

IoD CONSULTATION PAPER

Code of Conduct for Directors

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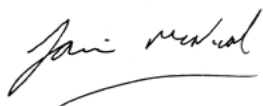
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Foreword

The role of director has never been more vital, complex and challenging. Directors make decisions that are fundamental to the success of their organisations, and which have life-changing consequences for their employees, customers and other stakeholders. The judgements that directors make every day ultimately determine the fate of the economy and the future of many of our public services.

We can be rightly proud of UK business organisations much of the time. However, on occasion, business decision makers fall short of what society expects. Those at the top may lose touch with what really matters – namely the need to demonstrate exemplary values and integrity in both their business decisions and their personal behaviours. As a result, we have recently observed scandals and controversies which have exerted a negative effect on the esteem in which business is held. In the absence of public trust, businesses may find that their freedom to forge their own destiny is increasingly called into question.

The purpose of this Code is to help UK business win back that trust by embedding the values that are already adopted as a matter of course by most responsible business leaders. Written by directors for directors, it offers a roadmap that can help individual directors make the right decisions for themselves and their organisations, often in the face of complex challenges and trade-offs. The Code represents a voluntary commitment and is not intended to hold back directors or create a new burden of compliance. Most of the undertakings contained within the Code are matters of common sense. However, at crucial moments, when key decisions have to be made, the Code may serve as a useful tool that directors can refer to when asking themselves the question: what would a responsible director do in this situation?



Lord (Iain) McNicol
Chair, IoD Code
of Conduct Commission

Jonathan Geldart
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Responding to the consultation

We welcome feedback on the Code from the business community and the general public. We invite you to submit your written comments [here](#) by Friday 16 August 2024. You may also submit feedback to the following email address: **codeofconduct@iod.com**.

In particular, we would be interested in receiving your views on the following:

- Are there any additional issues that should be addressed in the Code?
- How can awareness of the Code be encouraged amongst directors and the wider public?
- Should directors make a public declaration or disclosure of their adoption of the Code?
- Is there a role for government, regulators or professional bodies in encouraging adoption of the Code?
- If you are currently serving as a director, would you be willing to commit yourself to the principles and undertakings of this Code?

Introduction to the Code

This Code of Conduct is a practical tool to help directors make better decisions. It also provides organisational leaders with a behavioural framework that can help them build and maintain the trust of the wider public in their business activities.

The Code has been developed by the Institute of Directors (IoD) in support of its Royal Charter obligation to promote high levels of integrity on the part of directors. It also fulfils the demand of IoD members for a code which underpins high standards of professional ethics across the director community.

The Code is applicable to directors of organisations of all sizes in the private, public and not-for-profit sectors. Whilst it is recognised that many directors may already be subject to codes of conduct arising from their organisations or professional bodies, this Code is an individual commitment designed to complement such mechanisms.

The role of the director is associated with specific legal and regulatory responsibilities, including the general legal duties defined in the Companies Act 2006. This Code does not add to these legal obligations. Nor is it associated with a formal enforcement mechanism. Rather, it sets a bar for director conduct beyond the legal baseline as a means of enhancing the legitimacy and reputation of directorship in the eyes of society and stakeholders.

Modern directorship is increasingly challenging. It involves more than simply complying with the law or applying specialist knowledge and expertise. Directors are expected to define and embed the values of their organisation and apply high ethical standards. They must apply judgement to complex situations in which competing interests, both personal and organisational, as well as the rights and interests of various stakeholders, must be prioritised and balanced. In such scenarios, identifying the right way forward is not always straightforward.

Furthermore, given their shared legal responsibility for the organisation, directors are often subject to a high level of public scrutiny – both from within the organisation and in the media. Increasingly, director conduct is a source of business and reputational risk for both organisations and individual directors.

This Code helps directors to fulfil their responsibilities by providing a clearly articulated statement of what good conduct looks like. As they navigate difficult and complex situations, the Code helps directors to clarify their thinking, with positive implications for themselves, their organisational culture and society as a whole.

The Code Framework

The Code is structured around six key Principles of Director Conduct ('Principles'). These Principles are inspired by the Seven Principles of Public Life (also known as the Nolan Principles), first published in 1995 by the Committee on Standards in Public Life.

Principles of Director Conduct:

- 1 **Leading by example:** Demonstrating exemplary standards of behaviour in personal conduct and decision-making.
- 2 **Integrity:** Acting with honesty, adhering to strong ethical values, and doing the right thing.
- 3 **Transparency:** Communicating, acting and making decisions openly, honestly and clearly.
- 4 **Accountability:** Taking personal responsibility for actions and their consequences.
- 5 **Fairness:** Treating people equitably, without discrimination or bias.
- 6 **Responsible business:** Integrating ethical and sustainable practices into business decisions, taking into account societal and environmental impacts.

Each Principle is underpinned by a number of specific Undertakings. By applying the Principles and fulfilling the Undertakings, directors are well placed to achieve the positive Outcomes set out in the table below.

In addition, annexed to the Code is guidance containing examples of how the Code can be applied in various specific scenarios¹.

Principles	Leading by example	Integrity	Transparency	Accountability	Fairness	Responsible business
Undertakings	Exemplary behaviour embodying and promoting values and challenging poor behaviour	Abiding with relevant laws and regulations, acting in good faith and upholding high ethical standards	Open and accurate communication about decision-making and actions	Understanding your responsibilities and providing honest accounts of your conduct	Making justifiable decisions based on impartiality, consistency and merit	Aiming for long-term sustainable business success considering social and environmental impacts
Outcomes	RESPECT REPUTATION		CONFIDENCE TRUST	RELATIONSHIPS LEGITIMACY		RESILIENCE

¹ This Guidance will be published following approval of the final version of the Code

Principle 1 | Leading by example

Demonstrating exemplary standards of behaviour in personal conduct and decision-making

Leading by example is about setting a high bar in terms of your own behaviours, which in turn encourages others to follow suit. It involves demonstrating the values, ethics and commitments which are expected by your organisation in all that you do.

As a director, I undertake to:

- Exhibit high standards of personal conduct and professionalism.
- Consider the impact of my behaviour on employees, fellow directors and other stakeholders.
- Avoid behaviour which might adversely affect the reputation of my organisation, or which contradicts its values.
- Treat everyone with respect, dignity and consideration.
- Devote sufficient time and attention to my role as a director.
- Strive to develop my own competency and encourage that in others.

Outcomes: You will gain respect and trust as an authentic leader, where your actions align with your words. You will inspire and influence others to emulate your positive behaviours. This in turn builds loyalty, confidence in your leadership and helps build sustainable business relationships.

Principle 2 | Integrity

Acting with honesty, adhering to strong ethical values, and doing the right thing

Integrity is about consistently doing what is right. You should abide with relevant laws and regulations, act in good faith and uphold high ethical standards. Your decisions should prioritise the interests of the organisation over personal gain, and balance organisational objectives with the interests of key stakeholders.

As a director, I undertake to:

- Comply with the letter and spirit of applicable law and be willing to cooperate fully with regulatory authorities.
- Deal honestly with all parties.
- Place the interests of the organisation and its societal impact above my personal interests.
- Be alert to perceived conflicts of interest and manage them when they arise.
- Voice constructive challenge and disagreement on matters of concern.
- Challenge words, behaviour or attitudes that fall below expectations.
- Adhere to collective responsibility for agreed decisions.
- Be prepared to resign from the board if a matter of conscience, judgement or good governance cannot be remediated through good business practices.
- Safeguard confidential information unless appropriate disclosure has been authorised, and not make improper use of information.

Outcomes: Integrity will foster trust and respect from others and cultivate an atmosphere of honest and open communication. By demonstrating integrity, you not only promote a healthy organisational culture but also strengthen the collective commitment to achieving shared goals and objectives. This helps you build strong stakeholder relationships thereby enhancing organisational performance and reputation.

Principle 3 | Transparency

Communicating, acting and making decisions openly, honestly and clearly

Transparency involves being open about your decisions and actions. It entails providing accurate, timely and consistent information to stakeholders, demonstrating that your decisions are fair and reasonable.

As a director, I undertake to:

- Be open and transparent to the rest of the board and relevant stakeholders in respect of anything that might be perceived as affecting my objectivity (such as a conflict of interest).
- Promote an open business culture which does not cover up wrong-doing or mistakes.
- Encourage the adoption of 'speak up' mechanisms which enable employees and other relevant stakeholders to report concerns about any misconduct or actions that are not aligned to the organisation's values.
- Communicate with stakeholders in a straightforward and accessible manner, providing proactive, relevant and timely information.
- Be candid with stakeholders about the limits of transparency (such as information of a commercially sensitive nature).

Outcomes: Transparency builds trust, credibility, and confidence. By demonstrating the rationale behind your decision-making, you will promote clarity and understanding, enabling positive relationships and effective collaboration with key stakeholders. Transparency helps you to create a culture where openness is valued and practised.

Principle 4 | Accountability

Taking personal responsibility for actions and their consequences

Being accountable means you are answerable for the decisions and actions you take in fulfilling your duties as a director. This includes subjecting your actions and decisions to scrutiny and being prepared to provide an honest and transparent account of your conduct.

As a director, I undertake to:

- Comply with my legal duties to the organisation, fulfil my delegated responsibilities, and take personal responsibility for my actions.
- Be open to feedback and, where applicable, make improvements based upon that feedback.
- Oversee and hold management to account.
- Understand the legitimate expectations of shareholders and other relevant stakeholders and engage appropriately with them.
- Seek independent advice on matters of concern at an early stage and, where appropriate, call for action to protect the interests of creditors if the organisation is struggling financially.
- Reflect on whether I have the knowledge and skills required to fulfil my role as a director and, where appropriate, decline to serve on a board.

Outcomes: Accountability will improve the quality of your decision-making and is essential in maintaining the trust and confidence of stakeholders. Commitment to accountability will cement your reputation as a trusted fiduciary and help build the governance standing of your organisation.

Principle 5 | Fairness

Treating people equitably, with no discrimination or bias

Fairness encompasses making decisions impartially, consistently and based on merit, while providing justification for your decisions. It involves you being inclusive and treating everyone with respect, dignity and consideration. Fairness is essential for nurturing a culture where diversity is welcomed, and all individuals have the chance to excel and realise their potential.

As a director, I undertake to:

- Make decisions on an objective and evidence-based basis.
- Recognise and respect the legitimate interests of relevant stakeholders – including customers, employees, investors and suppliers.
- Promote equality of opportunity in all business activities.
- Encourage the fair treatment of suppliers.
- Promote diversity of thought, by being open to differing ideas and views.
- Engender an inclusive culture where all employees can bring their best selves to work.
- Share credit with those contributing to successful outcomes, and provide constructive feedback where performance does not meet expected standards.
- Advocate for reward and recognition structures that are fair, encourage ethical behaviour and support a longer-term perspective.

Outcomes: By demonstrating fairness, you will build and maintain confidence in your decision-making and foster a sense of loyalty amongst colleagues and stakeholders. Ensuring that your decisions are made impartially and based on merit helps you create an environment where everyone has equal opportunity. Fairness leads to an inclusive environment where everyone feels valued and respected, with positive consequences for sustainable business success.

Principle 6 | Responsible business

Integrating ethical and sustainable practices into business decision-making, taking into account societal and environmental impacts

Responsible Business entails acknowledging that the scope of your responsibilities extends beyond your organisation and can have a broader impact on society and planet. This involves ensuring environmentally safe, ethical and equitable working conditions and products.

Responsible Business requires you to align strategic objectives with creating favourable outcomes for stakeholders over the longer term. This includes focusing on sustainable growth and striking a balance between financial performance and societal impact.

As a director, I undertake to:

- Consider the consequences of my decisions for society, local communities and the environment.
- Avoid prioritising the short-term financial interests of shareholders above the longer-term interests of the organisation as a whole.
- Promote high business standards across the supply chain, particularly with regard to employment conditions and environmental impact.
- Reject corrupt business practices.
- Advocate for an organisational culture which values diversity and inclusion.

Outcomes: By linking the success of your organisation to that of wider society and the environment, you will contribute to a more sustainable and equitable future. This will resonate with stakeholders, leading to enhanced trust and confidence in your leadership, setting a foundation for enduring relationships with customers, employees, and the communities in which you operate.



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