



**Asia-Pacific
Economic Cooperation**

The Value of Business Ethics for APEC SMEs

**Economic Gains and Ethics Program Maturity in
Health-Related Sectors During the Pandemic**

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TABLE OF CONTENTS

Executive Summary	1
Survey Methodology	2
Analysis of Survey Data	
Trends in Maturity Across Program Components	3
The Relationship Between Maturity and Economic Performance	4
The Relationship Between Maturity and Size	6
Building Blocks of a High Maturity Program	8
Stakeholders Driving Compliance Investment	10
Key Findings from Interviews with SMEs	11
Conclusion & Recommendations	13

EXECUTIVE SUMMARY

In the face of the disruptions to the global supply chain due to the COVID-19 pandemic, companies across the APEC region scrambled to adjust operations while enabling the continued flow of goods and services. The fact that the disruption was in response to an infectious disease only made continued operations, growth, and innovation in health-related sectors all the more important.

Previous research from Ethisphere¹, APEC², and other organizations has demonstrated a link between financial performance and robust ethics and compliance programs for large enterprises around the world. Based on that knowledge, we set out to study whether or not the same would be true for small and medium enterprises (SMEs) in the APEC region's biopharmaceutical, medical technology, and similar health-related sectors. Were health SMEs with more mature compliance and anti-bribery controls more resilient and economically successful in weathering the pandemic?

To find out, we surveyed small and mid-sized companies in the health-related industries throughout APEC economies. These companies completed a self-assessment questionnaire about their own compliance maturity, as well as their economic performance since 1 January 2019. The assessment focused on anti-corruption and conflict of interest within the broader ethics and compliance area.

On a range of economic indicators, our hypothesis is decidedly confirmed: **health-related SMEs with a high or medium ethics program maturity had stronger economic performance during the COVID pandemic.** They were more likely to grow revenues, add employees, increase employee wages, as well as grow revenue from international customers and expand their businesses into new markets. Equally impactful, the analysis also showed that although the average maturity was higher for companies with over 100 employees, even SMEs under that size can develop medium maturity programs and experience similar economic benefits.

We also examined what elements of compliance programs were on average most and least mature among our survey respondents. In general, based on self-assessment results, SMEs are more

advanced in code of conduct and third-party management protocols, and lag in their risk assessment and assigning ethics and compliance responsibility to a dedicated team.

Further demographic analysis shows how larger headcount among SMEs correlates with greater maturity. However, the maturity of the smallest firms varied significantly by sub-sector, and sub-sectors whose smallest firms were more mature performed better on the whole, reducing the entire sub-sector's risk.

Over two-fifths (43%) of companies surveyed reported having increased their investment in ethics and compliance resources during the pandemic, and only 6% reduced their investment. Among those who increased investment, a wide variety of reasons for the change in resourcing were reported. The most common reasons cited were increased focus on compliance from the industry and an increased focus on compliance from society.

We conducted follow-up interviews with select respondents to better understand the motivations for this investment. Respondents discussed the mechanisms connecting ethics program maturity and economic performance. They described how programs have become a competitive advantage as the industry and society have begun to place more emphasis on ethics and compliance.

Conclusions & Recommendations

- Although robust Codes of Conduct and policies are necessary for mature programs, alone they aren't enough. Cross-functional representation is more predictive of at least medium compliance program maturity.
- Industry and societal expectations about the importance of ethics and compliance are driving investment by health-related SMEs
- Convening organizations such as APEC have an opportunity to provide support and resources for health-related SMEs to improve their programs
- Further research is needed to understand how to support programs in reaching medium maturity, and whether these same relationships hold outside of pandemic conditions, in other sectors, or for functions such as ESG maturity

¹ Allen, D. (2021). "The 2021 World's Most Ethical Companies." Ethisphere Magazine (Spring 2021). <https://magazine.ethisphere.com/worlds-most-ethical-companies-insights-s2021/>

² Asia-Pacific Economic Cooperation. (2019). The Benefits of Embracing Ethical Business Conduct: A Literature Review for the Business Ethics for the APEC SMEs Initiative. Asia-Pacific Economic Cooperation, APEC Small and Medium Enterprises Working Group. <http://mcprinciples.apec.org/wp-content/uploads/2020/11/1602188963.pdf>

SURVEY METHODOLOGY

HYPOTHESIS

Health-related SMEs with more mature ethics and compliance programs outperformed on key economic indicators during the pandemic.

The survey was conducted from 18 August to 20 September 2021, and received over 220 responses from companies in 18 different APEC economies. Respondents were small and mid-sized companies in health-related industries with under 1,000 employees. In order to encourage completion, Ethisphere provided responding SMEs with access to free compliance program resources including:

- Compliance Policy Template
- Compliance Program Training Template
- Third-Party Training Guidelines
- Sample Third-Party Communication
- Worksheet for Anti-Corruption Improvement Plan
- Briefing on Change Management

Ethics & Compliance Program Maturity Assessment

The assessment measures the process in place to have a structured and repeatable compliance program, on a 0-5 scale

- 1 = little or no process***
- 2 = starting to develop a process***
- 3 = developed process, inconsistently implemented***
- 4 = developed process with consistent implementation***
- 5 = process of continual improvement***

The survey's questions were designed to deliver a self-assessment of the respondent company along two fronts: the maturity of the company's ethics and compliance program with an emphasis on anti-bribery and conflict of interest controls, and the company's economic performance during the COVID-19 pandemic. The research focus aligns with the Business Ethics for APEC SMEs Initiative's goal to strengthen ethical business practices in the biopharmaceutical sector.

Since the responses were self-assessed and some were anonymous, they could not be independently verified by the research team. Although companies had no incentive to inflate their responses or artificially boost their performance, individuals completing the survey may provide different judgments than an outside observer. When considering these maturity scores, we leave open the possibility of inflation. However, we have no reason to believe that any self-assessment bias would fundamentally alter our conclusions.

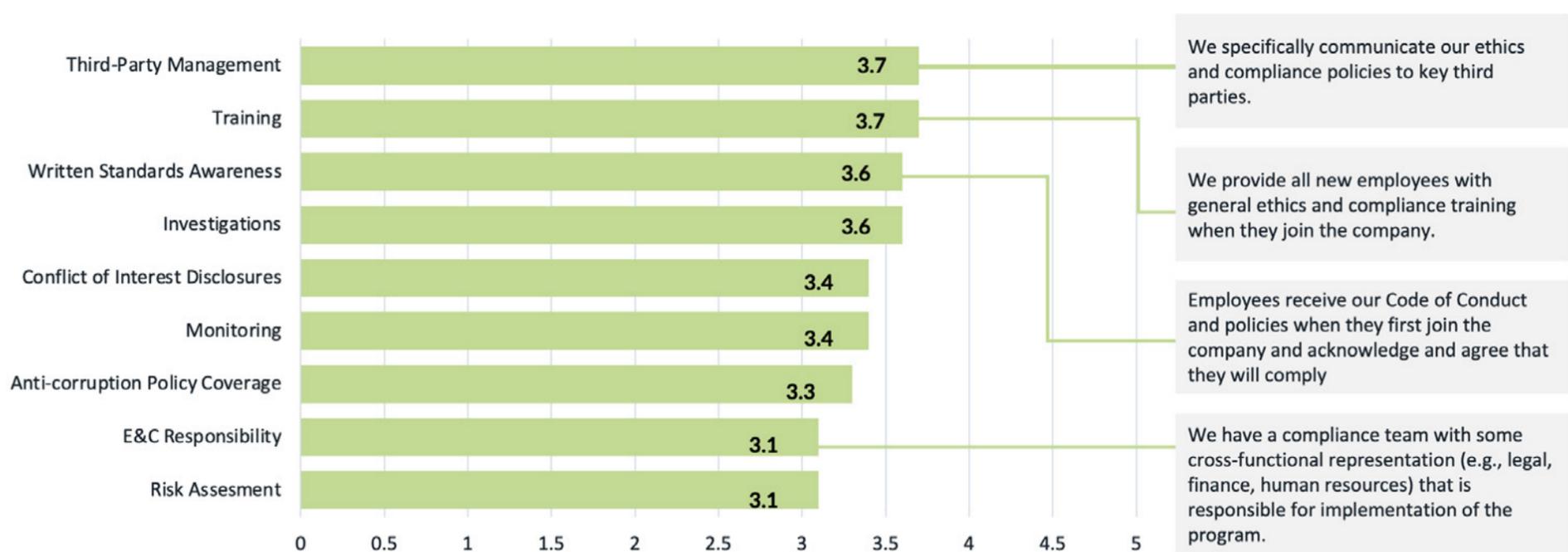
The team also conducted both written and live follow-up interviews with a subset of respondents to gain qualitative insights about the relationship between compliance program maturity and company economic performance.

The survey was distributed by Ethisphere in collaboration with APEC and the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA) and was available in English, Spanish, Chinese, Japanese, and Vietnamese.

ANALYSIS OF THE SURVEY DATA

Trends in Maturity Across Program Components

FIGURE 1:



To gauge ethics and compliance program maturity, we asked questions about nine different program components: third-party risk management; training; written standards awareness; investigations; conflict of interest disclosures; monitoring; anti-corruption policy coverage; ethics and compliance responsibility; and risk assessment.

Each company received a 0-5 maturity score for each component on the basis of their self-assessed responses. The average maturity for every component was between 3 and 4, which in our maturity model is summarized as “developed process, inconsistently implemented.”

For each component, we specifically asked whether companies incorporated controls around either anti-corruption, conflict of interest, or both into that program component. Overall, companies applied their program slightly more to anti-corruption than to conflict of interest. The widest gap was in third party management, with 80% specifically having third party provisions related to anti-corruption but only 68% having conflict of interest provisions.

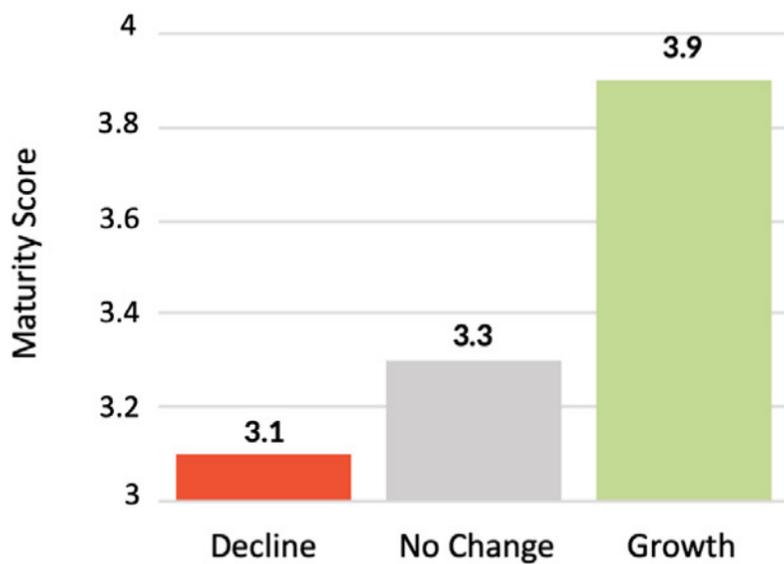
Clear patterns are visible in the average maturity scores. Companies tended to perform best in the maturity of their third-party management programs. Training and written standards maturity also tended to be higher, reflecting that companies are aware of the need to have defined policies and communicate them to employees.

However, other aspects of programs were relatively less mature. Companies frequently scored lower in our assessment of “ethics and compliance responsibility”—essentially, whether or not the company had a clearly-defined group with ultimate responsibility for ensuring that anti-bribery, ethics and compliance protocols were in place and in use. Companies were also less mature in their handling of risk assessments. The lower maturity in risk assessment may indicate that companies are simply responding to compliance requests from industry partners rather than systematically analyzing their own relevant risks. Success in both of these areas requires cross-functional collaboration (see [Building Blocks of a High Maturity Program on page 8](#)).

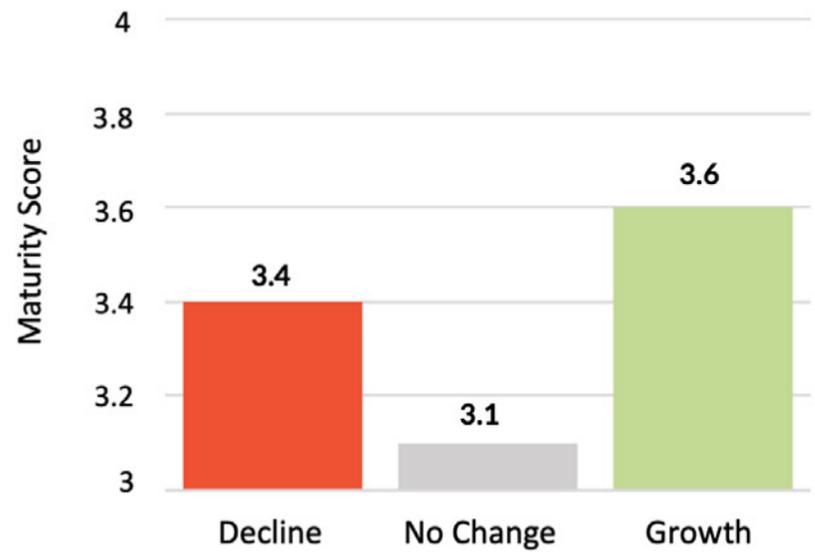
The Relationship Between Maturity and Economic Performance

FIGURE 2:

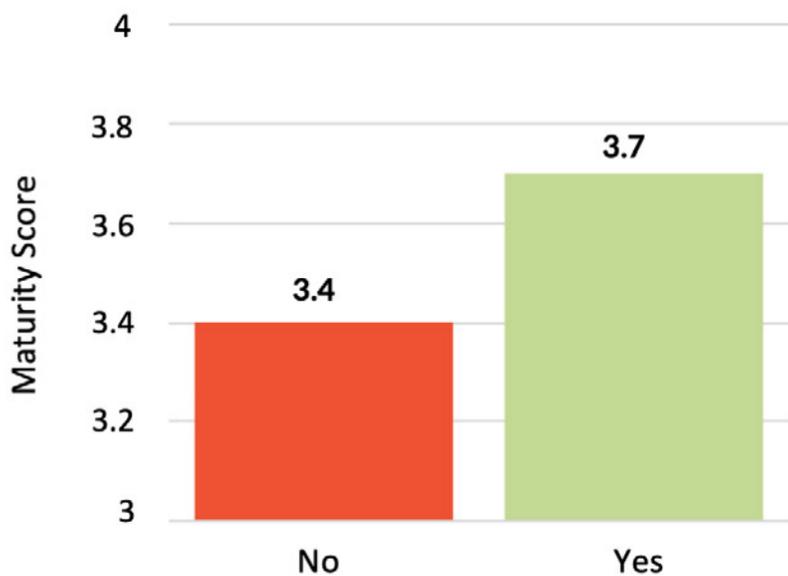
Since January 1, 2019, our revenue from international customers saw:



Since January 1, 2019, our total revenue saw:



Have you expanded your business into at least one new market outside of your home economy since January 1, 2019?



“All behaviors based on good ethics and compliance guaranteed our annual growth and sustainable development over the past few years.”

- Pharmaceutical and Biotechnology Company, 50-99 employees, People’s Republic of China

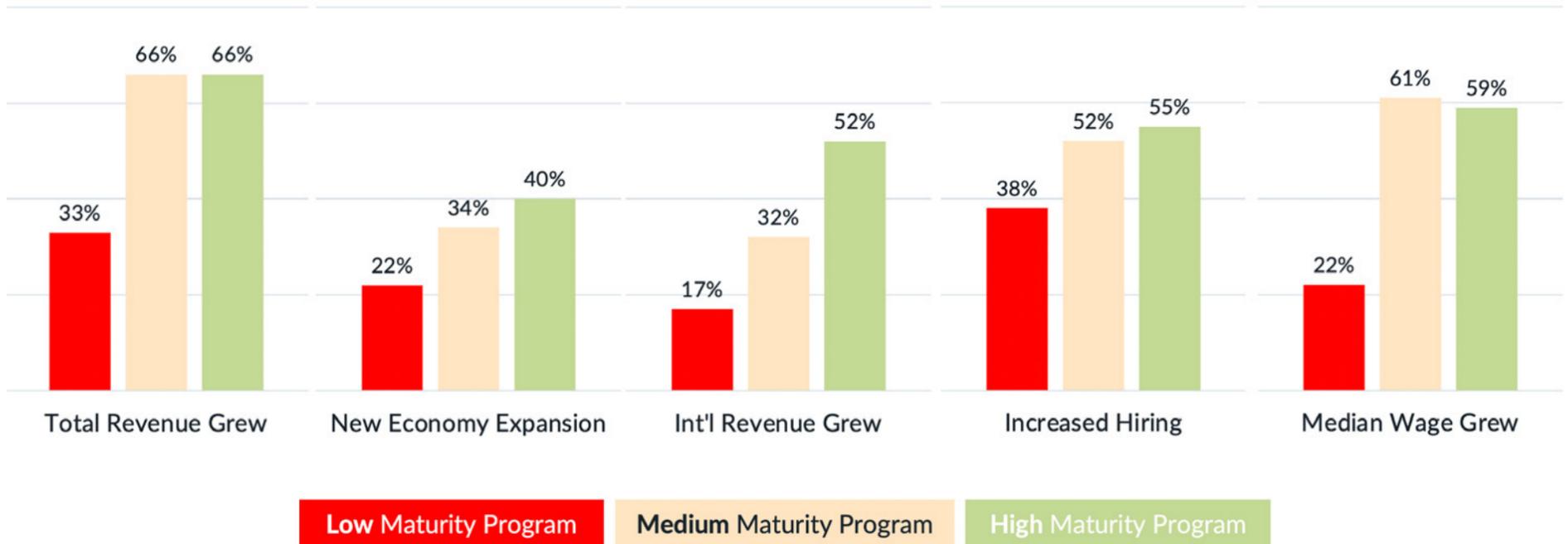
The survey data clearly affirmed the initial hypothesis: there was a positive correlation between SMEs having more mature ethics and compliance programs, and positive firm-level economic outcomes during the pandemic.

The relationship is evident when looking at SMEs total revenue change in the last few years, the change in their revenue from international customers, or companies who reported expanding their business into new markets since 1 January 2019 (**Figure 2**). In each case, companies who either reported revenue declines or that they had not expanded to new markets had, on average, lower maturity scores than companies that reported growth in the economic indicator.

ANALYSIS OF THE SURVEY DATA

FIGURE 3: Program Maturity and SME Economic Performance

Since 1 January 2019, has the following happened at your organization...



The most compelling correlations can be seen when SMEs' performance on economic indicators is broken out into low (0-2.0), medium (2.01-3.7) and high (3.71-5.0) maturity bands (**Figure 3**). The relationship between higher maturity and stronger economic performance becomes clear across indicators such as total revenue, international revenue, entering new economies, increasing hiring, and growing wages.

Importantly, **positive economic outcomes are not limited to only the highest-maturity SMEs**. Even SMEs with medium program maturity were markedly more likely to report positive economic outcomes over the course of the pandemic, implying benefits from simply bringing the least-mature SMEs, economies, and sectors of the industry up to modest standards.

The Relationship Between Maturity and Size

When respondents were broken out by both maturity and their headcount, another thread emerges. Importantly, high maturity SMEs of all sizes were more likely to report positive economic outcomes since 1 January 2019 (**Figure 4**). In general, larger SMEs have more mature programs. However, there was a high degree of variability, and some of the smallest firms still scored highly on maturity. The fact that even mature companies with under 100 employees experienced better economic performance should help convince health-related SMEs of the possible return on investment in compliance.

FIGURE 4: High Maturity Programs Outperform at All SME Sizes

Since 1 January 2019, has the following happened at your organization?



Analyzing sub-sectors of health-related SMEs underscores the fact that although maturity is generally correlated with size, maturity of the smallest firms is a key factor in the overall maturity of a given sub-sector. In the sub-sectors with the highest overall maturity such as pharmaceuticals and biotechnology, even the smallest firms had above-average maturity. Other sub-sectors, such as distributors, showed lower average maturity held down in part by small, low maturity firms (**Figure 5**).

FIGURE 5: Average Maturity Across Sub-Sectors by Firm Size

Sector	Firm size by number of employees					Sector average
	1 to 49	50 to 99	100 to 499	500 to 999	1,000 or more	
Pharmaceuticals and Biotechnology	3.5	3.5	3.7	3.3	4.2	3.9
Logistics and other service providers to healthcare industry	3.3	4.8	2.9	3.6	3.4	3.3
Distributor, Sales and Marketing Intermediary	2.5	2.1	3.7	4.1	4.3	3.1

ANALYSIS OF THE SURVEY DATA

The potential for even smaller firms to elevate their programs is important because compliance issues, particularly those involving bribery or corruption, frequently impact more than one company. SMEs in the same sub-sector often have relationships, and so having less mature SMEs in the value chain can raise risks for that entire sector. For a value chain to have strong compliance overall, it's critical for even the smallest firms in that chain to develop programs of at least medium maturity. Less mature SMEs could benefit from more investment towards ethics and compliance program maturity, to reap greater economic benefits for themselves while mitigating risk across a sub-sector and the value chain.

One important caveat to this finding is that compliance programs, by their nature, should be resourced appropriately to the relative risks and exposure faced by a business. In line with previous research³, the relative cost for smaller firms of investing in the implementation of ethics and compliance programs can be a disproportionate barrier. It is up to an SME to assess its own risks and determine appropriate steps and effective use of resources given their size and type of business.

³ Wickert, C., Scherer, A. and Spence, L.J., (2016) 'Walking and Talking Corporate Social Responsibility: Implications of Firm Size and Organizational Costs'. *Journal of Management Studies*, 53(7), 1169–1196. <https://onlinelibrary.wiley.com/doi/10.1111/joms.12209>

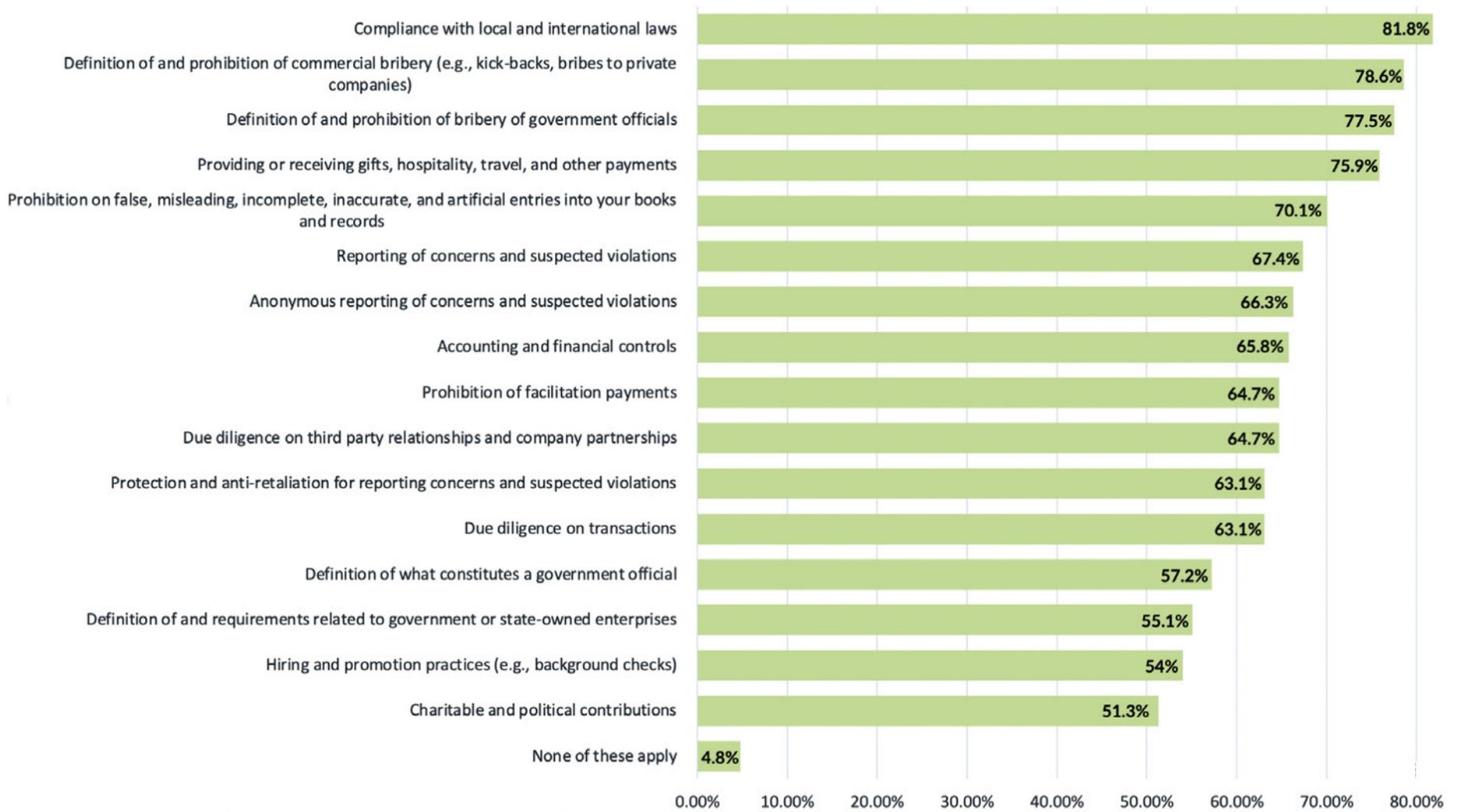
Building Blocks of a High Maturity Program

Even smaller firms are capable of building and benefiting from high maturity ethics and compliance programs. However, the data is clear that having a written Code of Conduct or policies on their own is not sufficient to enable a mature program overall.

The survey also asked SMEs which topics they explicitly covered in their policies around anti-bribery and corruption (**Figure 6**). We found that many companies who had written policies still lacked basic components of an anti-corruption policy. For example, nearly all have language covering “compliance with local and international laws,” but employees need more specific information to ensure they understand and obey those laws.

FIGURE 6:

How many of the following are explicitly covered in your policies specifically related to anti-corruption and anti-bribery?



This chart lists specific elements of anti-corruption policies that are often missing. Although having a policy is only part of having a mature compliance program, the policy does provide a foundation for shaping the expectations for employee and third-party behavior. Codes or policies that are not specific can make it challenging for the SME to develop a culture of compliance where employees have similar behavior in response to specific situations.

Policies that lack specificity can leave room for employees to claim ignorance that an action was not allowed. However, for policies to be effectively implemented they need to be practical, which is one area where cross-functional representation becomes very important, as we see below.

ANALYSIS OF THE SURVEY DATA

As the maturity comparisons in **Figure 7** demonstrate, while providing a Code of Conduct or policy is a necessary baseline for a program, a Code alone cannot create robust compliance. The existence of a Code in isolation correlates with relatively immature programs, no matter the company size, if that code was not accompanied by other training, engagement, and cross-functional representation.

FIGURE 7: Codes Alone Insufficient, Cross-Functional Support Boosts Maturity

Average Maturity Scores by Response	Number of employees					
	1 to 49	50 to 99	100 to 499	500 to 999	1,000 or more	Average
Employees are provided our general Code of Conduct or policies when they first join the company.	1.9	1.7	2.4	1.3	3.1	2.2
We have a compliance team with some cross-functional representation (e.g. legal, finance, human resources) that is responsible for implementation of the program.	3.8	3.2	3.1	3.3	3.8	3.5

An ethics and compliance program cannot fully influence a business until it receives input and involvement from across the organization. For that reason, organizations of all size who responded that their compliance team responsible for implementing the program contained “some cross-functional representation” tended to have programs of moderate maturity overall. Companies seeking to elevate their program maturity would be well-served by building a more cross-functional team, who could inform the work of ethics and compliance and share in responsibility for implementing the program.

Stakeholders Driving Compliance Investment

Despite the challenges of continuing to operate during the pandemic and resulting economic volatility, many respondent SMEs thrived, which included increasing their investment in ethics. Overall, 42.9% of SMEs surveyed increased ethics and compliance resourcing during the pandemic, and slightly over half (51.1%) kept resource levels roughly the same. In a period of economic slowdown that prompted many SMEs to cut costs, most respondents decided that ethics and compliance should not lose resources, and almost as many decided to invest even more in the function.

Companies provided numerous reasons for the change in resources. The top five were:

- 1. Increased focus on compliance from the industry (52.8%)***
- 2. Increased focus on compliance from society (39.9%)***
- 3. Government regulations (36.5%)***
- 4. Specific requests from domestic customers/partners (33.7%)***
- 5. Specific requests from international customers/partners (33.7%)***



“A good ethics and compliance program is important in pharma and healthcare. We need to make ours better through more cross-functional collaboration.”

***- Healthcare Logistics Company,
25-49 employees, Mexico***

In general, health-related sectors have begun to pay more attention to compliance concerns. Beyond the impact of customer expectations, our sample highlighted the focus on compliance by their industry and society as driving reasons. This is in line with previous research on SMEs, which notes that smaller firms are more likely to be embedded in the culture of their industry and influenced by local norms and values in their practices⁴. It is important to note that SMEs do not operate in isolation of their social and industry settings, and rising expectations in these respects may have more influence even than government and customer requirements. We also note that SMEs typically have many customers/partners, and that receiving a consistent message about compliance expectations from multiple customers/partners does spur action.

Respondents also discussed the fact that employees—a key stakeholder for all SMEs—take pride in working for a company with a demonstrated track record of ethics and anti-corruption.

⁴Morsing, M. and Spence, L.J. (2019) 'Corporate social responsibility (CSR) communication and small and medium sized enterprises: The governmentality dilemma of explicit and implicit CSR communication, Human Relations, 72(12), 1920-1947. <https://doi.org/10.1177/0018726718804306>

KEY FINDINGS FROM INTERVIEWS WITH SMES

In addition to the survey's results, we also reached out to several SMEs for in-depth, qualitative interviews to gather their views on the relationship between their ethics program and their economic resilience during the pandemic. We have provided quotes from the interviews here and elsewhere throughout this report.



In recent years, many of the leading pharmaceutical companies have put forward transparent compliance programs with the aim of protecting stakeholder interests and winning their trust. We pay particular attention to the formulation of these codes.

- Healthcare Logistics Company, 100-499 employees, People's Republic of China



SMEs repeatedly explained that their investments in ethics programs were born both out of a company's intrinsic values, and also from the needs of their business partners. Health-related sectors generally have high ethics and compliance burdens for SMEs compared to other sectors, and expectations are rising. It is no surprise that SMEs who increased ethics and compliance investment during the pandemic were most likely to attribute that choice to "Increased focus on compliance from industry" (52.8% of respondents). SMEs are learning from each other and their industry partners.



Our ethics and compliance program has been strengthened in the last year, as more partners and clients are adopting ethical and compliance measures, which has prompted us to continue to improve our program and stay in line with our partners and clients.

- Distributor and Sales Intermediary, 100-499 employees, Mexico



SMEs also stressed the degree to which they considered compliance to be a business differentiator and advantage when communicating with prospective partners and trying to win new business. Being able to describe mature anti-bribery, ethics, and compliance controls is a benefit to SMEs' sales efforts, especially when trying to create partnerships in other APEC economies or with large corporations.



Having "our ducks in a row" with compliance is a competitive advantage. It is important. We include it in all customer presentations.

- Pharmaceuticals and Biotechnology Company, 50-99 employees, New Zealand



KEY FINDINGS FROM INTERVIEWS WITH SMES

In fact, one interview subject from a small healthcare logistics SME in Viet Nam went so far as to say that having and maintaining a mature ethics and compliance program was “the most important factor” in maintaining their current customer relationships.



Yes, this is certainly our competitive advantage in such difficult time...the need to strictly follow up the ethics and compliance program all the time is the most important factor to maintain the business of all companies.

- Healthcare Logistics Company, 25-49 employees, Viet Nam



CONCLUSION & RECOMMENDATIONS

The most important takeaway from the survey results is the confirmation of our initial hypothesis: ethics and compliance program maturity correlates with better economic outcomes for SMEs in health-related sectors during the pandemic.

We note that the largest increases in economic performance seem associated with the difference between low and medium program maturity. The economic performance gap between medium and high maturity organizations was much smaller. This trend indicates that one priority for the APEC region should be to provide assistance to low maturity SMEs in health-related sectors that will move them up to medium maturity.

Equally important, high maturity SMEs performed better economically on average than less mature SMEs. This relationship holds true for SMEs across all sizes, even those with under 100 employees, and it strongly implies that the smallest SMEs can still benefit from compliance program investments that are appropriate to their size and scope. The importance of helping the smallest firms achieve at least medium maturity is reinforced by the finding that sub-sectors with higher maturity among the smallest firms had the highest overall maturity. In other words, maturity in small firms may help to elevate an entire sector.

High maturity programs do include good written standards, policies, and codes of conduct that are communicated to employees. However, the additional presence of some cross-functional representation in compliance program implementation is a key differentiator in the overall maturity. At SMEs with less maturity, there is a need to raise shared understanding and responsibility around ethics. Prompting and facilitating cross-functional engagement on ethics should be a key goal for assistance programs aimed at SMEs. For example, organizations could be guided through company risk assessments requiring cross-functional input.

The responsibility to elevate ethics, compliance, anti-bribery, and anti-corruption across health-related sectors should not just fall to individual SMEs, which have limited resources and may initially have no in-house expertise, especially in economies where the regulatory environment is evolving.

SMEs are receiving strong signals from customers, partners, and governments about the compliance and anti-bribery controls they expect through compliance questionnaires, due diligence, and other mechanisms.

Our survey found that “increased focus on compliance from the industry” was the number one driver for SMEs to maintain or increase the resources dedicated to their compliance program during the pandemic. This finding highlights the importance of collective industry action in communicating ethics and compliance expectations. If the expectations from an entire industry are consistent from customer to customer, it makes it easier for SMEs to develop an ethics and compliance program to meet these expectations. Governments, industry trade associations, and large corporations can play a valuable role by providing basic assistance, mentorship, and other capacity-building resources for SMEs to develop and implement an ethics and compliance program that achieves at least a medium level of maturity.

International organizations such as APEC also continue to play an essential role, bringing together entire sub-sectors in working groups, roundtables, workshops, and other programs to identify and promote high standards. They can also develop or solicit templates for policies, codes, and forms which are designed to be of practical use to SMEs.



“Partners are more concerned about ethics than they used to be. When I present to new companies, one of the things we talk about is who we are, the strength of the base we come from, and how that’s related to our integrity and values.”

**- Distributor and Sales Intermediary,
100-499 employees, New Zealand**

CONCLUSION & RECOMMENDATIONS

This study is the first of its kind on ethics and health-related SMEs in the APEC region. The correlation our research establishes between compliance program maturity and economic performance during the pandemic is an important step in building a broader business case for compliance maturity investments by SMEs in the APEC region. We recommend additional research into the following questions:

- As a direct follow-up to this work, how can health-related SMEs most efficiently achieve at least a medium level of compliance program maturity? Relatedly, how do their approaches to program maturity change as they grow, and are different tools needed to measure approaches at the smallest firms? What drivers and barriers exist for ethical practices across APEC, and how do they differ between economies?
- What kinds of interventions and initiatives can best support capacity-building within health-related SME ethics and compliance programs? What supports do SMEs and larger corporations need to work together to improve ethical standards across the sector?
- What drives the sub-sector differences in average compliance program maturity at health-related SMEs across APEC economies? What targeted aid or interventions might close gaps between the most and least-mature sub-sectors?
- How do other ethics-related metrics such as Environmental, Social, and Governance (ESG) program maturity relate to economic performance in SMEs? A similar maturity scale-based methodology could be devised.

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