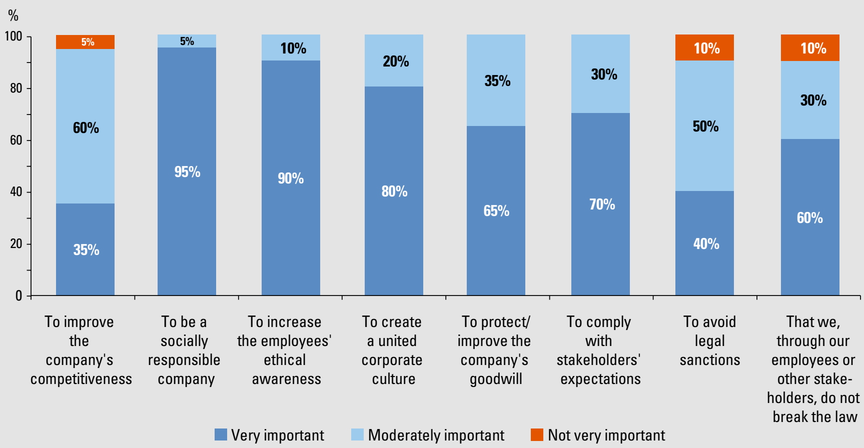
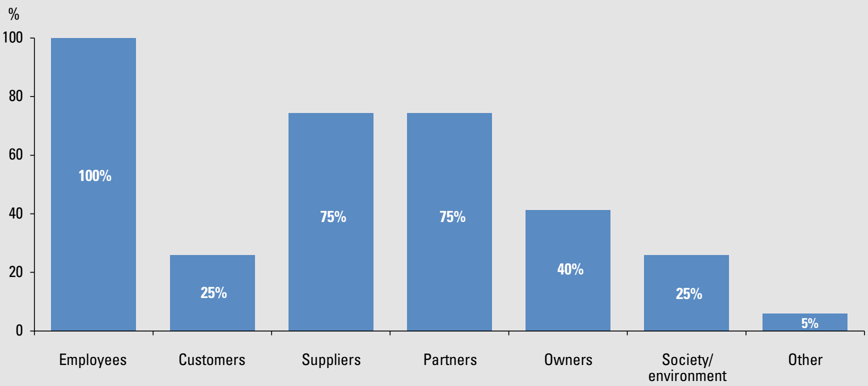


Figure 3. ***Application of Codes of Conduct***



“We adhere to the code of corporate governance and communicate with the companies we invest in as part of our normal investment routine and openly debate any departures from Swedbank’s values.”

From Swedbank’s Code of Conduct

Corporate Governance

The corporate governance parameters include reference to the corporate governance code and also how companies cooperate with local government authorities. The corporate governance code is only mentioned in 9% of the codes, which is a slight increase since the last study (7% in 2013). However the number is regarded as quite low. In contrast, cooperation with government authorities is mentioned in 42% of the codes.

The Company’s Assets

Handling of the company’s assets is one of the categories that are least addressed in the Codes of Conduct. Within this group, handling of physical assets such as computers and telephones is the most frequently addressed issue (33%); however it has decreased slightly compared to previous studies. One third of the companies regulate the private use of the company assets within the code. The least mentioned parameter within the category is the acknowledgement that the company owns all computer stored/produced material (5%).

The Swedish Code of Corporate Governance is based on the principle “comply or explain”; if the company does not comply with the code it is required to explain which part it does not comply with and why.

The default regulation on OMX NASDAQ Stockholm is that all companies traded on the stock exchange must follow the code. Exceptions can be made for companies which apply their home country’s code.

Confidential Information

Confidential information is a vital part of a company's survival and success, it is thereby of importance to the company to establish its principles when handling confidential information. This category focuses on both internal and external principles for handling of confidential information. When disclosing information to the public, competitors and/or others, it is important to have routines.

In comparison over time it is possible to see an increase in codes addressing external parties' confidential information in the years of 2009-2015. However regarding the handling of confidential information in general the acknowledgment in the codes has decreased since last time the study was conducted.

	2009	2011	2013	2015
Routine for handling CI in general	61%	53%	69%	67%
Routine for handling of external parties CI	45%	23%	43%	47%

> ***"Confidential information must not be passed on to any unauthorized natural or legal person, and this includes family members. This obligation continues even after termination of employment."***
>
> ***From Husqvarna's Code of Conduct***

Employees' Conditions

Employees' conditions focus mainly on companies' treatment of their employees in terms of equal working conditions, diversity, monitoring routines, but also cover sections that encompass how the employees should interact with each other (harassment/bullying).

Health and safety is the most frequently addressed area (88%), followed by discrimination (81%) and harassment/bullying (67%). A slight majority of the companies state that they consider equal working conditions (63%) and fair wages (63%) to be important while only a minority (33%) of the companies address alcohol and drug use during working hours.

	2009	2011	2013	2015
Health and safety in the working environment	94%	81%	88%	88%
Discrimination in general	94%	91%	88%	81%
Harassment/bullying	55%	65%	62%	67%

> ***"The Volvo Group's property and resources shall be used for business objectives. The property and resources shall not be used for personal gain, fraudulent purposes, or in any other inappropriate manner."***
>
> ***From Volvo's Code of Conduct***

Working hours is one of the parameters in the companies' Codes of Conduct that has increased from 2009 (18%) to 2015 (35%) and the number of codes addressing diversity has also increased from 2009 (33%) to 2015 (58%). All of the companies addressing diversity celebrate it in some way:

"We are committed to supporting diversity in our workforce and in our leadership and to developing all the talent within our organisation."
From AstraZeneca's Code of Conduct

"Our employees' knowledge and diversity are highly valued, and we are all responsible for creating a good working climate."
From Telia Sonera's Group Code of Ethics and Conduct

"ABB views diversity as an asset. Dozens of different businesses in countries around the world have come together over the years under the ABB umbrella and ABB's culture welcomes them all, regardless of gender, nationality, age or physical ability, or any other aspect of diversity."
From ABB's Code of Conduct

23% of the companies mention the monitoring of employees in some regard. For the monitoring of employees to be lawful, companies in Sweden must comply with strict legal requirements. Examples of such requirements are that monitoring must be proportionate with regard to a company's benefits for undertaking such measures compared to the employees right to privacy. Furthermore, the employee must be informed that the monitoring is taking place. Employers that are bound by a collective bargaining agreement must generally consult with the relevant trade unions before making changes to employee monitoring measures.

Social media and social networks are now deeply embedded in our society and there are important aspects to consider with regards to social media usage. An employer can be made responsible for what the employee communicates on social media if it is perceived that the employee represents the employer in the situation. In Sweden employees have a far reaching duty of loyalty that when breached can lead to grounds for dismissal. Yet only 14% of the companies mention social media in their Codes of Conduct (12% in 2013). Although there is only a slight increase in the number of companies addressing this issue since 2013, in all probability this will increase further over the next few years.

Conflicts of Interest
The conflicts of interest category covers career opportunities, private investments, private relationships, love in the workplace, quarantine regulations, political support, lobbying, corruption and external engagement. All the

According to the Personal Data Act when monitoring employees the employer need to disclose:

- *The reason of the processing*
- *The identity of the data controller*
- *All information the employee needs to exercise its right with regards to the monitoring*

> ***Social networks have become a large focus of global culture. In personal use of social media, Company employees enjoy the same rights of free speech as all other private contributors. We have a responsibility to be mindful when using such networks so that the comments, opinions, or information we post on otherwise seemingly innocent sites, including social media sites, do not inadvertently appear to reflect the opinions of Autoliv."***
>
> ***From Autoliv's Standards of Business Conduct and Ethics***

companies cover at least one of these parameters in their Code of Conduct.

The number of companies that address private relationships is still increasing but not as much as between 2011 and 2013. One key issue to limit the companies' liability of employees' private relationships is to ensure high ethical awareness.

The codes usually do not forbid private investments but rather asks the employees to avoid private investments that can lead to conflicts of interest. Strictly regulating employees' possibilities of private investments is probably better achieved in employment agreements, as this is a more direct way of legally binding employees. Such a case is also evident in terms of quarantine regulations, which typically should be legally binding to make sanctions possible.This may explain why almost none (2%) of the companies address this issue.

> ***Business decisions must always be based on objective reasons and criteria, and employees and business partners must avoid all conflicts of interest or perceived conflicts of interest between their personal activities and their part in the conduct of Securitas' business."***
>
> ***From Securitas' Code of Conduct***

	2009	**2011**	**2013**	**2015**
Private investments	61%	51%	60%	63%
Private relations	52%	53%	69%	74%

***Transparency International** ranks Sweden as the fourth least corrupt country in the world, with a score of 87 out of 100 in 2014. Despite an overall high ranking, a pre-election survey in September 2014 on party finance reform showed that no political party in Sweden believed that combating corruption was a high priority, but that most parties are committed to increasing transparency in political party financing and whistleblowing legislation. This low priority may correlate with the fact that 58% of the companies have taken it upon themselves to regulate their political support in their code.[2]*

2 http://www.transparency.org/news/feature/elections_and_anti_corruption_in_europe

Political support and lobbying both refer to the company's relation to political parties and political settings. A majority (58%) regulate political support, which gives the impression that it is considered important how the companies are perceived with regard to these settings. The recognising and mentioning of lobbying has gone from almost zero (3% 2009) to 26% in 2013 and 42% in 2015. This marks one of the largest relative increases compared to previous studies and indicates a heightened awareness.

On 1 July 2012 the new Swedish anti-corruption legislation came into force. The new legislation introduced two new offences – trading of influence and negligent financing of bribery. The trading of influence offence focuses on the situation where a person is bribed to influence the decision of another person. The negligent financing of bribery offence targets the situation when companies provide money that by gross negligence furthers the giving of bribes. Note that no individual needs to be convicted for the actual giving or receiving of the bribe, the court only needs to find that an act of bribery objectively has taken place. In the international outlook the Foreign Corruption Practices Act (FCPA) and UK Bribery Act need to be taken into contemplation as both contain extra territorial jurisdiction. The new Swedish Anti-Bribery Act, the FCPA and the UK Bribery Act give a chance to minimise the risk of suffering severe penalties in the event of a bribe by implementing appropriate compliance programs.

95% of the companies take a stand against bribes in their Code of Conduct in some way. The number of companies specifically addressing this issue has decreased since 2013 regarding both

The Anti-Corruption Institute (Sw. Institutet Mot Mutor) *published an updated version of the anti-corruption code in November 2014. The code is a complement to the new anti-corruption legislation from 2012 and is stricter than the legislation. The reason for this is, when following the code you should be able to rely on the fact that you are acting in accordance with the legislation. The updated version from 2014 contains more stringent rules and the words 'ought to' are exchanged for 'should'. The code from 2014 is also considerably stricter regarding certain branches in the private sector which is more privacy sensitive, such as the bank and insurance sector. Furthermore there is now an explicit prohibition in the code against benefitting those who exercises official authority or decides upon public procurement.*

bribes received from an external party and bribes offered to an external party, unlike the number of companies that address corruption in general, which is still the same as in the 2013 study (98%).

	2009	2011	2013	2015
Bribes received from external party	88%	81%	98%	91%
Bribes offered to external party	91%	72%	95%	91%

With regard to money laundering, a small increase can be noticed since 2013, when 17% of the companies chose to regulate it in their Code of Conduct, compared to this year's study, when 23% of the companies addressed the issue.

The most common way to regulate "external employment or engagement" in a code is a section that encourages employees to disclose any external activities that can create a conflict of interest (divided loyalty towards the company). Approximately half of the companies (51%) regulate this in their Code of Conduct.

"Employees must inform the company if they have a commitment that could constitute a conflict of interest with the company. The employee's immediate superior then takes responsibility for arriving at a solution, together with the employee, that is satisfactory for both parties."

From BillerudKorsnäs' Code of Conduct

> ***We provide information about SKF's strategies, results, financial position and development essential to the stakeholders in a timely manner and in accordance with applicable stock exchange rules."***
>
> ***From SKF's Code of Conduct***

Application on External Parties
To be able to handle its surroundings, a company needs to control its business relations in order for these to live up to some minimum requirements regarding the treatment of external parties.

A majority (70%) include views on fair competition (anti-trust) in their codes. Set aside anti-trust only 12% of the companies address how information about competitors is to be treated. This situation is not directly damaging for the company, but the number is still considerably low.

Insider trading and disclosure of financial information are covered within the "Investors" category. 58% of the companies mention guidelines for handling of information that is to be disclosed, and/or how and by whom this is to be done. Almost half (47%) of the companies mention insider trading. Overall the number of companies that address its routines in relation to investors has decreased by 4 percentage points since the 2013 study.

The number of companies that specifically address clients and thus customers within their Code of Conduct is still quite low although the number is increasing. The category includes fair selling and marketing methods (47%), product quality and/or safety (44%) and treatment of client information databases (26%). Fair practices are commonly addressed in the codes in order to govern employee behaviour in the name of the company. In total, 74% out of the companies have some sort of guidelines regarding these issues, in comparison with 69% in 2013 and 60% in 2011.

A minority (26%) of the companies address at least one of the parameters under the supplier category. One explanation to this could be the fact that many companies have adopted separate Codes of Conduct for suppliers.

Fair Competition and Anti-trust

In connection with the EEA accession a new Swedish Competition Act was enacted which replaced previous competition legislation. The Competition Act (konkurrenslagen (1993:20)) introduced a competition law regime similar to the European Community (EC) competition rules, with prohibitions against anti-competitive agreements and abuse of a dominant market position.

Observance, Report of Violations and Revising of the Code of Conduct

All of the participating companies (100%) have chosen to educate their employees in their Code of Conduct. The most common forms of education are the distribution of documents, e-learning and seminars (see Figure 4).

Observance

A clear majority of the companies do not extensively communicate their monitoring routines in their Codes of Conduct. The statement of observance has clearly decreased since 2013 within the codes – in 2013 81% declared observance where as in 2015 only 67% declared observance in their Codes of Conduct. The percentage of companies stating that they specifically control a group's observance has grown; a fifth (21%) of the companies state that they control employees', suppliers' and others' observance of the code. Although an increase is visible, the percentage of companies communicating the importance of their code is still very low. 65% of the companies further state in their Code of Conduct that they take disciplinary actions for non-compliance, compared to 55% in 2013. Providing such information is believed to communicate how important it is that receivers compy with the code. It is moreover believed that it enhances receivers' content recall.

Statement of observance of the CoC	**67%**
Control of employees' observance of the CoC	**21%**
Control of suppliers' and others' observance of the CoC	**21%**

Report of Violations

Reporting routines are mentioned in 77% of the codes (81% in 2013) and this is an important means to inform receivers

Figure 4. ***What kind of education do your employees go through regarding the Code of Conduct?***

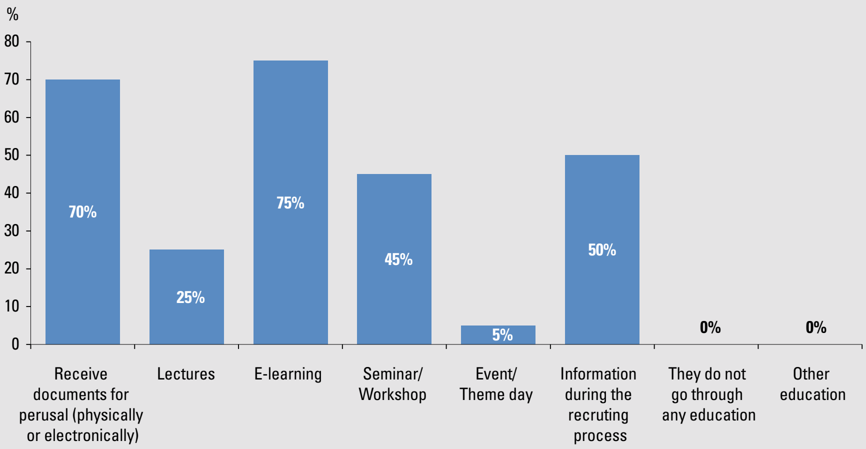
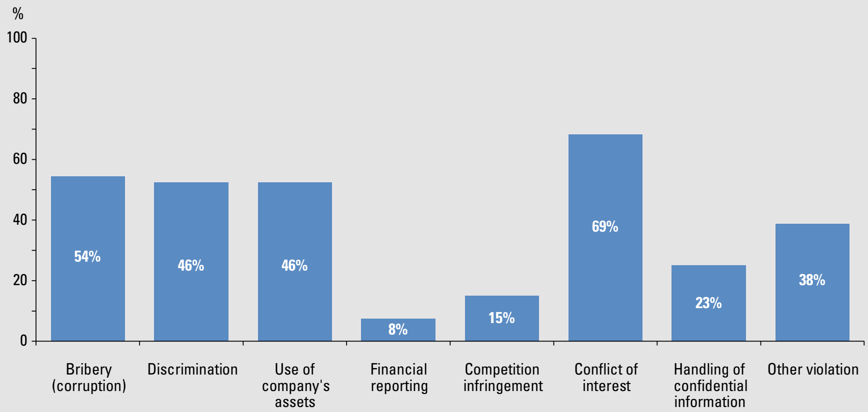


Figure 5. ***Reasons for reported violations during 2014***



about their possibilities to report infringements when encountered. A little more than three fifths (65%) of the companies have received reports of violations of their Codes of Conduct during 2014, which is a slight decrease since 2012 (67%). The main reasons for reporting were conflict of interest and bribery (see Figure 5). The most common actions taken were warnings, dismissal or suspension (see Figure 6).

56% of the companies Codes of Conduct state that reports of violations are treated with confidentiality and 44% state that individuals who report violations have the possibility to remain anonymous. Whistle-blowing systems are the most common instance for reports of violations followed by immediate managers and HR-department. Approximately 70% of the companies answered that their board of directors are regularly informed about violations against the Code of Conduct (see Figure 7).

Revising

Disclosure of information on the implementation and follow-up of the Codes of Conduct (i.e. in annual reports and sustainability reports) were made by the majority of the companies (85%). However, only two fifths of the companies (40%) revised their codes regularly. A common answer was that the code was revised every two to five years. Generally a defined group within the company and the board of directors are involved in the revision of the Code of Conduct (see Figure 8). Furthermore, in 75% of the companies a specific group or person is employed to work mainly with issues regarding Codes of Conduct, which is a fairly high number, possibly showing the importance of these issues (see Figure 9).

Figure 6. ***Which measures has your company taken due to violations of the Code of Conduct during 2014?***

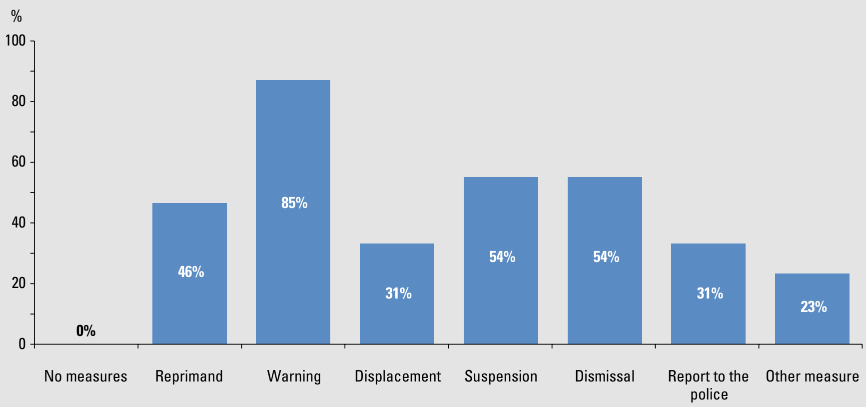


Figure 7. ***How often is the board of directors informed of violations of the Code of Conduct?***

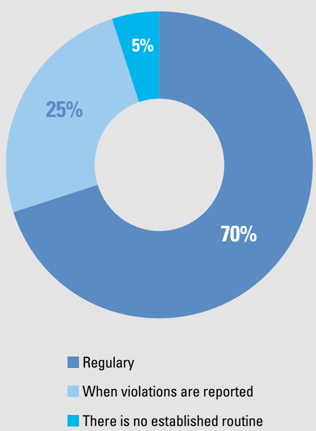


Figure 8. ***Which group/groups is/are involved when you revise your Code of Conduct?***

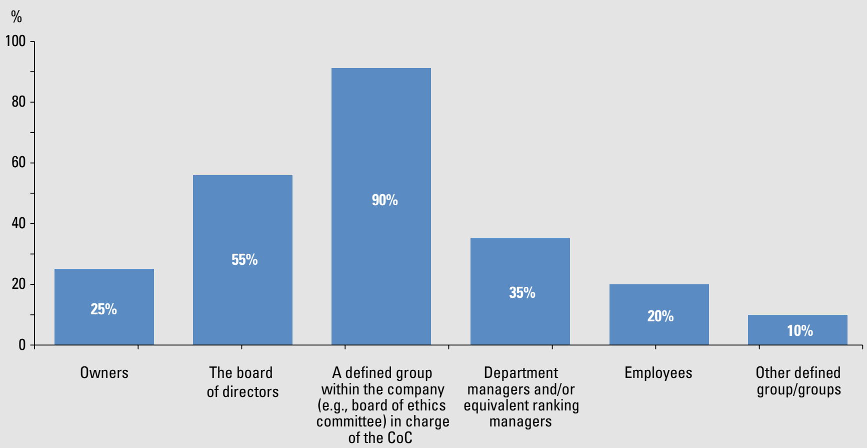
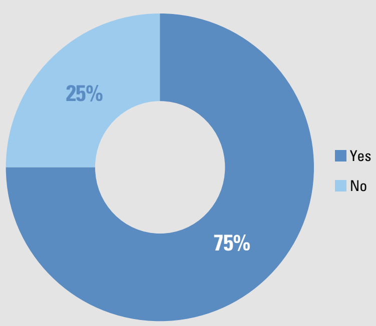
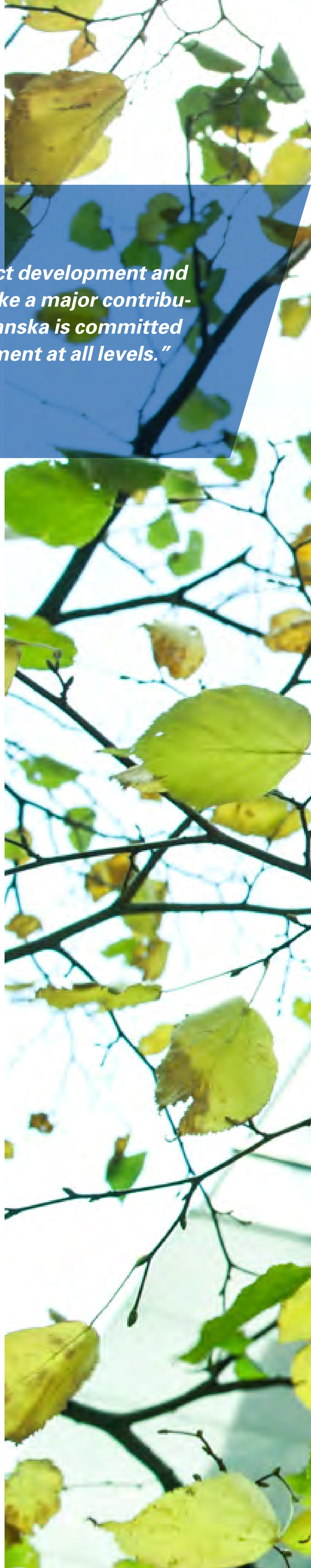


Figure 9. ***Is there a specific group/person employed to work mainly with Code of Conduct-issues in your firm?***



> ***Based on the strong belief that project development and construction related services can make a major contribution to a more sustainable world, Skanska is committed to proactive environmental management at all levels."***
>
> ***From Skanska's Code of Conduct***



Sustainability

Sustainability refers to a company's interaction with society. Environmental responsibility still is one of the most debated topics of our time. As in 2013, 86% of the companies in 2015 recognise environmental responsibility in their Codes of Conduct. Several companies also have formal documents on the environment in place, in addition to their Code of Conduct.

Companies' environmental impact depends on the nature of their business and operations and therefore, put different demands on their efforts to limit their impact. As with the previous study, two thirds (67%) of the companies have included a section that recognises human rights in their Codes of Conduct in general.

Looking more specifically at, for instance, forced labour and child labour, it is possible to see a somewhat more significant change over the years. In comparison to the study of 2013, the percentage of companies including forced labour has grown from 57% to 70%. Furthermore, the mentioning of 'child labour' has once more increased in importance and is mentioned in 77% of the companies' Codes of Conduct. Overall the emphasis of human rights seems to have increased. However, there are still differences as to what extent the human rights are protected. There are different conventions of human rights (e.g. the United Nations Universal Declaration of Human Rights, the African Charter on Human and Peoples' Rights and the European Convention on Human Rights) and they differ in scope as well as how far they go to protect human rights. With regards to this, a mere statement that the company respects human rights gives a somewhat unclear connotation. The UN Global Compact (launched in 2000) aims to influence companies to align their activities with the UN Principles. The initiative states ten principles in the areas of human rights, labour, the environment and anti-corruption. Two-fifths (40%) of the companies refer to the UN Global Compact initiative in their Codes of Conduct.

	2009	2011	2013	2015
Environmental responsibility	85%	81%	86%	86%
Child labour	73%	67%	67%	77%
Human rights	70%	74%	67%	67%
Right to be unionized	67%	63%	76%	77%
Forced labour	-	-	57%	70%

> ***"We believe in cooperation and are willing to work together with our suppliers to identify realistic solutions for every individual case. While we are prepared to take into account cultural differences and other factors that may vary between countries, we will never compromise with regards to basic requirements regarding safety and human rights."***
>
> ***From Axfood's Code of Conduct***

Customers

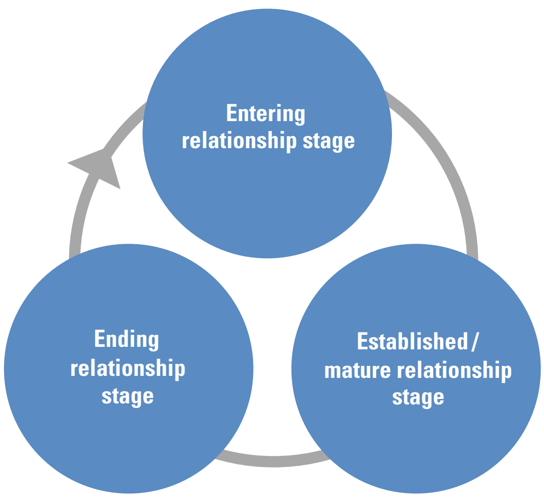
Background

During the more recent years it has become increasingly important for companies to communicate their identity, e.g. what values and beliefs they have and more importantly what values they, as an organisation, stand for. The increased consciousness probably originates from the pressure that customers, governments and owners, among other stakeholders, are putting on companies to take more responsibility for their actions. In other words, it is of significance to be identified as a social responsible company. Due to the interconnection between a company and its partners (such as suppliers, consultants and customers), a company's identity is also formed by its partners' actions and thus the partners' actions have to be taken into account when building a corporation identity.

Suppliers, agents and other external partners that contribute early in the value chain have often been to a higher or lesser degree successfully integrated into a company's work regarding Codes of Conduct. External partners, such as business-to-business customers, who contribute later in the value chain are on the other hand often comparatively neglected. It is of importance to consider to what an extent these external partners later in the value chain are to be integrated into the work surrounding a company's Code of Conduct, since their actions may equally well influence a company's brand image.

As our study from 2013 stated, receivers may have incentives not to follow the Code of Conduct and thus monitoring routines are of great significance. Such routines usually include audits performed by companies themselves or by contracted third parties. However, monitoring routines are inadequate if no actions can be taken against violations of the code. So how come companies seldom include their Code of Conduct in contractual agreements with customers?

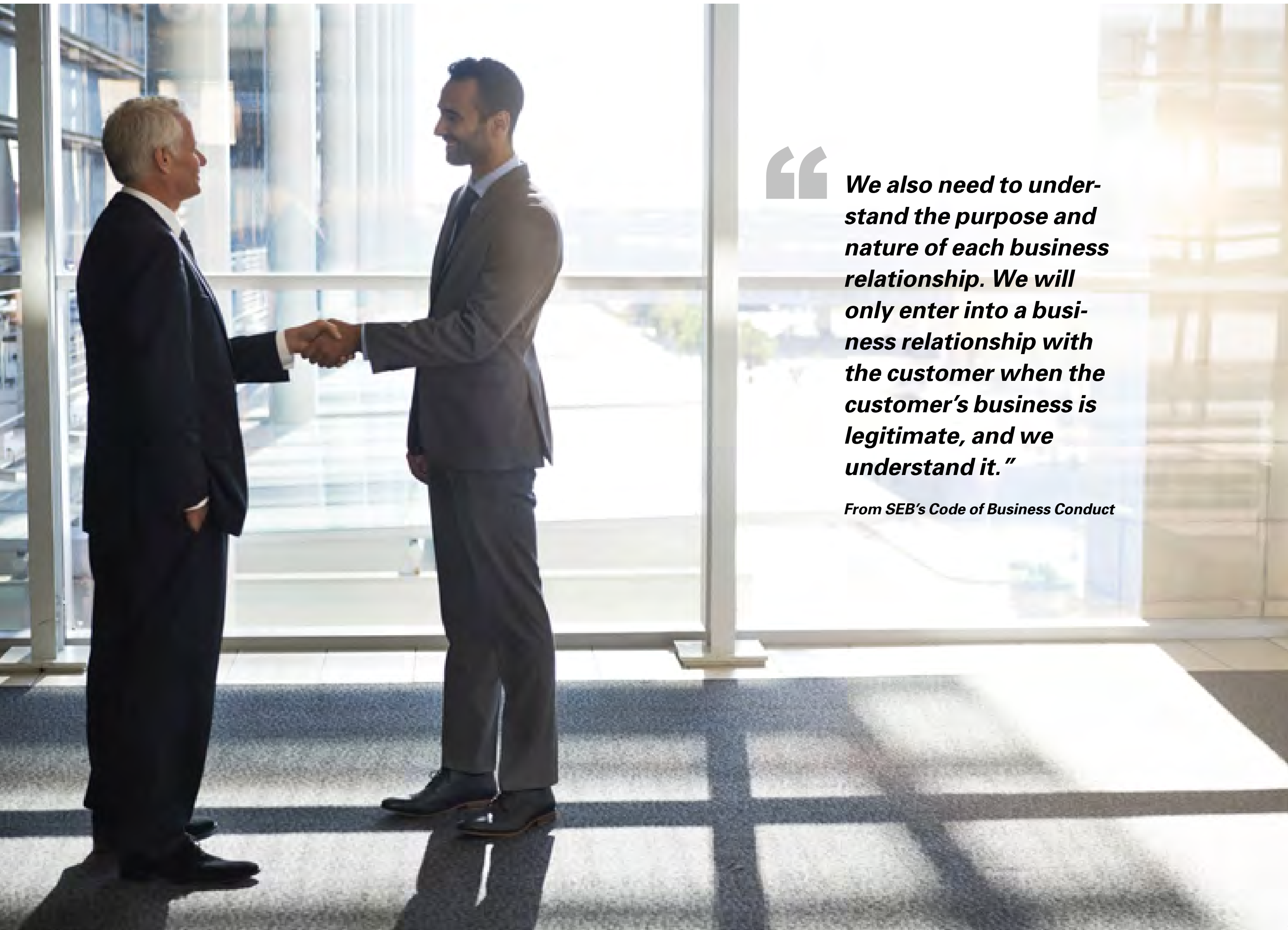
Codes of Conduct are more or less important in all of the diverse stages of a relationship with a customer. Codes of Conduct affect the collaboration and its significance in the relationship with a customer will be presented in more detail in the following pages.



> ***"Our fundamental principle is that in all our business activities and relations with customers, business partners and authorities, sound business ethics must always prevail."***
>
> ***From Trelleborg's Code of Conduct***

General Overview
An overall observation made in this study is that Codes of Conduct are important for companies' customer relationships. In the content analysis made, it was found that 72% of the companies mentioned their clients in their Codes of Conduct. This confirms the theories from earlier studies that presented that Codes of Conduct have expanded its sphere of objective to external parties as a considerable receiver of their Codes of Conduct. However, there are differences between the companies as to what extent they cover their customers. Only 24% of the recipients state that their customers are not informed about the Code of Conduct. This means that the vast majority of the companies in this study do inform their customers of their Code of Conduct, although in somewhat different ways.

Stage 1: Entering Relationship
This stage describes when relationships arise from a pre-situation, in which one of the parties identifies an arisen or changed need or requirement. The identification of a new requirement may initiate a new customer relationship, since the company presumably has to look for a new relationship outside of its current ones. In this stage companies can possibly evaluate their potential customers' Code of Conduct and choose whether to enter into a relationship with a customer or not.



> ***"We also need to understand the purpose and nature of each business relationship. We will only enter into a business relationship with the customer when the customer's business is legitimate, and we understand it."***
>
> ***From SEB's Code of Business Conduct***

> ***"SSAB is committed to creating value for its stakeholders and to building relationships based upon respect, responsibility and excellence with its employees, customers, consumers, shareholders and other business partners – and to do so in a socially and environmentally responsible manner."***
>
> ***From SSAB's Code of Business Ethics***

This study shows that potential economic benefit is still the most valued criterion for a company when evaluating a new customer relationship. Other criteria that were highly valued by the companies were the customer's view on anti-corruption and the customer's reputation (see Figure 10). This confirms the belief that there exists a fear within a company that the customer's behaviour could also affect the company's identity. Companies who are evaluating potential customers also have to consider to what extent their company will be connected to the customer, and furthermore what affects this established link will have on their identity.

In contrast, the majority of the companies (76%) answered that they have declined working with a customer due to the risk of them not following the asked company's Code of Conduct (see Figure 11). The majority of the respondents (69%) that have declined working with a customer that they declined because of the risk of them not following the Code of Conduct answered due to legal requirements or brand protection (see Figure 12). Therefore, it appears to be possible to assume that the Code of Conduct is an important part of the evaluation process.

Figure 10. ***How important are the following criteria in the evaluation process of a customer (for example when entering an agreement with a customer)?***

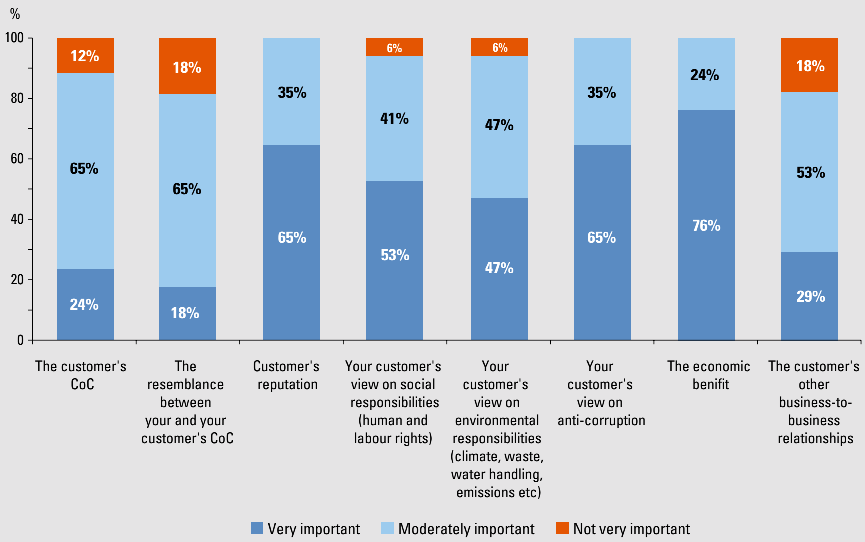


Figure 11. ***Have you declined working with a customer due to the risk of them not following your Code of Conduct?***

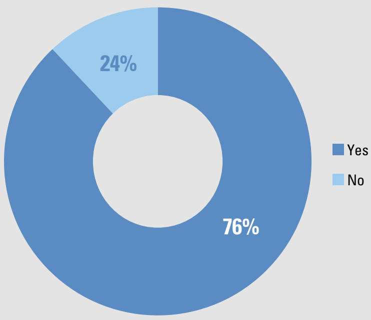
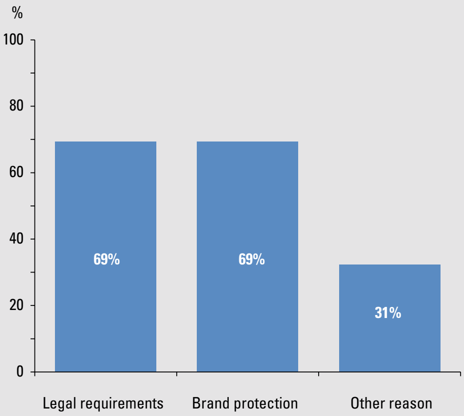


Figure 12. ***What was the cause of your action?***



Stage 2: Established/Mature Relationship
When a relationship has reached the established/mature-relationship stage, a collaboration that is built on trust and commitment is established. This stage can only be reached if both parties feel obligated to their investment and relationship, and thereby are also keen to establish a stable relationship. This stage focuses on the performance of the collaboration within the relationship. The vast majority of the companies (71%) saw their Code of Conduct as a method to influence their current customers' behaviour (see Figure 13). The Code of Conduct is therefore of importance at the established relationship stage. If both companies have made large investments in the collaboration, they are presumably more willing to adjust their Codes of Conduct to changes pressed by their partner. Therefore, suppliers may be able to press their customers to adapt to a supplier's latest criteria considering their Code of Conduct. This is certainly the case, if the company is non-exchangeable for the customer.

When asked if the collaboration between the customer and the company are affected by the resemblance of their respective codes, the majority of companies however, answered that they could possibly be affected or they are only moderately affected (see Figure 14).

56% of the companies trust that their customers will follow their Code of Conduct (see Figure 15). It is possible to conclude that, if the companies do not trust their customers with regard to Codes of Conduct they possibly would not allow it to impact the collaboration negatively. Hence, the companies believe that the collaboration is not quite as affected as presumed from earlier. This part of the result thereby contradicts itself, since the collaboration clearly would be affected if the other company acted in some way that went against the other company's Code of Conduct. The result therefore indicates that this is still a work in progress.

Figure 13. ***Do you see your Code of Conduct as a method to impact your customers' behaviour?***

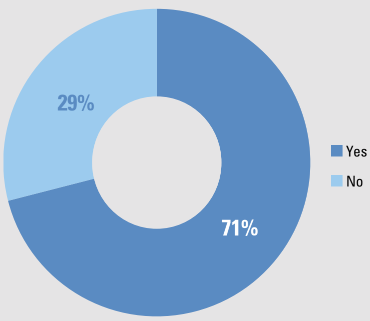


Figure 14. ***Do you believe that the collaboration between your firm and your customer is affected by the degree of resemblance between the Codes of Conduct?***

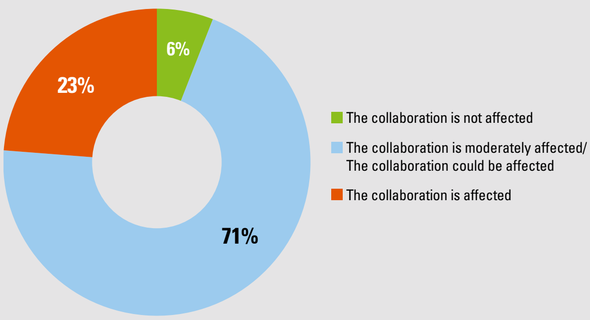
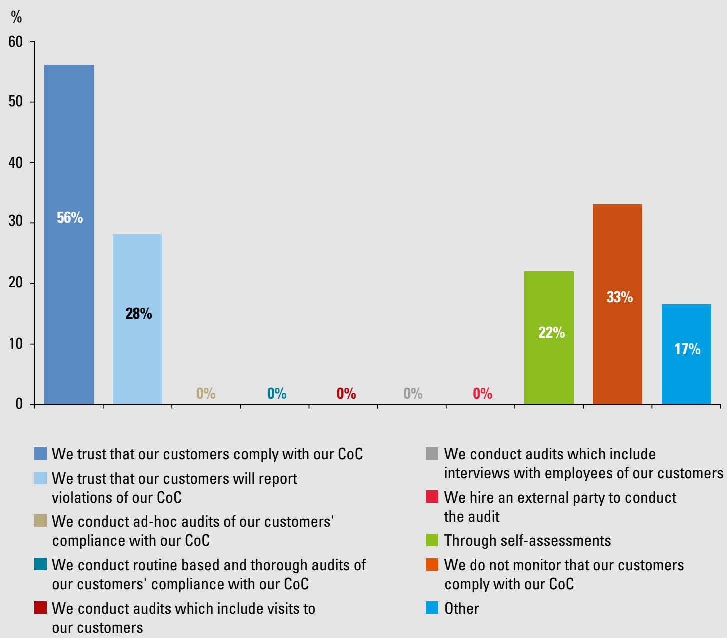


Figure 15. ***How do you monitor that your customers comply with your Code of Conduct?***



Stage 3: Ending Relationship

During this stage the relationship between the customer and the company either ends or has to be restructured; in other words, is moved back to the entering stage. The companies therefore once more need to establish on which grounds they are collaborating. During this stage of the relationship, the Code of Conduct could possibly be the particular reason why the company choose to end their relationship with a customer. For example, a company may not wish to collaborate with a customer that is involved in illegal activities such as corruption. The results of the conducted study confirms this theory since the majority of the companies (88%) responded that they indeed would consider renouncing further cooperation with an existing customer if they found out that the customer did not comply with their Code of Conduct (see Figure 16).

However, less than a third of the companies have included a right to end the relationship in the contractual agreements with the customers (29%). This means that the respondents do consider Codes of Conduct as a way to end a relationship with an existing customer but nonetheless do not seem to include this explicitly in the contract (see Figure 17).

Figure 16. ***Would you consider renouncing further collaboration with an existing customer, if the customer in question did not act according to your Code of Conduct?***

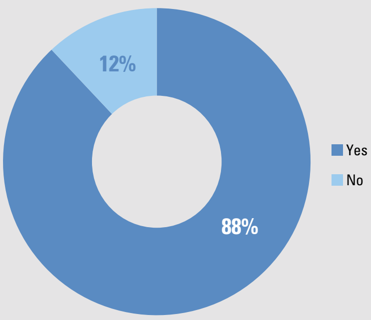
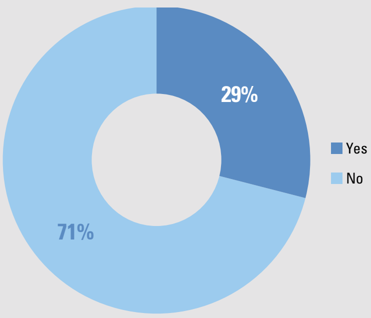


Figure 17. ***In your experience does your contractual agreement with customers include a right to end the contract with a customer if the customer does not act in agreement with your Code of Conduct?***



Outlook

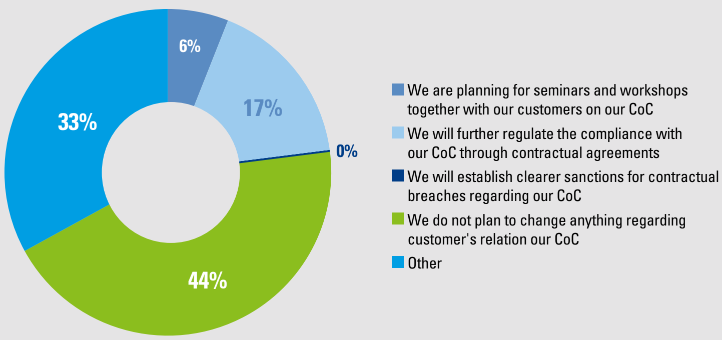
The importance of revising and updating the Code of Conduct to be proactive is emphasised in previous research. Companies need to be observant to the development in the society in order to update their Code of Conduct accordingly, as the surrounding environment is consistently changing. Most of the companies state that they do not plan to change anything regarding customers' in relation to their Code of Conduct during 2015 (see Figure 18).

Only 6% of the companies will develop their education routines of customers and some companies stated that they will use contracts to a larger extent than at present (17%). This should be put in relation to the already low presence of education of customers in the contemporary society.

Furthermore, an interesting fact may be that none of the companies plan to establish clearer sanctions for their contractual agreements with their customers regarding breaches of their Code of Conduct. The majority of the companies stated that they would consider renouncing a relationship with a customer, if it was found that the customer was violating their Code of Conduct. Considering that only a little under one third (29%) of the companies actually include a clause in their contractual agreement with their customers. Therefore, it may be difficult for them to in fact influence the customers' behaviour regarding their Codes of Conduct.

Considering how difficult it is to integrate the customers into the work regarding Codes of Conduct, the presented results are understandable. One explanation for why it is difficult to include them may be that the customers often have more power to influence the relationship than the partner company. Although this may not always be the case, the fact still stands that the company is risking an income drop as a consequence for making too high demands on the customer.

Figure 18. ***Of the following, what are your plans regarding your Code of Conduct in relation to customers for 2015?***



Conclusions

Codes of Conduct remain an important tool for companies to communicate guidelines and values. The main reason for the adoption of a code in 2015 is to be a socially responsible company, compared to the 2013 study where the main reason was to increase the employees' ethical awareness. This change is supported by the fact that the number of companies that mention their values and principles in their Code of Conduct has increased since the last survey. Another immediate increase can be noticed regarding the number of companies addressing working hours (24% to 35%) and lobbying (26% to 42%).

An overall observation made from this year's study is that Codes of Conduct are important for companies' customer relationships. However, Codes of Conduct in regard of customers are still a difficult subject to examine due to the novelty of the subject. Nevertheless, companies do seem to have demands on their customers in regard of their own Codes of Conduct, since they use the Code of Conduct as an evaluation tool and also as a measurement for when to end a relationship with a customer. The result was clear in that, if the customers do not follow the company's Code of Conduct, the relationship may not continue. However, the demands are not quite clear at all times, since it is not explicitly included in most of the contractual agreements. It seems to be an underlying understanding between the companies that the Code of Conduct should be followed and thereby it is not deemed necessary to have it stated in the actual agreement.

This study further shows that only one out of five companies plan to further regulate the compliance with their Code of Conduct through contractual agreements. A small number of companies will implement further education routines regarding customers and none of the companies plan to establish clearer sanctions for non-compliance. Almost half of the companies (44%) do not seem to have a plan on how to revise its Code of Conduct in relation to customers.

Customer conduct – why include them?

A long-term relationship with customers will:

– Protect your reputation

– Leverage your financial investment

– Enable growth

– Help you contribute to a better society

The motive for having a code 2015:

Customers, governments and owners among other stakeholders, demand of companies to be a socially responsible organisation.

ENTERING

Evaluation of a potential customer

- Comparing Codes of Conduct
- Principles and values
- Conflict of interests

+

Criteria for a new customers

The most valued criteria for a company that takes on a new customer is the economic benefit that will hopefully occur from the collaboration

=

Entering

By letting a Code of Conduct be a part of the evaluation process of a new customer a company can possibly help to achieve more economic benefit. Comparing values and principles contributes in avoiding conflict of interests, which lead to a high economic advantage

MAINTAINING

Collaboration is affected by

- Resemblance of values
- Willingness to cooperate
- Flexibility

Communicate

If customer conduct is important to your organisation it needs to be communicated to the customer

Undertakings

Agree on the rules the customer must adhere to. This could be done by reference to an already existing set of rules. However, make sure to include them in the contract package, for reference

Maintaining

By taking this into considera-tion, your company can minimise the risks of being involved in scandals and also positively affect the collaboration between your company and the customer, since it is more likely that your values and thus also your ways of resolving problems is more alike

ENDING

Secure

Should a breach of the agreed Code of Conduct occur you should have adequate possibilities to respond. A control system will not be of much help if you have no rights to react to non-compliance

Sanctions

- Monetary compensation
- Liquidated damages
- Remediation
- Termination of contract

A possible ending

By preparing for breach of contract, you can protect your company from un-necessary damage caused by the customer

APPENDIX I – METHOD

The study was conducted by Advokatfirman Delphi and KPMG Forensic as a follow-up study in a series of four separate studies, regarding Codes of Conduct in the Swedish business sector (see also the 2009, the 2011 and the 2013 study). The survey was conducted in 2014 and completed in February 2015.

The same method has been applied in all of the four studies and consists of a content analysis of the Codes of Conduct of the 50 companies included in the studies as well as an online-based survey.

43 out of the 50 companies were found to have a Code of Conduct in line with the definition employed. Companies that have a set of policies or guidelines were not included in the study, since they do not fulfil our requirement as a Code of Conduct. There are six new companies on the 50-list compared to the study conducted in 2013. This may affect the findings of content analysis as well as the survey. However, the focus of this study is the phenomenon of Codes of Conduct itself, not the specific companies included in the study.

The 43 companies that were found to have a Code of Conduct also received the survey. Out of these companies, 21 completed the survey. Thus the analysis of the survey is based on these 21 responses.

APPENDIX II – PARAMETERS

Disposition of the Code
1 Signalling of values and principles
2 Loyalty/pride acting as an ambassador
3 Identification of specific receivers

Corporate Governance
4 Reference to the corporate governance code
5 Cooperation with government authorities
Financial Reporting
6 Accounting principles
7 Internal financial reporting
8 Reporting to the tax authority
9 Filing of financial records due to legal requirements

Confidential Information (CI)
10 Routine for handling of CI in general
11 Routine for handling of external party's CI

Remuneration System
12 Guidelines for remuneration system

Conflict of Interest
13 Career opportunities/limitations
14 Private investments
15 Private relations
16 Love at the workplace
17 Quarantine regulations
18 Political support
19 Bribes received from external party
20 Bribes offered to external party
21 Lobbying
22 External employment or engagement

The Company's Assets
23 Handling of physical assets material, computer etc.
24 Private use of the company's assets
25 Use of company's bank account and private outlays
26 Use of electronic communication
27 Intellectual property (IP): the company owns all IP
28 The company owns all computer stored/ produced material
29 Using unlicensed/unauthorized software

Economical Abuse
30 Money laundering
31Corruption
32 Fraud

Employee's Conditions
33 Fair wages
34 Working hours (overtime etc.)
35 Equal working conditions
36 Diversity
37 Harassments/bullying
38 Discrimination in general
39 Discrimination – age
40 Discrimination – ethnical/race
41 Discrimination – sex
42 Discrimination – religious view
43 Discrimination – sexual orientation
44 Discrimination – political opinion
45 Manifestation of religious opinion
46 Alcohol and drug use during working hours
47 Health and safety in the working environment
48 Handling of personal records
49 Monitoring of computer usage
50 Monitoring of phone lists
51 Monitoring of emails
52 Control of employees' social media usage

Suppliers
53 Payment: accounts payables vs. Financing
54 Undue conditions
55 Selection: fair treatment, equal opportunities

Clients
56 Fair selling and marketing methods
57 Product quality and/ or safety
58 Handling of client information database

Investors
59 Disclosure of financial information
60 Insider trading
Competition
61 Handling of information about competitors
62 Anti-trust

Media
63 Media relations
64 Informer's rights (Sw. Meddelarfrihet)

Sustainability
65 Responsibility towards the local community
66 Environmental responsibility
67 Life cycle responsibility for products
68 Charity and sponsorship
69 Child labour
70 Forced labour
71 Human rights
72 Right to be unionised
73 Reference to the UN Global Compact

Application of the Code of Conduct (CoC)
74 Encourages external parties to comply
75 Application on subsidiary
76 Application on external parties
77 Application on suppliers
78 Application on sub suppliers
79 Application on agents
81 Information about responsibility to follow local laws
82 Information about responsibility to follow the CoC
83 Exemplification of norms in the CoC

Observance of the CoC
84 Statement of observance of the CoC
85 The CoC is part of contracts
86 The CoC is part of employment agreement
87 The CoC is introduced in the employment procedure
88 Control of employees' observance of the CoC
89 Control of suppliers' and others' observance of the CoC
90 Specific unit responsible for the CoC
91 Managers' responsibility for observance

Report of Violations of the Code of Conduct
92 Routine for reports of violations of the CoC
93 Sanctions for breach of the CoC
94 Personal data act issues
95 Confidential reporting of violations of the CoC
96 Anonymous reporting of violations of the CoC
97 Informer's rights/inviolability
98 Follow-up/investigation of violations of the CoC
99 Zero tolerance of violations of the CoC
100 Third party's possibility to report violation of the CoC

APPENDIX III – LIST OF COMPANIES

Table of the 50 largest publicly listed companies in Sweden as of 2014-11-06 according to NASDAQ OMX Stockholm Large Cap.

Rank	Company	Value MSEK	Rank	Company	Value MSEK
1	Hennes & Mauritz AB,	428.999.4	26	Tele2 AB	41.755.8
2	Nordea Bank AB	383.530.4	27	Melker Schörling AB	41.565.1
3	Ericsson, Telefonab. L M	286.230.7	28	Getinge AB	38.138.7
4	Atlas Copco AB	254.967.6	29	ICA Gruppen AB	35.128.3
5	Svenska Handelsbanken AB	223.665.1	30	Boliden AB	33.286.3
6	Swedbank AB	221.080.7	31	Lundin Petroleum AB	32.569.1
7	TeliaSonera AB	221.050.8	32	Meda AB	32.227.6
8	SEB AB	207.479.3	33	Husqvarna AB	31.598.4
9	Investor AB	201.004.5	34	Trelleborg AB	30.588.3
10	Volvo, AB	181.348.1	35	Latour, Investmentab.	28.359.7
11	ASSA ABLOY AB	137.543.4	36	Securitas AB	28.355.3
12	SCA AB	116.465.4	37	SSAB AB	27.900.2
13	Sandvik AB	101.479.8	38	Elekta AB	27.864.5
14	ABB Ltd	93.366.4	39	Axfood AB	23.846.6
15	Hexagon AB	84.562.0	40	Lundbergföretagen AB	23.552.4
16	AstraZeneca PLC	80.634.2	41	NCC AB	23.530.4
17	SKF, AB	67.319.8	42	Swedish Orphan Biovitrum AB	22.847.9
18	Kinnevik, Investment AB	65.020.8	43	BillerudKorsnäs AB	22.425.3
19	Electrolux AB	64.763.9	44	HEXPOL AB	21.512.1
20	Alfa Laval AB	63.673.5	45	SAAB AB	21.395.0
21	Skanska AB	60.079.3	46	Hufvudstaden AB	20.864.8
22	Millicom Int. Cellular S.A.	58.301.2	47	Holmen AB	20.612.6
23	Industrivärden, AB	57.692.6	48	Castellum AB	19.471.2
24	Swedish Match AB	48.039.8	49	NIBE Industrier AB	19.049.9
25	Autoliv Inc.	45.848.9	50	JM AB	18.351.8

NOTES

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