CODE OF ETHICS

What Is a Code of Ethics?

A code of ethics is a guide of principles designed to help professionals conduct business honestly and with integrity. A code of ethics document may outline the mission and values of the business or organization, how professionals are supposed to approach problems, the ethical principles based on the organization's core values, and the standards to which the professional is held.

A code of ethics also referred to as an "ethical code," may encompass areas such as business ethics, a code of professional practice and an employee code of conduct.

**Understanding a Code of Ethics**

Business ethics refers to how ethical principles guide a business's operations. Common issues that fall under the umbrella of business ethics include employer-employee relations, discrimination, environmental issues, bribery and insider trading, and social responsibility. While many laws exist to set basic ethical standards within the business community, it is largely dependent upon a business's leadership to develop a code of ethics.

Both businesses and trade organizations typically have some sort of code of ethics that their employees or members are supposed to follow. Breaking the code of ethics can result in termination or dismissal from the organization. A code of ethics is important because it clearly lays out the rules for behavior and provides the groundwork for a preemptive warning.

Regardless of size, businesses count on their management staff to set a standard of ethical conduct for other employees to follow. When administrators adhere to the code of ethics, it sends a message that universal compliance is expected of every employee.

**Compliance-Based Code of Ethics**

For all businesses, laws regulate issues such as hiring and safety standards. Compliance-based codes of ethics not only set guidelines for conduct but also determine penalties for violations.

In some industries, including banking, specific laws govern business conduct. These industries formulate compliance-based codes of ethics to enforce laws and regulations. Employees usually undergo formal training to learn the rules of conduct. Because noncompliance can create legal issues for the company as a whole, individual workers within a firm may face penalties for failing to follow guidelines.

To ensure that the aims and principles of the code of ethics are followed, some companies appoint a [compliance officer](https://www.investopedia.com/terms/c/compliance-officer.asp). This individual is tasked with keeping up to date on changes in regulation codes and monitoring employee conduct to encourage conformity.

This type of code of ethics is based on clear-cut rules and well-defined consequences rather than individual monitoring of personal behavior. Despite strict adherence to the law, some compliance-based codes of conduct do not thus promote a climate of moral responsibility within the company.

**Value-Based Code of Ethics**

A value-based code of ethics addresses a company's core value system. It may outline standards of responsible conduct as they relate to the larger public good and the environment. Value-based ethical codes may require a greater degree of self-regulation than compliance-based codes. Some codes of conduct contain language that addresses both compliance and values. For example, a grocery store chain might create a code of conduct that espouses the company's commitment to health and safety regulations above financial gain. That grocery chain might also include a statement about refusing to contract with suppliers that feed hormones to livestock or raise animals in inhumane living conditions.

**Code of Ethics Among Professionals**

Financial advisers registered with the Securities and Exchange Commission or a state regulator are bound by a code of ethics known as fiduciary duty. This is a legal requirement and also a code of loyalty that requires them to act in the best interest of their clients. Certified public accountants, who are not typically considered to be a fiduciary to their clients, still are expected to follow similar ethical standards, such as integrity, objectivity, truthfulness, and avoidance of conflicts of interest, according to the American Institute of Certified Public Accountants (AICPA).