CERB
Centre of Excellence in Responsible Business

THE PAKISTAN BUSINESS COUNCIL
(A Company set up under Section 42 of the Companies Ordinance 1984)

ACCA Think Ahead

# Ethical Mindset: From Vision to Practice

## Baseline Survey on Ethics and Governance in the Business Sector of Pakistan

**Governance**

**Ethical practice**

**Code of Conduct**

**Policies**

**Values**

**Regulation**

**Code of Ethics**

## ACKNOWLEDGEMENTS:

Researchers: Muhammad Talib uz Zaman, Nazish Shekha

With recommendations from Arif Masud Mirza, Regional Head of Policy MESA


## DISCLAIMER:

The findings, interpretations and conclusions expressed do not necessarily reflect the views of the Board of Directors and Members of The Pakistan Business Council or the companies they represent.

Although every effort has been made to cross-check and verify the authenticity of the data, The Pakistan Business Council, or the author(s), do not guarantee the data included in this work. All data and statistics used are correct as of 1st April 2019, and may be subject to change.

For any queries or feedback regarding this report, please contact cerb@pbc.org.pk

# Baseline Survey on Ethics and Governance in the Business Sector of Pakistan

April 2019

Centre of Excellence in Responsible Business (CERB) is the first of The Pakistan Business Council's outreach initiatives to build capacity and capability of businesses in Pakistan. CERB's vision is to assist Pakistani businesses to pursue long term sustainability and value creation, and its mission is to contribute towards inclusive social development. As part of its strategic objectives, CERB engages with businesses and industry leaders to provide a clear direction towards conducting responsible business in Pakistan. It leverages private sector growth as a means for development and poverty reduction and is guided by the United Nations Sustainable Development Goals framework. CERB comprises two interdependent units: Inclusive and Sustainable Development Forum: with focus on generating livelihoods, promoting women's empowerment and decoupling growth from impact on the environment; Ethics, Values and Governance Forum: for responsible practices which strengthen the formal sector in pursuit of sustainable value creation. Both of these forums aim to raise awareness of responsible business practices that ensure a fair and competitive economic environment central to sustainable business, economic growth and national development.

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# THE PAKISTAN BUSINESS COUNCIL: AN OVERVIEW

The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

The Pakistan Business Council (PBC) is a business policy advocacy forum, representing private-sector businesses that have substantial investments in Pakistan's economy. It was formed in 2005 by 14 (now 78) of Pakistan's largest enterprises, including multinationals, to allow businesses to meaningfully interact with government and other stakeholders. The Pakistan Business Council is a pan-industry advocacy group. It is not a trade body nor does it advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers to allow Pakistani businesses to compete in regional and global arenas. PBC works closely with the relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues which impact the conduct of business in and from Pakistan. The PBC has submitted key position papers and recommendations to the government on legislation and other government policies affecting businesses. It also serves on various taskforces and committees of the Government of Pakistan as well as those of the State Bank, SECP and other regulators with the objective to provide policy assistance on new initiatives and reforms. PBC conducts research and holds conferences and seminars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan.The PBC's Founding Objectives:

## PBC's founding objectives are:

- to provide for the formation and exchange of views on any question connected with the conduct of businesses in and from Pakistan.
- to conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and field works for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- to acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- to promote and facilitate the integration of businesses in Pakistan into the world economy and to encourage the development and growth of Pakistani multinationals.
- to interact with Governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

PBC is a Section 42 not-for-profit company limited by guarantee. Its working is overseen by a Board of Directors elected every three years by the Membership with the Board being headed by a Non-Executive Chairman. The day-to-day operations of PBC are run by a professional secretariat headed by a full-time, paid CEO. More information on PBC, its members, and its workings, can be found on its website: www.pbc.org.pk

# THE PBC'S MEMBER COMPANIES

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Martin Dow

MAHMOOD GROUP

MEGA
MEGA CONGLOMERATE

MTL
MILLAT TRACTORS LIMITED

National FOODS
SINCE 1970

NAVEENA
GROUP

Nestlé

NISHAT MILLS LTD

ORIX

PACKAGES Limited

pakarab
FERTILIZERS LIMITED

PEPSICO

PSL
PAKISTAN SERVICES LTD.

ptcl
hello to the future

PAKISTAN TOBACCO COMPANY

PM
PHILIP MORRIS INTERNATIONAL

Qarshi

Reckitt Benckiser

SAIF GROUP

Sapphire

Shan

SICPA

SIEMENS

Soneri Bank

SOORTY

HUTCHISONPORTS PAKISTAN

Standard Chartered

SPEL
Synthetic Products Enterprises Limited

TAPAL

TCS
WE MOVE YOU

telenor

Tetra Pak
PROTECTS WHAT'S GOOD

TPLTrakker

Tufail
Chemical Industries Ltd.

UBL
where you come first

Unilever

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# Tables and Figures

# A. Background and Objectives

CERB`s mission is to engage with business and industry leaders and enable the transformation towards the conduct of responsible business in Pakistan, to leverage private sector growth for inclusive development, poverty reduction and sustainability, guided by the UN Sustainable Development Goals (SDG) framework.

CERB manifests six strategic goals, which are Ethical Practices, Gender Equality, Environmental Stewardship Transforming Business Culture, Creating Livelihoods and Sustainable Systems.

Ethical practices, through its engagement cycle, promotes research and advocacy by encouraging the business sector to:

- Maintain the highest possible standard of integrity in all their business relationships both inside and outside the organization
- Reject any business practice which may reasonably be considered to be improper
- Optimize the use of resources for which they influence and they are responsible to provide the maximum benefit to their organization

The key objective of this survey is to develop an understanding of the private sector knowledge and existing framework on ethics and governance, following which we will provide a forum for discussion by leveraging global best practices for better governance and value creation in all the spheres of organization, its people and community. As a knowledge partner, The Association of Chartered Certified Accountants (ACCA) has assisted in providing an input in the survey questionnaire and an analysis on how Pakistan's business sector compares to the rest of the world. This report is published as a joint research by CERB (PBC) and ACCA.

# B. This Survey

This survey on 'Ethics and Governance' was conducted among PBC members companies, comprising of Pakistan's leading organizations contributing to various sectors of the economy. The survey comprised of a set of questions, which aim to discover the existing practices on different parameters of ethics and governance, identify the gaps existing in comparison with best practices, followed by a set of recommendations. An online survey form was designed with the help of Google Form. The questionnaire has been developed in collaboration with The Association of Chartered Certified Accountant (ACCA). A link to the survey form was shared with the CEO of each member company via email. The responses received have been collated in the form of this report. The report is a synopsis of survey responses and represents the existing practices across different sectors of Pakistan's economy.

Survey sent to: 78 companies

Number of responses received: 47

Number of responses accepted: 47

The survey responses were filled out by representatives in various management roles in each organization. 19% of responses were received from Chief Executive Officers representing their respective organizations. 17% of responses were received from General Managers, 13% from Company Secretaries, 11% from Chief Financial Officers, 6% from Heads and Managers of Ethics and Compliance. The remaining responses were received from the Chairman of the Organization, Chief Human Resource Officers, Chief Investment Officers, Directors, Head of Sustainable Finance, and Manager Corporate.

64% of majority of the respondent companies in the sample were listed companies. Industry-wise, most of the responses were received from sectors including FMCG, Textile, Banking and Finance and Engineering, Chemical and Cement Sectors.

All information has been tabulated and analyzed based solely on responses received. While all possible care has been taken to compile the results, the possibility of any error cannot be ruled out. Kindly inform the CERB Team of any errors through email to talib.zaman@pbc.org.pk.

# C. Executive Summary

The survey *"Ethical Mindset: From Vision to Practice"* gives a holistic view of current dynamics of ethics and governance practices. The first part of the survey focuses on understanding the significance of best practices, role of leadership, written standards and policies, communication of policies and procedures and training and development programs. The second part of the survey focuses on governance practices, board composition and disclosure of key information.

## A summary thereof is given below:

**Respondent Data**

A total of 60% of the member companies responded to the survey. 23% of the responses were received from the FMCG Sector, followed by 15% and 13% from the Textile and Banking and Finance Sector respectively. Other responses are received from companies producing Cement, Chemicals, Pharmaceuticals, Engineering & Industrial Products, Utilities, Insurance, Manufacturing, Logistics, Petroleum, Hospitality, Power Generation, Telecommunications, Electrical and Industrial Items, Fertilizers, Automotive and Logistics and Storage sector related companies.

**Designation of Respondents**

19% of the responses were received from Chief Executive Officers, 17% from General Managers, 13% from Company Secretaries and 11% from Chief Financial Officers. Only 6% of the responses were received from Ethics Managers/ Officers. It is recommended that a stand alone employee is appointed with implementing the ethical culture of the organization.

# Section 1 : Ethics

## Meaning of Business Ethics to Business

66% of the respondents identify company's values to be the source of ethical culture and linked it with the business purpose. However, 34% of the companies link the source of ethical culture to the need to protect brand and reputation, and to build customer loyalty. The Institute of Business Ethics segregates company values into core and business values. Core values focus on integrity and respect, whilst business values focus on customer service and entrepreneurship. If a company focuses on business values rather than core values for ethical conduct, there is a risk of having an ethical culture which is not comprehensive.

In terms of external drivers for adopting business ethics practices, only 11% of the companies define 'Social Values' and 7% define protection from 'Legal' proceedings as the impetus. This shows that few companies understand the risks which companies face from company wrongdoings and a weak ethical culture. Companies were asked what drives the business ethics culture in the long term in the organization. 34% of respondent companies identified incorporation as 'part of mission, vision and value statements', 30% highlighted integration as 'part of performance management system' and 28% identified 'leadership support'.

## The Role of Leadership

All companies agree that the role of leadership is important in nurturing and maintaining the company's ethical culture. This is comprehensively an important statistic as it shows all organizations realise the importance of the tone from the top for enabling organization wide ethical practices.

## Code of Ethics and other Company Policies

Written standards or code of ethics define the 'how' a company will navigate its journey towards its objects. 98% of the respondents reported that their organizations have written standards of ethical business conduct. More than 75% of companies have embedded (amongst others) policies on Unfair Practices, Compliance, Confidentiality, Health, Safety and Environment, Suppliers Relationship, and Anti- Harassment in the code of ethics. Less than half of the companies recognise the policy of 'freedom of association' in their code of ethics. This can lead to a risk of companies labelled as discriminatory.

In terms of having specific policies linked to organizational change, 72% of the companies have a policy on anti-corruption, whilst 87% have an environmental and sustainable development policy to guide behaviour in the organization. Considering the having both policies have become prerequisites in pursuing many business activities, the unavailability of either can pose a business risk to companies. Whilst the code of ethics is comprehensive in most aspects, a due diligence of policies is recommended against the identified business risks to identify if there is a need for a policy change.

# Implementing the Business Ethics Programme

The way an organization communicates on the expected norms of behaviour, can have an impact on the culture of the organization. In this survey, companies were asked about their communication strategy and the mode and frequency of communication they use related to ethical culture. In terms of the mode of implementation of business practices in the organization, 57% of the companies use the ‘code of conduct’ and 34% of the companies conduct ‘trainings’. The responses highlighted that 98% of the organizations identified using the email as a preferred medium to update and inform key information to the employees. In terms of external communication, approximately 50% of the respondent companies publish information or updates on the company website and the annual report. This highlights that companies have a greater focus on internal communication rather than external communication. Investing in a communication strategy for both internal and external communication can improve the brand and reputation of companies by building trust among the various stakeholder and shareholder.

# Training and Monitoring

Two key elements for a robust ethics programme is training and monitoring. The survey results show, 79% of the companies have a business ethics training mechanism for employees. In-house training workshop is the most preferred mode of training, followed by online, and training with external consultants. In terms of training frequency, 51% of the respondents conduct annual trainings, with only 2% of companies conduct training on an ‘on-going’ basis. To check the effectiveness of these policies, 38% of the companies’ favour ‘ethics surveys’ as a preferred tool, whereas 30% of the companies conduct ‘Ethics Audits’. Interestingly, only 11% of the companies believe ‘Improved Performance’ can be a tool to check effectiveness of practices.

# Working with Business Partners (Third party)

For implementation of ethical practices in their value chain, only 53% of the companies use the ‘suppliers code of conduct’, followed by ‘audits’ and ‘trainings’. Approximately, 85% of the companies selected email as the most preferred medium to update business partners on ethical practices, followed by phonetic communication, one to one meetings and letters. In relation to training suppliers or third party vendors, 78% of the organizations state they do not have mechanism in-place to conduct trainings. It has become a standard practice in most organizations to ask their third-party vendors to sign a code of conduct. Redressal of third-party issue is an important area for maintain healthy business relationship and vital to understand the qualifications and associations of a third-party partner. 74% of the companies identified if there was a process in place to redress issues of suppliers/ vendors/ third party. In these companies 31% of the respondents identified having a committee or team assigned as a contact point for third party redressal related issues, followed by a ‘dedicated email’ and ‘ethics officer/ office’.

# Section 2: Corporate Governance Survey

## Scope of Written Standards, Codes and Practices

One of the key tools available for a board to enable ethical culture is Code of Conduct. 89% of companies use the SECP's Code of Corporate Governance as the basis for an effective corporate governance framework. All of the respondent companies take due care and manage the shareholders' interest and give equal treatment in accordance with the principles of the Corporate Governance Code while making decisions.

In terms of policies which have been included in their codes, 89% of the companies have a policy on 'managing conflict of interest with management and board members', 93% have a 'communication' policy, 78% have a policy on 'managing investors/shareholders' relations', 87% have a 'ESG (Environmental, Social and Governance)'policy and 93% have a 'risk management' policy. Companies were asked how often they review the policies, only 40% of companies identify they conduct an 'annual' review whilst other review policies 'at the time of legislation requirements or changes' or in a biennial or five-year period. Policies need to be reviewed on a reasonable basis which can be determined in terms of the levels of risks companies face.

## Board Composition

This section looked at board composition. In terms of age limits, 'all' of the companies do not have any 'age limits' for the board members with the exception of one company. Further, 'all' of the organizations cited their board members are skillful and educated to run the organizations' governance affairs. Companies identify '50 to 60 years' is the average age for the Board of Directors. Respondents were asked to identify the average qualification of directors on board: 77% of the companies have 'masters' degrees, 41% are 'graduate' and 28% have a 'professional qualification'. Most companies reported the average years of work experience is '20-30' years. In terms of gender diversity on an average, most companies have one female Director. One company reported to have 50% female ratio in its board of directors. On the other hand, in terms of geographical diversity, 54% of the reported companies 'do not' have geographical representation. The statistics on board diversity show a need to relook on board composition as board diversity can bring a diversity of thought which can reduce business risks and has statistically been proven to bring more profits.

## Disclosure of information and Reporting

Companies were asked which of the six capitals identified in integrated reporting are the most relevant to the organization`s business model: 83% of the companies highlighted 'human capital', 65% highlighted 'financial capital', 33% of companies highlighted 'intellectual capital', 30% identified 'manufacturing capital', 22% identified 'social and relationship capital' and 17% highlighted 'natural capital'. Whilst it is encouraging that companies value their human resource, a lower focus is seen on inclusive and sustainable development.

In terms of informing shareholders, 89% of the companies report to publish half yearly and annual reports, and 80% of companies inform the shareholders about important events. Companies were also asked about informing stakeholders at large, up to 73% of the companies publish policies related to environmental and social responsibility. A few companies publish and make available the policies on 'diversity' and 'disaster recovery' on their websites.

# D. Introduction

Ethical practices in responsible business relate to all aspects of business conduct and are relevant to the professional behaviour of individuals and entire organizations. This includes key moral principles or values that include honesty, fairness, equality, dignity, diversity and individual rights. These reflect the way an organization aspires to carry out their business leading to inculcating a culture and responsibility towards their customers, suppliers, workers, the governmental institutions and the general public.

Employees at all levels will need to know why ethical practices are important to their organization, and why and how ethical conduct is relevant to their job. Without an ethical and compliant culture, organizations will be at risk. Thus, it is the responsibility of the leadership to establish an effective ethical culture in the organization which can be defined, measured and improved upon when needed.

The Institute of Business Ethics states *'the process of building an ethical culture in business is a journey which starts with an organization's ethical values.'* The values are articulated into the organization's Code of Ethics which guides employees on how they should make business related decisions – thereby managing the risk of ethical misconduct.

It is good practice for the Code of Conduct to be complemented by an ethics programme or policy in the organization. This serves as an effective mechanism for embedding the organization's ethical values into the company culture. The programme encompasses: an effective communication strategy, training, linkages to related company policies, speak up mechanism and monitoring and evaluation.

Leadership commitment is essential to ethical culture, placing responsibility on the board of directors to ensure an ethical culture through governance by embedding ethical values into business decisions, processes and operations. It is important to have a standardized framework in place which enable the board of directors to review policies and procedures in an organization. In this day and age, with the growing risks that companies face due to globalization, environmental compliance, increasing extreme weather events, technological advancements and social media – there is a need for the board composition to be diverse in a number of ways to understand these challenges.

This survey is divided into two parts. Part 1 of the survey stock takes the different elements of the ethics programme in The Pakistan Business Council's member companies. Figure 1 describes the IBE Business Ethics Framework. This model summarizes the key linkages needed to implement and uphold ethical practices in an organization – and linking them to the business purpose and are a necessity for long term value creation. This framework has been kept in mind in the design and analysis of the survey.

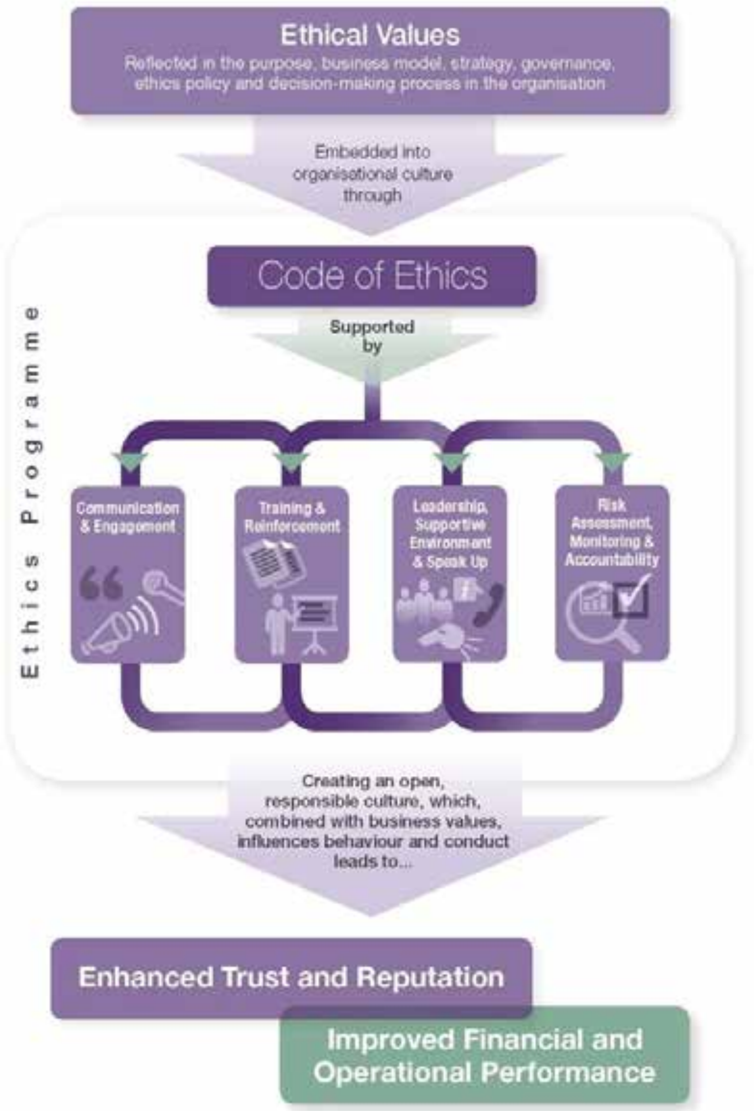
In Part 1, this survey seeks to highlight how the ethics programme is implemented in the company and provide insights on where companies stand and how they embed ethics in the workplace. It also seeks to identify the good practices and the gaps which exist in companies, essentially looking at;

- *How business ethics relate to the business: by understanding what is the backbone of the ethical culture*
- *The role of leadership in driving ethical culture*
- *Do companies have a code of conduct/ ethics and what policies are included in it?*
- *How do companies communicate the ethical values to their stakeholders?*
- *What are the mechanisms in place for implementing the ethics programme: training and monitoring?*
- *Engagement related to third parties*

Part 2 of the survey looks at the governance mechanism in place in the companies to ensure the commitment of leadership to ethical culture. This survey focuses on the following areas of governance:

- *Implementation of the governance framework according to the SECP Guidelines on the Code of Corporate Governance.*
- *Which policies are included in the code of conduct and how frequently are they reviewed?*
- *How does the board view its responsibility to shareholders?*
- *How diverse is the board composition in companies?*
- *What are the company's priority areas for disclosures and reporting?*

**Table 1: Institute of Business Ethics Framework**




**Sourced from:** Institute of Business Ethics (2016) https://www.ibe.org.uk/userassets/briefings/b54_ethicsfunction.pdf

# E. Respondent Data

Total number of responses received: 47 which is 60% of the PBC membership.

Sector wise, a total of eleven responses to this survey were from the FMCG sector which constitutes a total of 23% shares of the responses received. Textile sector came in second with seven responses, followed by Banking and Finance sector with six responses. Total four responses were received from Engineering and Industry sector, whereas two responses received each from Cement and Chemical sectors.

Other responses were received from Pharmaceuticals, Utilities, Insurance, Manufacturing, Logistics, Petroleum, Hospitality, Power Generation, Telecommunications, Electrical and Industrial Items, Fertilizers, Automotive and Logistics and Storage. No responses however, received from the companies in the following sectors: Agro, Automotive, Logistics and Storage.

Designation wise, 19% of the responses received from Chief Executive Officers, 17% from General Managers, 13% from Company Secretaries and 11% from Chief Financial Officers. 6% of the responses came from Ethics Officers which shows decentralization of working and reporting. The Ethics Institute recommends; ethics management should ideally be performed by an organization's ethics office[1].

Figure 1: Designation Of Respondent

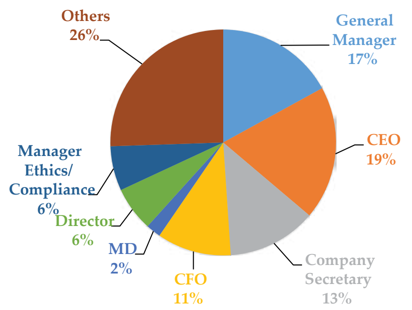



Figure 3: Industry Wise Break-up

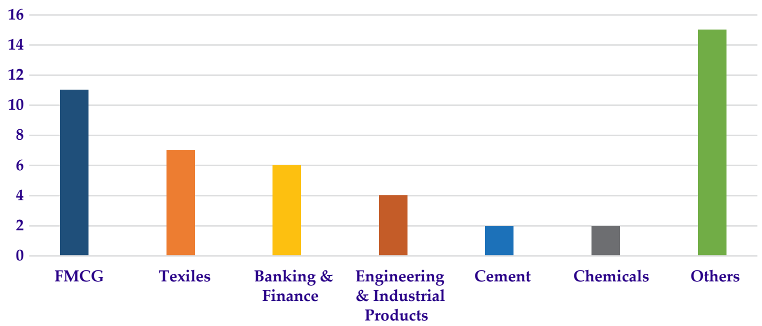
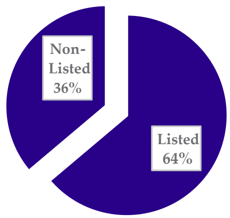



Figure 2: Legal Status of Companies Responded




1 https://tei.org.za/images/pdf/The-Ethics-Office-Handbook-sep-2018-REPROFIN_Upload-to-web-1October2018.pdf

# SECTION 1: Ethics

## Part A: Meaning of Business Ethics to Business

***'Business ethics is derived from transparency, objectivity, reliability, honesty and prudence. Business ethics is a set of moral principles, standards and best practices which guide business attitude'.* Organisation for Economic Co-operation and Development [2]**

This section explores:

- how businesses in Pakistan signify the business ethics purpose in their organizations
- the drivers for following ethical practices in terms of external environment.

Companies were asked *what signified the business ethics purpose in the organization*. Figure 4 identifies 66% of the respondent companies' highlighted *'Corporate Values'* whilst 26% linked the *'Protection of Brand and Reputation'* to the business ethics purpose. Only 8% reported, *'Customer Trust and Loyalty'* as the purpose. Both the options *'Recognition from Public'* and *'Partner/ Vendor Trust'* were not selected by any company.

Respondents were asked about *the ethical drivers which influence the organization's approach to doing business* (Figure 5), 76% of the companies *'Organization's Values and Mission'* as significant. A few companies also identified the importance of *'Social Values'* as a driver. Comparatively that only 7% companies reported protecting organizations from *'Legal'* proceedings as an ethics driver, even though there is a growing emphasis on regulatory compliance.

**Figure 4: What is the best response that defines significance of business ethics purpose for your organization?**

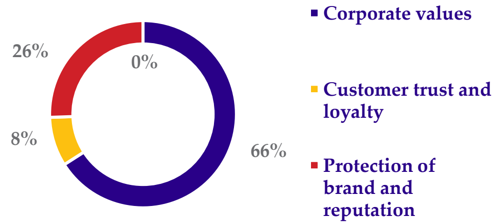
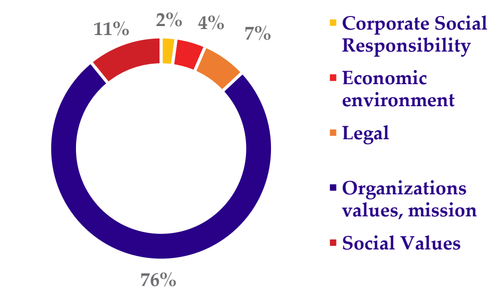


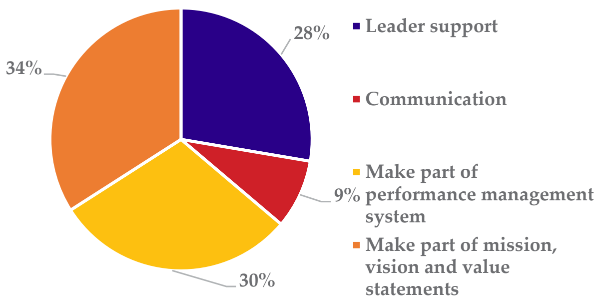

**Figure 5: What is the best response that defines the significant purpose of your business in terms of external environment for ethics drivers?**




2 http:// www.oecd.org/corruption/businessethicsandoecdprincipleswhatcanbedonetoavoidanothercrisis.htm

Figure 6 shows responses to the question asking what do companies *'identify as a driver for the long-term sustainability of business ethics culture'*, 34% of the organizations highlighted 'mission, vision and value statement', 30% of companies linked it to 'embedding it as part of (performance management systems)', and 28% of companies think leadership support. Only 9% of companies think, 'communication' can be a driver for long term sustainability.

**Figure 6: Describe the best response as a driver for the long term sustainability for business ethics culture**



# Part B: Role of Leadership

***No ethics management initiative can be successful unless the organization's leadership:***

- ***Understands the value of ethics in ensuring the organization's sustainable development***
- ***Is fully committed to ethics***
- ***Acts as a role model of ethical conduct for employees and stakeholders***

***Adapted from the Ethics Office Handbook, The Ethics Institute [3]***

This section asks companies about the role of leadership in maintaining and nurturing organization wide ethical culture. Figures 7 and 8 identify responses to '*nurturing*' and '*maintaining*' the ethical culture. Regarding the role and support of leadership, 98% agree that role of leadership is important in '*maintaining*' whereas 100% of the respondents were of the view that role of leadership is important in '*nurturing*' organization-wide ethical culture. In essence This shows that all companies believe that in fostering organization-wide ethical practices, the tone from the top plays an important role.

**Figure 7: Do you agree that the role of leadership is important in nurturing ethical culture?**

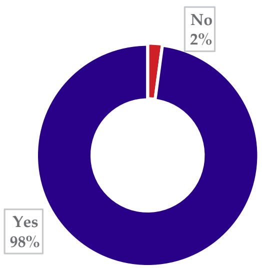
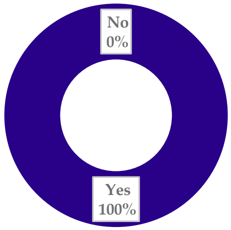



**Figure 8: Do you agree that the role of leadership is important in maintaining organization-wide ethical culture?**




Insights from ACCA

According to ACCA Corporate culture encourages behaviours that support or impede the achievement of organisational objectives. The challenge is understanding how to nurture a culture that promotes behaviours consistent with organisational objectives. The ACCA culture-governance tool seeks to support organisations with their culture goals.z

*https://www.accaglobal.com/content/dam/ACCA_Global/Technical/Governance/ACCA%20Culture-Governance%20Tool.pdf*

3 The Ethics Institute (2018) The Ethics Office Handbook Retrieved from https://tei.org.za/images/pdf/The-Ethics-Office-Handbook-sep-2018-REPROFIN_Upload-to-web-1October2018.pdf

# Part C: Code of Ethics and other Company Policies

***'As well as its content and format, the process for developing and implementing a code of ethics is critical in maximising its influence on business behaviour at all levels and in all functions.'* Institute of Business Ethics.[4]**

This section identifies The existence of written standards of ethical business conduct in companies and which polices are included in code of ethics

Figure 9 shows the company responses to the *question if their organization had a written standard of Ethical Business Conduct.* 98% of the organizations reported, their organizations have written standards of 'Ethical Business Conduct.' Respondent companies were asked to identify *the policies which have been included in the standards of Ethical business conduct.*

When respondent companies were asked *about existence of an anti-corruption policy for employees* (Figure 10), 72% reported to have policies in-place. However, Figure 11 indicates only 55% of companies have anti-corruption policy for the suppliers/vendors/third party agents – highlighting a gap existing about these policies for the value chain.

**Figure 9: Does your organization have written standards of ethical business conduct?**

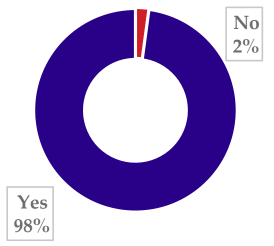



**Figure 10: Does your organization have an anti-corruption policy for the employees?**

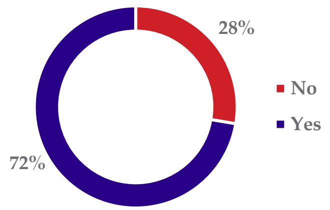
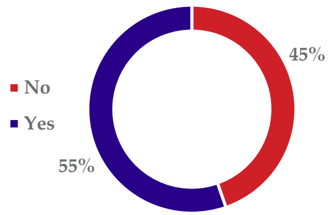



**Figure 11: Does your organization have an anti-corruption policy for the suppliers/vendors/third party agents?**




4 Institute of Business Ethics (2017) Corporate Ethics Policies and Programmes 2016 Uk_and Continental Europe Survey Retrieved from https://www.ibe.org.uk/userassets/publicationdownloads/ibe_survey_corporate_ethics_policies_and_programmes_2016_uk_and_continental_europe_survey.pdf

Figure 12 highlights 87% of companies reported to have a policy on Environment and Sustainable Development. All companies reported in Textiles, Engineering and Manufacturing sectors have this policy, however, only two companies in FMCG sector do not have this policy in-place.

**Figure 12: Does your organization have an environment and sustainable development policy?**

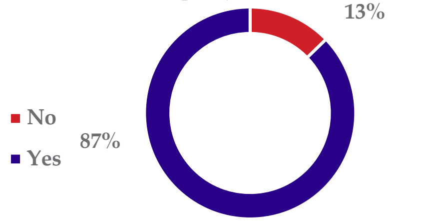
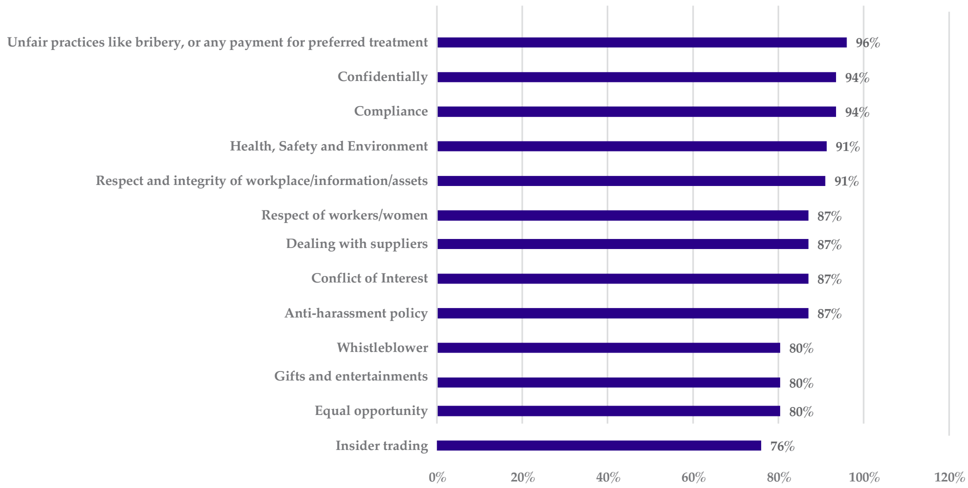



Figure 13 highlights the policies included by companies as part of the code of conduct.

More than 75% of companies have identified a coverage of most policies with the exception of 'Freedom of Association'. Only 49% of companies have 'Freedom of association' as part of their Code of Conduct. Since both 'Freedom of Association and collective bargaining are fundamental human rights, guaranteed by the Constitution of Pakistan as well major international human rights instruments, including the International Bill of Human Rights and fundamental ILO conventions. UN Global Compact Principle 3, sets out specific guidelines on it '*businesses should uphold the freedom of associations and the effective recognition of the right to collective bargaining'*.[5]

**Figure 13: Which polices are included in your organization's code of ethics?**




5 https://www.unglobalcompact.org/what-is-gc/mission/principles/principle-3

## Insights from the ACCA

Whistleblowing or Speak-up practices evolve over time and the effectiveness of formal arrangements is primarily supported by the independence of speak-up operators.

Effective speak-up arrangements also involve:

a combination of different channels to voice concerns a robust and consistent response system, and an appropriate recording of speak-up events.

Most importantly, the effectiveness of such arrangements relies on the willingness to respond at different levels of management. To ensure this, responsiveness must be well organised, clearly mandated and adequately resourced.

### Source:

https://www.accaglobal.com/uk/en/technical-activities/technical-resources-search/2016/may/effective-speak-up-arrangements-for-whistle-blowers1.html

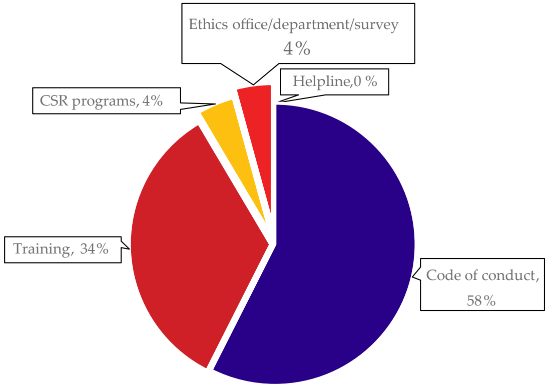
# Part D: Implementation of the Business Ethics Programme

***"Compliance and ethics programmes must be put into place, — more importantly— communicated repeatedly, and enforced properly throughout the entire organization. A company should implement mechanisms, designed to ensure that its compliance code is effectively communicated to all directors, officers, employees. This means repeated communication, frequent and effective training, and an ability to provide guidance when issues arise".***
**The Society of Corporate Compliance and Ethics[6]**

This section identifies the preferred tools used to guide ethical behaviour, the mediums and frequencies used by organizations to inform and update key information to the employees.

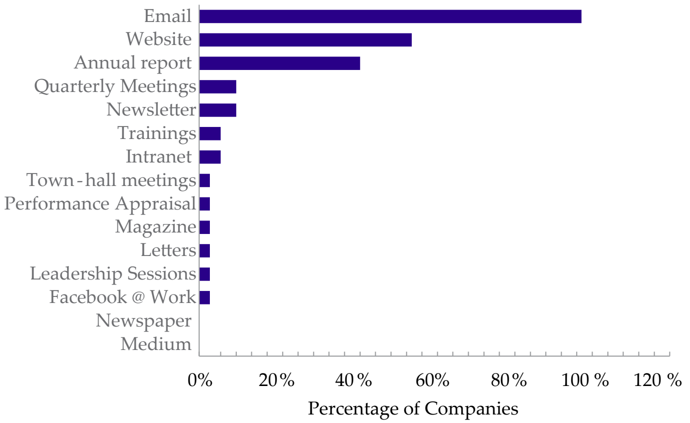
Figure 14 – identifies the tool that companies use to implement business ethics practices. 57% of respondent companies identified the importance of the Code of Conduct as a tool to implement business ethics practices. 34% of companies identified *'training'*. No company identified a dedicated *'helpline'* as a tool for implementation.

**Figure 14: Describe the best response as a tool to implement business ethics practices**




In terms of the medium in place to communicate information to the employees, 98% of companies reported using the *'email'* as the preferred medium, followed by uploading on the *'website'* and publishing in the *'annual report'* updates by 53% and 40% companies respectively. No updates or information is published in the *'newspaper'*. This shows that an organizational tendency appears to opt for the electronic means of communication. Other mediums are used limitedly by organizations.

**Figure 15: Describe the medium in place to inform and update key information to employees**

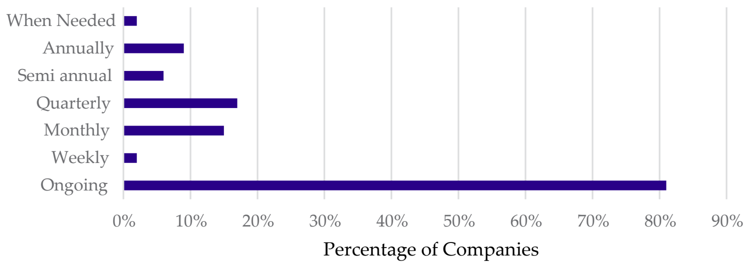



6 Troklus, D. and Vacca, S. (2013) Compliance 101. Minneapolis, MN : Society of Corporate Compliance and Ethics

Companies were asked '*What is the frequency of communicating key information to the employees?*', Figure 16 shows, 81% of respondent companies highlighted that *'Ongoing'* communication was type of approach used. However 15% of companies reported *'Monthly'* and *'Quarterly'* updates. *'Monthly, 'Semi -annual', 'Annual'* and *'When Needed'* options are also reported by very few of the organizations.

This section highlights for communication to stakeholders only three mediums are used: email, website and the Annual Report. The stakeholders of companies vary and with the limited number of people having access to the website and annual report, there is a need to identify how to use other media in the communication related to ethics. It is recommended for organizations to develop a communication strategy which identifies the *'media'* to disseminate key information to the employees and to their value chain. This strategy will aim to raise awareness about company values, its code of ethics, what ethical practices look like and why they are important.

**Figure 16: What is the frequency of communicating key information to the employees?**



# Part E: Training and Monitoring

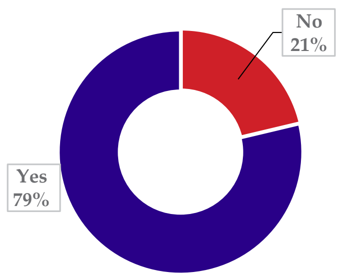
***'The main purpose of ethics training is awareness raising around the code, what is acceptable business practice and where support can be found. Ethics training might also aim to raise the ethical sensitivity of staff so that they know when a decision they are faced with involves an ethical choice'.*** **Institute of Business Ethics.[7]**

This section covers the following questions:

- If organizations have business ethics training mechanism for employees
- What medium do organizations  mostly to provide business ethics training
- Frequency of business ethics training to the employees

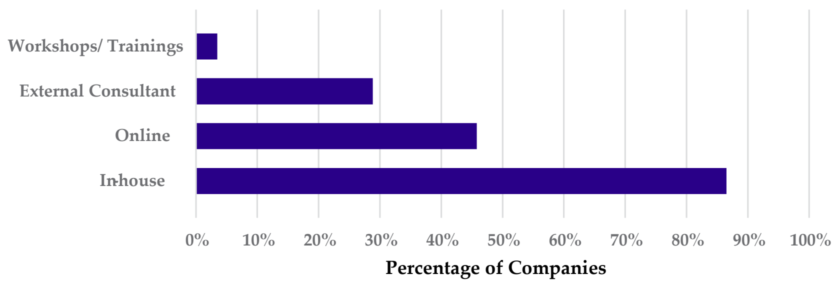
For ethics to be truly part of an organisation's culture, employees at all levels need to know why and how ethical conduct is relevant to their day-to-day jobs. Training provides employees with the skills for working through a situation for which the right thing to do is unclear. Some companies provide training on specific ethics challenges viewed as a risk to the business such as *'Human Right'* and *'Bribery and Corruption'*. Figures 17, 18 and 19 identify if companies offer, the medium and frequency of business ethics training for employees respectively. At present, 79% of respondent companies offer training to their employees.  Amongst the companies offering training, 87% of organizations prefer to conduct *'in-house'* training, whilst 45% use e-trainings and 29% engage an *'external consultant'* to conduct the trainings.

**Figure 17: Does your organization have a mechanism of business ethics training for employees?**




In terms of frequency of training, 50% of companies conduct annual trainings; whilst 10% conduct training bi- annually and just over 20% conduct trainings every quarter. Moreover, 11% of companies conduct trainings on an as needs basis, Whilst only 2% of companies highlight they train at the *'at the time of induction'* or for *'certification requirements'*.

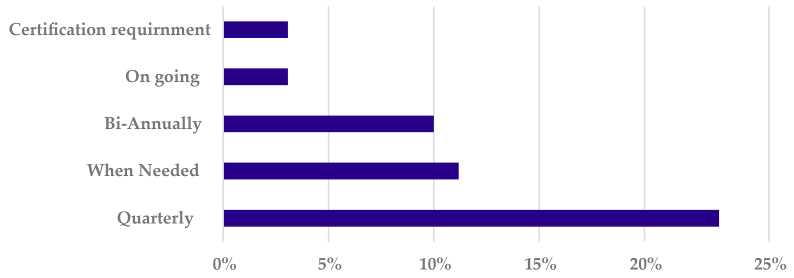
**Figure 18: What medium does your organization follow to provide training on business ethics to the employees?**




7 Institute of Business Ethics (2017) Corporate Ethics Policies and Programmes 2016 Uk_and Continental Europe Survey Retrieved from https://www.ibe.org.uk/userassets/publicationdownloads/ibe_survey_corporate_ethics_policies_and_programmes_2016_uk_and_continental_europe_survey.pdf

Whilst the majority of companies do conduct training on the code of conduct, it seems that only 50% of companies conduct annual trainings. More than a quarter of companies have no defined frequency for training. Has as Highlighted in Part D, Implementation of the Business Ethics Programme, 81% of companies communicated key information on an on-going frequency but there is a gap which exists in whether training on updates is given in some companies.

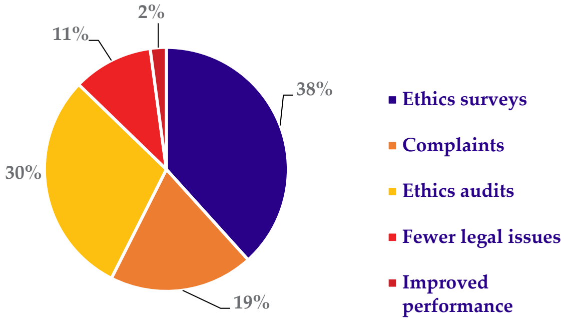
Figure 19: What is the frequency of business ethics training to the employees?




Companies were also asked how the effectiveness of the business ethics programme is measured. the best response as a tool to check business ethics effectiveness amongst the member companies, 38% organizations prefer conducting *'ethics surveys,* whilst 30% conduct an *'ethics audits'* and 19% monitor *'complaints'*, 13% of companies look to 'improved performance' and *'fewer legal issues'* as an indication to check business ethics effectiveness.

This section has highlighted that whilst all companies have a code of conduct, approximately one fifth of companies currently do not conduct trainings. Whilst a majority of companies do conduct trainings at least annually, approximately one fifth of companies conduct trainings on an as needs basis. This signifies that training is not a regular activity in these companies. Similarly, the main purpose of monitoring of the ethics programme is to identify how far the ethical values are drilled down into the organization. More than two thirds of companies have formalised monitoring mechanisms which shows monitoring is present, but further research needs to be done on which is more suited for determining how far ethical values are equipped and translated into organizational practices.

Figure 20: Describe the best response as a tool to check business ethics effectiveness



# Part F: Working with Business Partners (Third party)

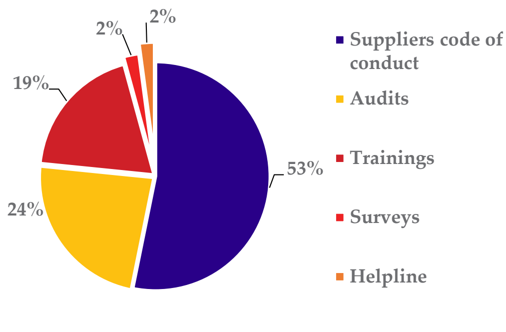
***To run a successful business, companies need to ensure that their relationships with other companies and individual suppliers are sound and secure – not only in terms of commercial risk but also in terms of ethics risk. For this reason, many ethics and compliance practitioners are engaged with third parties.* Institute of Business Ethics.[8]**

This section identifies:

- Tools used to implement ethical behavior in companies
- If companies have an anti-corruption policy for third party vendors
- The mediums and frequencies used by organizations to inform and update key information to the third-party vendors or suppliers
- How companies redress issues of suppliers/ vendors or third party and which department or officer is responsible for the redressal.

Companies were asked how they ensured ethical behaviour in the implementation of business ethics practices for suppliers or vendors. Figure 21, Highlighted 53% of organizations prefer the *'Suppliers Code of Conduct'* as a tool. 23% of Companies they conduct supplier *'Audits'*, whereas 19% of Companies reported they conduct *'Trainings'* for suppliers. Using *'Surveys'* and the *'Helpline'* were only reported by individual companies. Both the latter categories can enable a company to have a two-way communication with suppliers or venders. This is necessary sometimes to address any issues with can compromise ethical conduct in suppliers or venders.

**Figure 21 : Describe the best response as a tool to implement business ethics practices for suppliers/vendors**

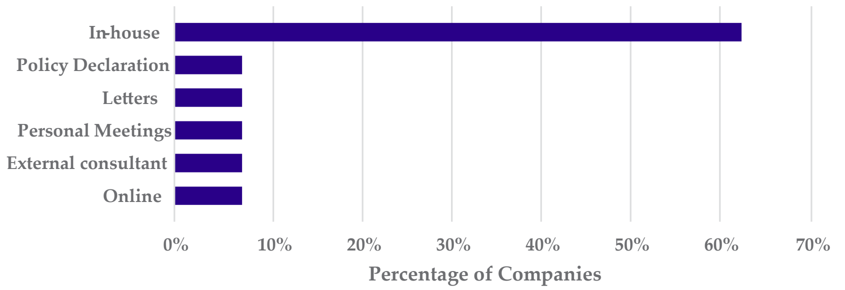



In terms of policies, respondent companies were asked if companies had an anti-compliance policy for vendors, Figure 11 in Part C: Indicates only 55% of companies have anti-corruption policy for the suppliers or vendors.

8 Institute of Business Ethics (2017) Corporate Ethics Policies and Programmes 2016 Uk_and Continental Europe Survey Retrieved from https://www.ibe.org.uk/userassets/publicationdownloads/ibe_survey_corporate_ethics_policies_and_programmes_2016_uk_and_continental_europe_survey.pdf

Companies were asked about which medium organizations follow to provide business ethics training to the suppliers/vendors, Figure 22 shows, 62% of organizations mentioned 'in-house' training, whilst individual companies conduct trainings 'online', with an 'external consultant', or use 'personal meetings', 'letters and emails', and 'declaration policy'.

**Figure 22: What medium does your organization follow to provide business ethics training to the suppliers/vendors/third party?**




Respondent companies were asked '*about the medium in place to inform and update key information to the suppliers, vendors or third party*', Figure 23 highlights 85% of respondent companies identified the use of *'email'*, whilst 61% indicated *'one on one meetings'*, 47% of companies used *'telephonic discussion'* and 40% used *'Letters'* as the mode of communication. Other modes have been reported to be used sparingly.

**Figure 23: Describe the medium in place in your organization to update/inform key information to the suppliers/ vendors/third party?**

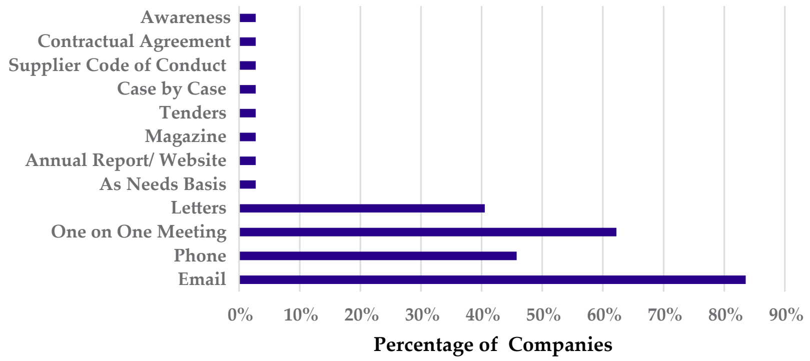


**Figure 24: Does your organization have a medium in-place to redress issues of suppliers/ vendors/ third party?**

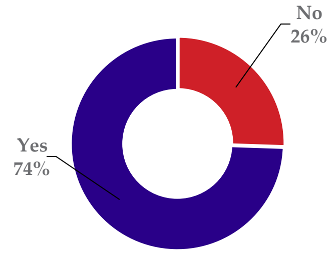
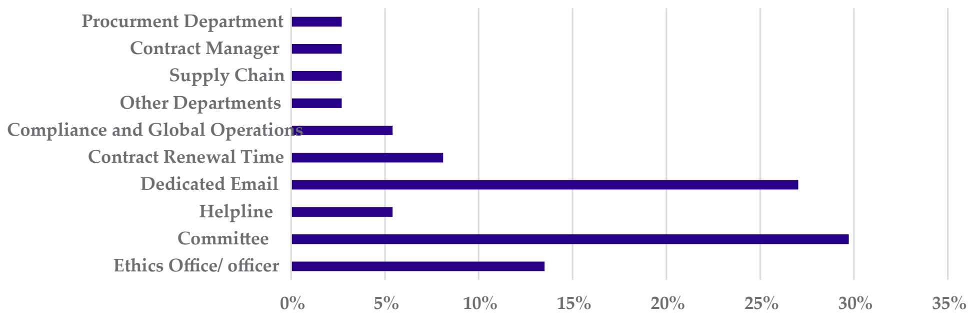



Figure 24 Highlights there was a process in place to redress issues of suppliers or vendors 74% of companies identified 'Yes'.

**Figure 25: Which department/officer is responsible for the redressal of suppliers/ vendors/ third party issues?**




When Companies were asked which department is responsible for the redressal of these issues, Figure 25 shows 30% of companies' have a *'Committee'*, 27% used *'Dedicated Email'*, and 14% assigned an *'Ethics Office/ Officer'* to redress the issues. Only two organizations reported have a dedicated '*Helpline*'. According to the nature of issues, companies also reported other mediums such as, *'Contract Renewal Time'*, *'Compliance and Global Operations'*, *'Other Departments'*, *'Supply Chain'*, *'Contract Manager'* and *'Procurement Department'*.

# Section 2:
# Corporate Governance Survey

# Section 2 Corporate Governance Survey

## Part G: Scope of Written Standards, Codes and Practices

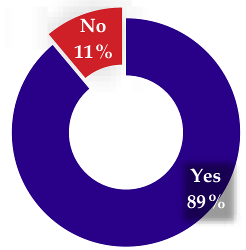
The Securities and Exchange Commission of Pakistan (SECP) has directed listed companies that the board of directors are responsible for adoption of corporate governance practices by the company and monitoring the effectiveness of such practices, besides ensuring high ethical standards is among their responsibilities.

This section identifies the following:

- Implementation of SECP's Code of Corporate Governance as the basis for an effective corporate governance framework
- Whether the policies: on managing conflict of interests, communication, investors and shareholders returns, Environmental, Social and Governance (ESG) are included in the code of conduct
- Establishment of risk management policies for the company by the board of directors
- The frequency in which the company policies are reviewed and updated
- Consideration by companies to take into account the interest of all shareholders in accordance with the principles of corporate governance code while making decisions
- Treatment of all shareholders equally

Companies were asked if Security and Exchange Commission of Pakistan's (SECP) Code of Corporate Governance Regulations has been the basis for their corporate governance framework. Figure 26 shows 89% of companies have adopted this code. 62% of companies are listed and the majority of them are from the FMCG, textile, banking and finance and the engineering sectors. Relevant policies in the code of conduct not only provide guidance to the board and management but also serve as a reference point to mitigate any ambiguity.

**Figure 26: Has your company implemented the Code of Corporate Governance by SECP as the basis for an effective corporate governance framework?**



Figures 27 and 28 indicate board practices on treating shareholders equally and with due care. All of the organizations highlighted the company take into account the interest of all shareholders in accordance with the principles of corporate governance code while making decisions, all companies reported, they take due care and manage the interest of all shareholders. Comparatively, all of the companies reported about 'equal' treatment to all of the shareholders.

Figure 27: Does the Company take into account the interest of all shareholders in accordance with the principles of corporate governance code while making decisions

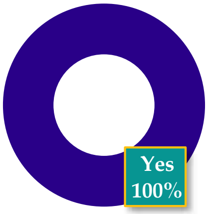



Figure 28: Does the company treat all shareholders equally?


Table 2 shows the policies which are covered as guidance tool in the Code of Conduct. The figure identifies that regardless of being listed or unlisted companies, most companies have policies on communication, conflict of interest between management and board of directors, ESG, and managing shareholders' or investors' relations.

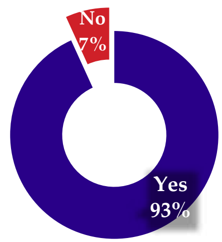
**Table 2: Policies included in the Code of Conduct**

| Policies included in the Code of Conduct | Yes | No |
|---|---|---|
| Communication | 93% | 7% |
| Conflict of Interest | 89% | 11% |
| Environmental, Social and Governance (ESG) | 87% | 13% |
| Managing Shareholders and Investors Relations | 78% | 22% |

The SECP has proposed amendments in the Listed Companies (Code of Corporate Governance) Regulations, 2017 through an SRO1319 (I)2018. The amendments to Code of Corporate Governance for Listed Companies provide guidance to companies to have policies on ESG and their disclosure to the shareholders (SRO 1319 (I) 2018).[9] The Result in table 2 highlight, regardless of being listed or unlisted, most companies have the relevant policies in the code of conduct. For example, 87% of the companies have reported to have the ESG policy in the code of conduct, out of these 39 companies, 23 are listed and 16 are non-listed companies.

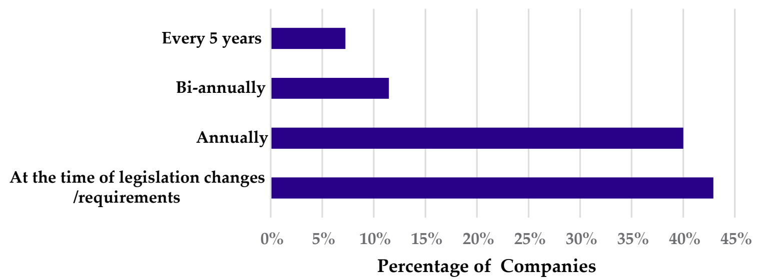
The Code of Corporate Governance Regulations (2017) for listed companies has introduced a requirement for the Board of Directors to be responsible for the governance of risk and for determining the company's level of risk tolerance by establishing risk management policies. The Board shall undertake at least annually, an overall review of business risks to ensure that the management maintains a sound system of risk identification, risk management and related systemic and internal controls to safeguard assets, resources, reputation and interest of the company and shareholders .[10] Companies were asked about the policies in place by board on risk management, 93% of companies reported to have this policy, indicated in Figure 29.

**Figure 29: Has the board of directors established risk management policies for the company?**




The board of directors, while setting company polices in alignment with mission statement, are also required to stablished a mechanism to review these polices. Figure 30 identifies the response to the frequency of review of policies. 42% of the responses reported they are being reviewed, *'at the time of legislation changes / requirements'*, followed by 40% *'annually'*. Only 11% of companies review these policies every two years and 7% of companies highlighted the revision after *'every 5 years'*. Out of 19 companies, 11 listed and 5 non-listed companies review their policies at the time of changes in legislation. Whereas, 13 listed companies, and 5 non-listed companies review policies annually.

**Figure 30: How frequent are the company policies reviewed and updated?**




9 SECP(2018)

10 https://www.pwc.com.pk/en/assets/document/Listed%20Companies%20(Code%20of%20Corporate%20Governance)%20Regulations,%202017.pdf

# Part H: Board Composition

The SECP Corporate Governance Code for listed companies requires all public interest companies, the ones listed on the stock exchange and others with or above a specified threshold of paid-up capital, turnover, the number of employees, or the number of shareholders to induct at least one-woman director.

This section identifies the following

- Age limits of board members
- Average age of male and female executive, non-executive and non-executive independent directors on board
- Board's skills and experiences necessary to oversee the company
- Average qualification of male and female executive, non-executive and non-executive independent directors on board
- Average years of experience of male and female executive, non-executive and non-executive independent directors on board
- Board size and number of directors on your board that are female
- Geographical representation in board

Figures 31 and 32 show 'responses to the question 'does your board have age limits?' and 'the average age of executive and non-executive employees. With the exception of one company, no company has classified an age limit to the board. Figure identifies the average age of male and female executive, non-executive and non-executive independent directors on board are found between 50-55 years.

**Figure 31: Does your board have age limits?**

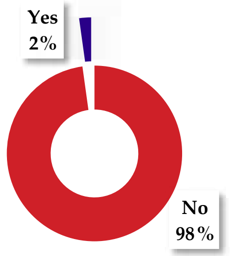
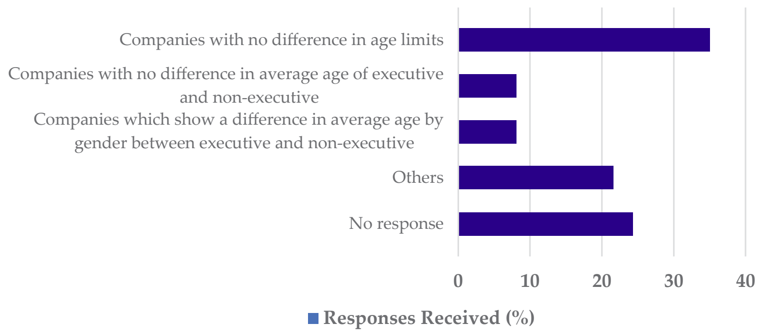
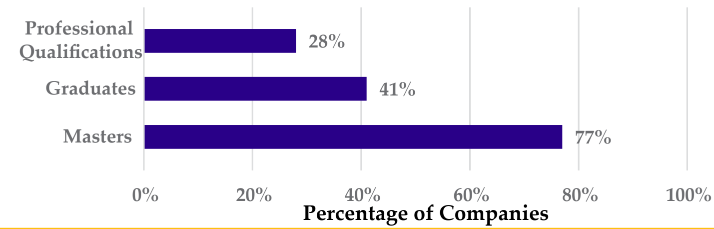



**Figure 32: Please provide the average age of male and female executive, non-executive and non-executive independent directors on board**



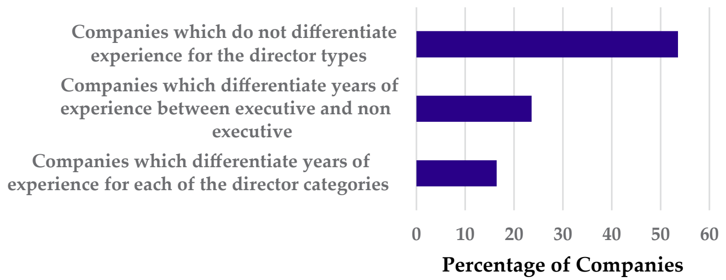
In Figure 33 All of the respondent companies report to have the right skills and experience to oversee the company. In terms of the current qualifications of male and female executive, non-executive and non-executive independent directors on board, 77% of the responses identified masters degrees, whilst 41% highlighted 'graduate' and 28% identified 'Professional Qualifications' such as chartered accountancy and law. One company highlighted they have a mix of experts in finance, banking, business, management and engineering – which shows it is thinking about having a diversity of skills on Board.

**Figure 33 : The average qualification of male and female executive, non-executive and non-executive independent directors on board**



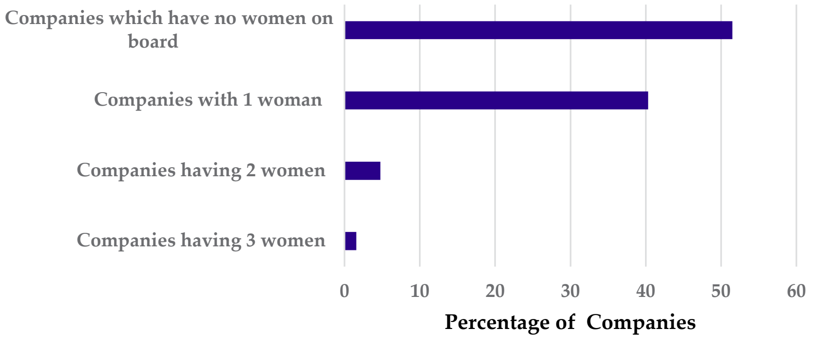

Companies were asked about the years of experience of male and female executive, non-executive and non-executive independent directors on board is found within the range between '20-30 years.' Figure 34 shows that companies more than 50% of companies do not differentiate between executive and non-executive directors. It is interesting more than 25% of companies have a difference in years of experience between executive and non-executive, thus bringing experience diversity to the board.

**Figure 34: Provide the average years of experience of male and female executive, non-executive and non-executive independent directors on board**



Companies were asked about the number of companies which have female directors in their boards. Figure 35 highlights 48% of the companies reported to have 'one' female director on their board. It must be noted that 52% of companies have no women on board.

Figure 35: Provide the board size and number of directors on your board that are women



# Part I: Disclosure of information and Reporting

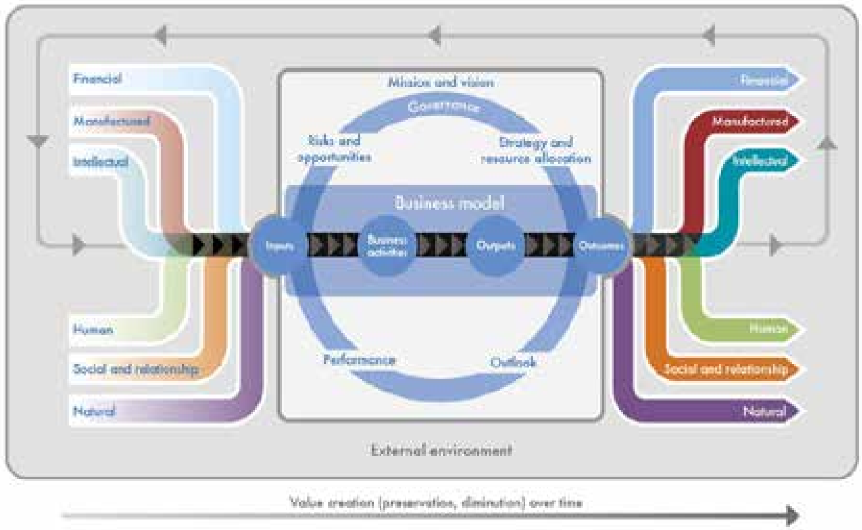
The OECD principles establish that the statutory and regulatory corporate governance framework should ensure that timely and accurate disclosure is made on all matters regarding the company, including its financial situation, performance, ownership, and governance[11]. The recent amendments by the SECP SRO 1319 (I) 2018 outlines the direction for the companies to disclose significant policies on website.

This section identifies the following:

- Which of the six capitals International Integrated Reporting Council /are the most relevant to your organization`s business model
- The company policy of updating shareholders through the semi-annual and annual reports
- Efforts by a company to prepare and update calendar of important events
- Placement of policies on company`s website

For value creation and commercial viability, organizations depend on various forms of capital. The International Integrated Reporting Framework, defines these capitals as financial, manufactured, human, social and relationship, natural and intellectual capital.

Table 3: How a business model draws from the Six Capitals

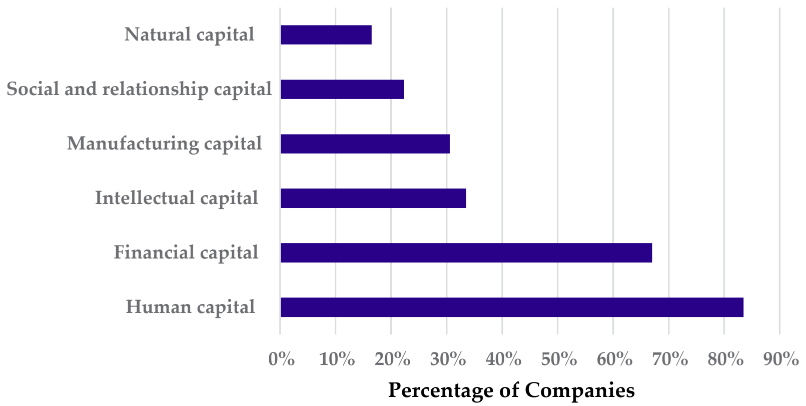



**Source:** Integrated Reporting, Retrieved from https://integratedreporting.org/what-the-tool-for-better-reporting/get-to-grips-with-the-six-capitals/

11 http://www.ecgi.org/codes/documents/hksa.pdf

Figure 36 identifies the responses to question asking which of the 6 capitals is relevant to the company's business model 83% of companies highlighted *'human capital'*- which is all about managing human competencies and using their capabilities and motivation as the most relevant one for their companies. 65% of Respondent companies highlighted the *'Financial Capital'* which is the pool of funds that is available to a business to produce goods or provide services. *'Intellectual Capital'* describe the organization's intellectual property and knowledge repository they have, followed by 33% companies. Less than one third of companies highlighted *'Manufactured capital'*, *'Social and Relationship Capital'* and *'Natural Capital'* as relevant to the companies' business model.

**Figure 36: Which of the six capital(s) is/are the most relevant to your organization`s business model?**




These capitals can have an impact on organization and its activities. For instance, manufactured capital is referred to by IIRC as the *'material goods and infrastructure owned, leased or controlled by an organization, that contribute to production or service provision'*[12]. If this is affected in any way, it will have an impact on the company's business model.

12 Integrated Reporting, Retrieved from https://integratedreporting.org/what-the-tool-for-better-reporting/get-to-grips-with-the-six-capitals/

Almost all companies from the FMCG sector highlighted *'financial capital'* as relevant, whereas, companies from the Textile sector prioritized *'human capital'* as well as *'financial capital'* with other choices. Companies in the industrial and engineering sector gave priority to the *'financial capital' 'Financial'*, human' and 'intellectual' capitals were highlighted by all banking and finance sector companies.

Disclosure of key information to the shareholders is one of the important components of corporate governance. Answering the question about company's efforts to publish key information and their frequency, Figure 37 highlights, 89% of companies reported they publish semi-annual, annual reports for the availability of shareholders. Out of these, twenty-eight companies are listed. In the non-listed category, majority of the FMCG sector companies are active on publishing these reports. FMCG sector is at top in publishing these reports in both listed and non-listed status, followed by Textiles and Banking and Finance sector. Two companies in textile, and one each in banking and finance, FMCG and telecommunication sectors do not have mechanism to publish these reports.

Companies were also asked, if the company prepares and updates the calendar of important events for

**Figure 37: Does your company publish semi-annual, annual reports for the availability of shareholders?**

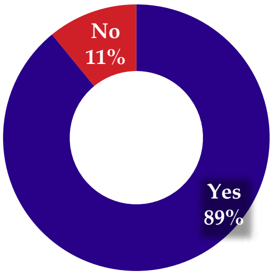
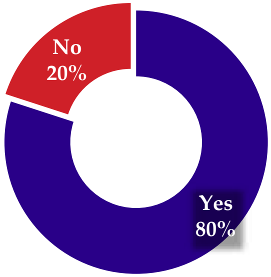


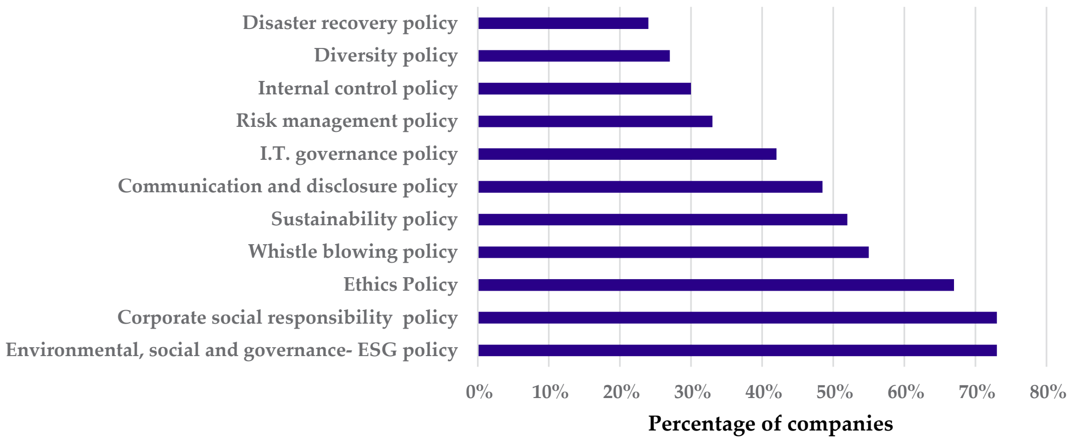

**Figure 38: Does your company prepare and update calendar of important events?**



information. Responses shows in figure 38, 80% of the reported companies answered as ‘yes’. 24 listed companies, from the FMCG, Textiles, Banking and Finance and Engineering sector and 12 companies under non-listed status, mainly from Banking and Finance and Insurance sector companies prepare a calendar of important events.

Companies were asked about the policies which they publish on the website. Figure 39 shows that whilst there is a focus on ESG and Corporate Social Responsibility, currently fewer companies are publishing information on diversity and disaster recovery.

**Figue 39: Policies are placed on company`s website**



# F. ACCA's Recommendation for Implementing Ethics and Governance in Companies

**Strong ethics is at the very centre of professionalism.**

ACCA urges the business community in Pakistan to focus more on its ethical responsibilities and on prioritising the recruitment of senior executives and financial staff with strong ethical compasses. In a paper Risk and Reward: tempering the pursuit of profit, ACCA argues that a strong commitment to ethical business conduct on the part of directors and key staff is a strong line of defence against reputational damage and should be an essential part of any risk management strategy.

It makes the following recommendations:

- Businesses should prioritise the recruitment of senior executives and financial staff who have a strong ethical compass
- Businesses should ensure a strong ethical culture; this should include setting the right tone at the top and then ensuring, and monitoring, that this is reflected throughout the organisation. Listed companies should set out how they do this in their annual reports.
- Businesses should maintain the higher internal profile - with sufficient resources - given to the risk function since the onset of the financial crisis and not be tempted to cut this back when recovery sets in.
- Leaders should set the ethical and behavioural tone at the top and cascade this down via the leadership and embed in the organisational culture.
- With digital communication advances at the organisational level the implementation of internal digital channels will support adoption of a digital ethical culture underpinned by sharing of good practices and monitoring of work in an informal manner.

Arif Masud Mirza Regional Head of Policy MESA

## Insight from the ACCA

As individuals, employers and education providers, we need to think how we ensure that we develop the professional skills needed in the changing world.

### For individuals

- Take stock of changes to the profession
- Take responsibility for your own growth – learn how to learn
- Consider which activities are right given the performance level you are aiming at.

### For employers

- Create an environment that supports and rewards learning
- Recognise the different ways in which people now access learning
- Understand the range of solutions is best supported by on-the-job reflection and mentoring.

### For Learning & Development professionals

- See leaders and learners as ‘consumers’ of learning
- Move from being providers to curators of content
- Improve design and focus on the personal journey.

**Source:**
https://www.accaglobal.com/gb/en/professional-insights/pro-accountants-the-future/learning-for-the-future.html

# G. Conclusions and Recommendations

This survey on ethics and governance covers both the philosophy and the practice of business ethics in organizations, and additionally the board practices in place to enable continuity of an ethical culture.

Section 1 of the survey looked at what drives an ethical culture and how the requisites of an effective ethical programme are implemented in organizations. All of the companies surveyed viewed leadership as an important element in building their ethical culture. However, only 66% linked their ethical culture with company values. There would therefore appear to be an understanding gap as core values serve as guiding principles for organizational behavior.

In terms of implementation, the positive findings include the existence of a comprehensive 'Code of Ethics' or "Code of Conduct" applicable to all employees of the organization. Most of the companies communicated the requirements thereof through trainings followed by informing employees on any changes made to it through emails. However, there is a widespread difference in mode and frequency of such trainings, and the type of monitoring mechanisms employed by companies. Further research is required to build an understanding how each of these elements link together. Additionally, it also needs to be determined how companies measure employee engagement in upholding ethical culture. One key enabler could be a role within the company of an 'Ethics Officer' who is responsible for the maintenance of an ethical culture both within and beyond the organization.

A gap is also seen in the external communication of ethical conduct to third-parties engaged in the value chain. Whilst it is evident that companies place emphasis on the signing of a Code of Conduct, there needs to be greater focus brought about on the training and monitoring of third-party vendors and others in the value chain. This would lead to a greater impact taking place and ensuring company values are upheld when third party partners are associated with the companies.

Section 2 surveyed companies on governance. The results show that companies have developed their corporate governance framework in accordance with the guidelines issued by SECP. Moreover, the results are similar for listed and non-listed companies. In terms of board diversity, the trends highlight that most companies have board members in a similar age group and have not focused on geographical diversity. Further research needs to be undertaken on how all aspects of diversity are brought into consideration when formulating or renewing boards of directors.

In terms of disclosure and reporting, companies were asked which of the capitals identified by IIRC's Integrated Reporting Framework, were applicable to their organization's business model. Most placed an emphasis on the 'human capital', 'financial capital' and 'intellectual capital' but did not give the same importance to 'natural capital', 'social and relationship capital or 'manufactured capital'. A key reason could be a lack of understanding about the relationship of the six capitals to business. As this is currently an international best practice, companies will benefit from building capacity on Integrated Reporting.

ACCA's recommendations focus on the human capital that is essential for ethical companies and stress the importance of leadership and use of the digital technology platform for employee engagement on ethical culture.

In conclusion, this survey highlights that companies do place emphasis on an ethical culture but would benefit from having a formalized ethics programme and a dedicated ethics officer. With respect to governance and accountability to shareholders, companies can benefit from adopting international best practices on board diversity and using tools such as 'Integrated Reporting'. This would bring about the desired change in their business models for long-term sustainable value creation.

# Annexure 1: Questionnaire on Baseline Survey on Ethics and Governance

## Introduction:

The subtle mechanism of ethics and governance is important for the business as well as the whole community. Organizations with successful ethical management can achieve superior performance in the long run, instill trust within the organization, value chain and can become proactive in managing ethical dilemmas. This baseline survey is being undertaken and will be published as a joint research by The Pakistan Business Council's Centre of Excellence in Responsible Business (CERB) and Association of Chartered Certified Accountants (ACCA). The objective of this survey on Pakistan Business Council`s member companies, is to develop an understanding of current practices in relation to ethics and governance.

The survey has been divided into 9 sections on ethical practices. This includes the understanding of ethics, the role of leadership, code of conduct, policies, communication, training, monitoring, and third-party issues. In relation to governance, there are 4 sections which cover the scope of written standards, board composition, board committees and disclosure of information. This survey will take approximately 15-20 minutes to complete. It is necessary that all sections are filled.

We encourage any of the following to fill out this survey on behalf of the company :

- Chief Executive Officer

- Ethics/ Compliance/ Legal Officer

- Company Secretary

* We value and appreciate your feedback.

** All information will be treated confidentially and reported in aggregate, and used only for research purposes.

Email address

______________________________

Company name

______________________________

Designation of the respondent

______________________________

What is the legal status of your company?

Select only one option.

- Listed
- State-owned
- Non- Listed (Private) Ltd

What is the industry of the company that you are most closely identified with?

Select only one option.

- Automotive
- Banking & Finance
- Cement
- Chemicals

- Power Generation and distribution
- Engineering & Industrial Products
- Fertilizer
- Food and Consumer Products
- Insurance
- Petroleum
- Pharmaceuticals
- Textiles
- Logistics & Storage
- Utilities
- Other

1. What is the best response that defines significance of business ethics purpose for your organization?

Select only one option.

- Protection of brand and reputation.
- Corporate values
- Customer trust and loyalty
- Public recognition
- Vendor or partner trust

2. What is the best response that defines significance of business ethics purpose in terms of external environment for ethics drivers?

Select only one option.

- Legal
- Organizations values, mission
- Economic environment
- Social values
- Technology
- CSR

3. Do you agree that the role of leadership is important in maintaining organization-wide ethical culture? Select only one option

- Yes
- No

4. Do you agree that the role of leadership is important in nurturing ethical culture? Select only one option

- Yes
- No

5. Does your organization have written standards of ethical business conduct?

   Select only one option

- Yes
- No

6. Mention which polices are included in your organization's code of ethics?

Check all if apply

- Unfair practices like bribery, or any payment for preferred treatment
- Gifts and entertainments
- Respect and integrity of workplace/information/assets
- Respect of workers/women
- Anti-harassment policy
- Conflict of Interest
- Health, Safety and Environment
- Compliance
- Confidentially
- Dealing with suppliers
- Whistleblower

- Equal opportunity
- Freedom of association
- Insider trading

7. Does your organization have anti-corruption policy for the employees?

Select only one option

- Yes
- No

8. Does your organization have anti-corruption policy for the suppliers/vendors/third party agents?

Select only one option

- Yes
- No

9. Does your organization have environment and sustainability policy?

Select only one option

- Yes
- No

10. Describe the best medium in place in your organzations to update/inform key information to the employees? Check all if apply.

- Email
- Website
- Annual report
- Newspaper
- Other

11. What is the frequency of communicating key information to the employees?

- Ongoing
- Monthly
- Quarterly
- Semi annual
- Annually
- Other

12. Describe the best medium in place in your organzations to update/inform key information to the suppliers/ vendors/third party? Check all if apply.

- Email
- On phone
- One on one meeting
- Letters
- Other

13. Does your organization have business ethics training mechanism for employees?

Select only one option

- Yes
- No

14. What medium does your organization follow mostly to provide business ethics training to the employees?

- In-house
- Online
- External consultant
- Other

15. What is the frequency of business ethics training to the employees?

- Quarterly
- Bi-Annually
- Annually
- Other

16. Does your organization have business ethics training mechanism for suppliers/vendors/third party?

Select only one option

- Yes
- No

17. What medium does your organization follow mostly to provide business ethics training to the suppliers/vendors/third party?

- In-house
- Online
- External consultant
- Other

18. Describe the best response as a driver for business ethics sustainability culture

- Leader support
- Communication
- Make part of performance management system
- Make part of mission, vision and value statements

19. Describe the best response as a tool to implement business ethics practices

- Code of conduct
- Training

- CSR programs
- Helpline
- Ethics office/ department / survey

20. Describe the best response as a tool to implement business ethics practices for suppliers/vendors.

- Suppliers code of conduct
- Audits
- Trainings
- Surveys
- Helpline

21. Describe the best response as a tool to check business ethics effectiveness

- Ethics surveys
- Complaints
- Ethics audits
- Less law suits
- Improved performance

22. Does your organization has a medium in place to redress issues of suppliers/ vendors/ third party? Select only one option

- Yes
- No

23. Which department/officer is responsible for redressal of suppliers/ vendors/ third party issues?

- Ethics office/ officer
- Committee
- Helpline
- Dedicated email
- At the time of contract renewal

24. Has your company implemented the Code of Corporate Governance by SECP as the basis for an effective corporate governance framework?

Select only one option

- Yes
- No

25. Does your organization code of conduct covers policy on managing conflict of interest, for example with management and board members?

Select only one option

- Yes
- No

26. Does your organization code of conduct covers policy on communication?

Select only one option

- Yes
- No

27. Does your organization code of conduct covers policy on managing investors/shareholders' relations?

Select only one option

- Yes
- No

28. Does your company have an ESG (Environmental, Social and Governance) policy?

Select only one option

- Yes
- No

29. Has the board of directors established risk management policies for the company?

Select only one option

- Yes
- No

30. How frequently the company policies are reviewed and updated? (provide answer below)

- Annually
- Bi- annually
- Every 5 years
- At the time of legislation changes/ requirements

31. Does the Company take into account the interest of all shareholders in accordance with the principles of corporate governance code while making decisions?

Select only one option

- Yes
- No

32. Does the company treat all shareholders equally?

Select only one option

- Yes
- No

33. Does your board have age limits?

Select only one option

- Yes
- No

34. Provide the average age of male and female executive, non-executive and non-executive independent directors on board (use commas in between the values).

35. Does your board (in aggregate) have the skills and experiences necessary to oversee the company?

Select only one option

- Yes
- No

36. Select the average qualification of male and female executive, non-executive and non-executive independent directors on board. (use commas in between)

37. Provide the average years of experience of male and female executive, non-executive and non-executive independent directors on board (use commas in between the values)

38. Provide the board size and number of directors on your board that are female (use commas in between the values)

39. Does your board have a geographical representation?

Select only one option

- Yes
- No

40. Which of the six capital(s) is/are the most relevant to your organization business model

- Financial capital
- Manufacturing capital
- Natural capital
- Intellectual capital
- Human capital
- Social and relationship capital

41. Does your company publish semi-annual, annual reports for the availability of shareholders?

Select only one option

- Yes
- No

42. Does your company prepare and update calendar of important events?

Select only one option

- Yes
- No

43. Which policies are placed on company`s website?

Check all if applies.

- Communication and disclosure policy
- Code of ethics policy
- Risk management policy
- Internal control policy
- Whistle blowing policy
- Corporate social responsibility policy
- IT Governance policy
- Diversity policy
- Disaster recovery policy
- Sustainability policy
- Environmental, social and governance (ESG) related policy

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THE PAKISTAN BUSINESS COUNCIL
(A Company set up under Section 42 of the Companies Ordinance 1984)

3rd Floor, Dawood Centre, M. T. Khan Road, Karachi, Pakistan
Telephone: +92-21 35632131-33 Fax: +92-21 35630530

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