

Grundfos Holding A/S

The case describes the launch by Grundfos of a comprehensive Code of Conduct program that guides management and employees on how to comply with the Group's ethical guidelines.

Grundfos has worked intensively over the past 18 months to roll out the company's Code of Conduct. The seeds of an actual Grundfos Code of Conduct were first sown in the late nineties.

Now – some ten years later – the time has come to go a significant step further. Grundfos is in the process of implementing, communicating and “massaging” its Code of Conduct into the global organisation – both with the management and the company's 17,000+ employees.

The objective of the Code of Conduct program is to ensure that all employees comply with international laws and guidelines, including Global Compact, which Grundfos signed in 2002.

Why work with a Code of Conduct at Grundfos?

It was not one particular case or a burning platform which gave impetus to the process of launching Grundfos' Code of Conduct in 2011, but rather recognition of the fact that, when a company experiences global growing pains, good old Jutland common sense is no longer enough. It must be supplemented with guidelines, policies and training that make sense in all corners of the multinational company.

Grundfos' Code of Conduct has been continuously developed. The latest revision took place in 2009, when human rights, labour rights and an environmental dimension were fully integrated to cover all ten principles of the UN Global Compact.

Once a year, all company directors at a special signing ceremony sign the Code of Conduct, and it is appended to all director contracts.

In 2006, Grundfos decided that the Group's Code of Conduct should be printed as a poster every year and hung in a visible position everywhere at the Group's subsidiaries. The wording on the poster is legal and formal and does not explain specifically what Grundfos' Code of Conduct means or which business decisions are to be made on that basis. And that is precisely what prompted the growing organisation, with companies in around 50 countries, to initiate the process to discuss and clarify what the Code of Conduct actually means in practice.

At the same time as these internal factors, Grundfos noted that comparable multinational companies had put prevention strategies on the agenda and developed Code of Conduct programs. Legislation in this area has become more complex and the requirements for multinational companies intensified – especially in relation to bribery.

In light of the many incentives, the Group management of Grundfos decided that it was time to further develop the Group's Code of Conduct and compile a handbook to help managers and employees to incorporate the principles of the Code of Conduct principles into business processes and concrete decision making.

Responsible business conduct is central to Grundfos' sustainability strategy

Grundfos is known for its high international CSR standards and is considered one of the forerunners within CSR in Denmark. Since the company was founded in 1945, CSR and sustainability have formed part of the Group's core values, and are fundamental to the way in which Grundfos does business in over 50 countries where the Group has established subsidiaries.

In 2011, Grundfos defined a new common strategy for sustainability and CSR, and 'Responsible business conduct' is one of the six priority focus areas, indicating the direction of the strategy.

Grundfos wants to be a company practicing a high standard of ethical and responsible business conduct, be it in relation to its own employees, management and owners, or externally in relation to business partners such as customers and suppliers. The aim for the

focus area 'Responsible business conduct' is to comply with international laws and to meet Grundfos' voluntary commitment to the UN Global Compact, for example.

Grundfos' work with responsible business conduct is closely linked to the Group's objectives and the six values relaunched in 2011.

Development of a Code of Conduct program

Grundfos' department of sustainability has, in close cooperation with the legal department, among others, facilitated the process of developing a Code of Conduct Handbook. Marie Enemark Olsen was appointed to the newly created post of Business Ethics Consultant because the project required full attention and more time.

The first step in the process was to identify what experiences Grundfos' managers had of ethical dilemmas and grey areas. To illustrate this ethical landscape, Marie Enemark Olsen conducted a round of interviews with a number of directors from different geographical regions, functional areas, and from the sales and production companies.

Those involved showed great openness and interest in the project, although the interviews also created uncertainty in some quarters, because this was the first time this type of question had been asked in the history of Grundfos. For most people, the process was, however, a positive experience – not least because the aim was to develop a handbook that would help address the numerous doubts, clarify roles and responsibilities, and provide practical advice. A handbook that the directors saw a great need for, because for many years they had been formally responsible for ensuring that Grundfos' Code of Conduct was observed, but lacked certain tools and guidelines to communicate what it really meant in practice.

It soon became apparent that the local Grundfos companies had been facing much the same dilemmas for quite some time. The dilemmas often related to how to deal with customers in connection with entertainment and gifts; conflicts of interest, and fair and legal competition.

Once the results had been presented to the Group management, the level of ambition was determined and actual work on the handbook began.

Code of Conduct Handbook

The Code of Conduct Handbook is a guide to Grundfos' Code of Conduct. It sets out guidelines for situations that are not regulated by law. The handbook is relatively open and prepares the ground for the local companies to assume leadership themselves, and to assess the situation at hand from a local perspective.

The handbook is set out according to the ten principles of Grundfos' Code of Conduct with chapters on bribery, entertainment and gifts, fair and legal competition, conflicts of interest and good accounting practice, etc. It is based on a series of ethical dilemmas, which are all closely related to the real-life situations faced by employees and managers at Grundfos. Along with principles, explanations and dilemmas, the book contains a number of questions and answers. Some of the answers may seem vague, but this is deliberate, as the local company is expected to assume leadership and assess each situation locally. If further guidance is required, you can, for example, approach the sustainability department, HR department or the legal department, depending on what the questions concern.

The draft handbook was sent for approval to a large number of key employees in the extensive network, which had gradually been built up around the project. Following the consultation process, the comments were incorporated, the editorial line was finally decided and approved by the Group management and the Handbook was ready to be launched.

Distribution and anchoring – what is the process?

The Code of Conduct Handbook, which is designed as small, pocket-friendly publication, was launched by Carsten Bjerg, CEO and Group President of Grundfos, at the half-yearly directors' meeting in March 2012.

The handbook is published in ten languages: Chinese, Indonesian, Italian, German, Danish, English, Spanish, French, Hungarian and Russian. Some 22,000 copies were printed, and it

was ready in June 2012. All Grundfos employees have received a copy, and some companies have also chosen to distribute the book to their business partners in order to make customers aware of Grundfos' attitudes and values.

At the project stage, it became clear to the working group that the handbook could not stand alone, and that it should be supplemented by implementation tools in order to really get the message across to employees. At the launch, all company directors therefore received a small "Code of Conduct man" with a USB stick, containing a starter pack with a presentation of the handbook's objectives, info mails about roles and responsibilities, a workshop template and a board game based on Grundfos' Code of Conduct decision model. The material is to equip directors to initiate implementation of the Code of Conduct in their local management team – and to discuss the specific local dilemmas and grey areas at depth. The handbook, the starter pack and the poster have been given the same visual identity.

It took 18 months from the start of the project until the handbook was ready. According to Grundfos, it was time well spent, and it was vital to the outcome that so many employees were involved along the way. However, Marie Enemark Olsen believes that an even higher level of involvement would have given the program an extra boost, and wishes that there had been more time to delve deeper into more specific Grundfos dilemmas through interviews or field work.

It doesn't end there – focus on Code of Conduct governance

But the project does not end with the book. Grundfos far from sees itself as a world champion of responsible business conduct and is already working on the next step, i.e. to strengthen the Code of Conduct governance as a whole – that is to say the managerial procedures which are to ensure compliance with Grundfos' Code of Conduct.

Grundfos has just begun to revise its ethics committee. The committee is to consist of four so-called "trusted" and experienced directors within the major fields within Global Compact, such as legal, sales, finance and sustainability. Grundfos' ethics committee is to help ensure the dissemination of and compliance with Grundfos' Code of Conduct throughout the organisation. Grundfos has begun to clarify the exact mandate and responsibilities of the committee, and is considering purchasing an external multilingual hotline. This will send a strong signal to employees that it is safe to approach the company with any doubts or suspicions about specific violations.

Grundfos has also commenced a review of a number of policies to ensure consistency between policies, the six values and the ten principles of the Code of Conduct – both with regard to its concepts and content. It has also proved necessary to develop a policy to prevent the "greasing of palms", i.e. payments made to public officials to get things to run more smoothly. This policy is enhanced prevention of bribery as a consequence of the UK Bribery Act.

In addition, certain points of Grundfos' Supplier Code of Conduct have been revised and are now fully in accordance with Grundfos' internal Code of Conduct. Responsible supplier management is gradually being strengthened, including better auditing processes that match growing international demand.

Grundfos is also in the process of selecting a few and important KPIs to constantly monitor the activities and results.

It works!

It works! So says the feedback from the numerous Grundfos companies. Code of Conduct has become 'top-of-mind' among the organisation's employees, and there is no reluctance to speak about business ethics. The new Code of Conduct Handbook gives us a stronger language and a more legitimate space to talk about difficult business-ethical dilemmas. That is probably the most important result, according to Marie Enemark Olsen.