Developing a CSR Framework
to integrate Q-RES and other social
and ethical standards

Final Report

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Executive Summary

Many CSR standards and management systems are currently being developed in Europe and internationally, with a substantial lack of coordination and collaboration. Standards may have different levels of application, content, scope and sources:

- *Normative* - standards based on 'universal values' such as the UN Global Compact's Nine Principles, and the OECD Guidelines for Multinationals;

- *Generally Accepted Accounting Principles* (GAAP) – CSR Standards dealing with the process of accounting, auditing and reporting at its most general level, such as the GRI Sustainability Reporting Guidelines, and the AA1000 Series;

- *Generalised Management Systems* – Standard providing an overall management system to embed CSR and sustainability principles within organisations. These include Q-RES, VMS, SIGMA and AA1000;

- *Specialised Systems* - literally hundreds of specialised standards covering everything from labour standards to carbon emissions to animal rights to organic certification;

- *Regulation* – Standards deriving directly or indirectly from legislation, for example in areas such as the management of risk and avoidance of litigation.

The proliferation of standards has resulted in a variety of approaches, on the one hand, but also in terminological confusion and conceptual complexity, on the other hand. As a result, corporations willing to adopt a CSR approach find it very difficult to choose the most appropriate standard to suit their business objectives, organisational values and management culture.

By acknowledging these issues, the purpose of this project has been twofold:

a) **Developing the Q-RES framework** - in particular defining a Q-RES management system standard, externally certifiable (the Q-RES Standard), and addressing the issues of the verification process by establishing a multi-stakeholder, independent body;

b) **Identifying and making explicit the** *common elements* **and areas of complementarity **among four leading initiatives** in the field of CSR development in Europe: **Q-RES** (Italy), **ValuesManagementSystem** (Germany), the **SIGMA** Project and **AA1000** Series (UK), by defining the key elements of a common framework for CSR management standards.

Our research is based on the assumption that an initiative in the direction of facilitating the convergence among existing CSR standards would be very helpful for the business community, contributing to achieve the purposes of the EU Green Paper on CSR.

Part A of this report presents the rationale and Mission of the Q-RES Project and discusses a theoretical founding of CSR Management Standards, by suggesting a definition of CSR as 'extended' corporate governance, which is suggested as unifying perspective to look at CSR management standards. Chapter 2 presents the Q-RES

Standard, that integrates the Q-RES Guidelines in a CSR management system standard, based on ISO structure and language, which is available for external assurance. It points out the development of the Q-RES framework, after the publication of Q-RES Guidelines in 1999 (English translation 2001), identifying six management tools for improving the social and ethical responsibility of corporations:

1. *Corporate ethical vision*: a *vision* of the social contract that the firm offers to its stakeholders;

2. *Code of ethics*: ethical principles defining the firm's rights and duties *vis-à-vis* each category of stakeholder;

3. *Ethical Training and Communication*: enabling organisational members to identify and manage CRS issues in the light of the ethical principles;

4. *Organizational systems of implementation and control*: the '*Ethics infrastructure*' supporting implementation and internal monitoring;

5. *Social and ethical accountability*: making the organisation accountable for the relation between performance and commitments;

6. *External verification and certification* by independent third party to ensure credibility.

The Q-RES Guidelines describe the "quality requisites" for the Q-RES management tools, by defining for each element its content, methodology of development, evidence for the verification process and criteria for excellence.

Working through a partnership approach among academic researchers and representatives of business organisations, professional and industry associations and non profit associations the Q-RES Project has further developed the Q-RES Guidelines by defining a Q-RES standard, externally certifiable.

The "**Q-RES Standard: Norm and Guidelines for the improvement of ethical and social performances of the organisation"**, has been developed as a standard consisting of two parts:

a) *The Q-RES model and tools for the management of ethical and social responsibility of organizations*

b) *The management system for ethical and social responsibility*.
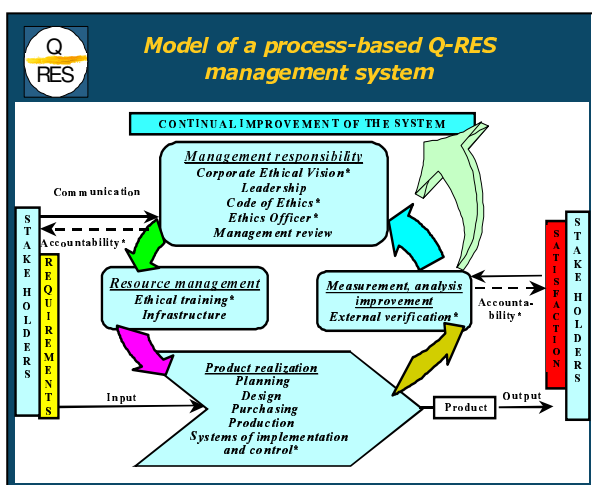
Based on most recent body of standards on management systems (ISO 9000, 2000 ed.), the Q-RES Standard describes the management system to be adopted by an organisation willing to improve its own social and ethical responsibility, in which all the Q-RES tools can be integrated. The Standard also makes clear reference to the principles and processes that have already been identified by the ISO 9000 standard, and shows the relationship existing between these and the six management tools of the Q-RES model.

Part B of the report is devoted to the benchmarking exercise among Q-RES, VMS, SIGMA and AA1000 on the basis of four aspects that we have identified as key elements of any CSR management system:

- *Values and Principles for CSR* - the guiding principles shaping an organisation's overall approach to CSR and orientating its decision-making processes;

- *CSR Management Process* – an overall organisation process linking together values and principles for CSR, CSR Management Tools and the organisation's core strategy, policies and procedures;

- *CSR Management Tools* – a number of management tools helping the organisation to address specific issues and 'themes' linked with CSR performance, e.g. stakeholder engagement, reporting etc.; and

- *Assurance* – procedures of internal audit (self-governed by the organisation) and external verification (provided by independent third parties) aimed to raise the credibility of the system.

In Chapter 4 we discuss each of the above elements in general terms, presenting a definition for the element, its aim within a CSR Management System and its typical content. Finally, we present a number of examples drawn from company adoption of the element or practice learned by one of our initiative.

In the following four chapters we present and discuss respectively the specific contributions – and position – of Q-RES, VMS, SIGMA and AA1000 with reference to Values and Principles for CSR (Chapter 5), CSR Management Process (Ch. 6), CSR Management Tools (Ch. 7) and Assurance (Ch. 8).

The final section of each of these chapters presents the results of our benchmarking analysis, pointing out the key 'common elements' that we have identified among the four initiatives.

Our key findings, summarised in the following four tables, demonstrate that despite some obvious diversity in terminology and approach, it is possible to identify a number of areas of commonality amongst the Q-RES, VMS, SIGMA and AA1000 frameworks.

These findings encourage the perspective, supported by the European Commission, of convergence amongst different CSR management standards. We believe that this route is worth to be further explored and are committed to further work in this direction.

Common Elements: Values and Principles for CSR

- **Corporate Values:** *The organisation should define and develop its own values guiding its overall business (and CSR) strategy.* In particular, the following core values are shared by our initiatives: *Sustainability, Mutual advantage, Fairness.*

- **Multi-stakeholder approach:** *The organisation should take in due consideration the interests and needs of all its stakeholders*

- **Governance:** *The values and principles for CSR should be understood as the main governance system of the relations between the organisation and all its stakeholders (including owners/shareholders)*

- **Management Integration**: *The organisation should develop its CSR Management System in an integrated way with respect to its core business management systems and decision-making processes.*

- **Accountability**: *The organisation should be accountable towards its stakeholders and respond – whether positively or negatively - to their legitimate claims.*

- **Performance Improvement**: *The ultimate aim of the CSR Management System is to help the organisation improve its social, ethical, economic and environmental performance.*

Common Elements: CSR Management Process	
PHASE	**KEY ACTIVITIES**
Plan	• Define the organisation's Mission, Values and Principles • Develop code of ethics, policies, procedures • Identify stakeholders and prioritise CSR issues
Do	• Communicate Values, Strategies and Policies internally • Train employees • Monitor compliance
Check	• Measure performance • Reporting • Assurance
Act	• Respond to stakeholders • Review the process • Learning & innovation

Common Elements: CSR Management Tools	
PHASE	**CSR MANAGEMENT TOOLS**
Plan	• Q-RES Code Of Ethics Development Methodology • SIGMA Business Case Tool • SIGMA Stakeholder Engagement Tool
Do	• Q-RES Ethics Training Methodology • VMS Procurement Methodology
Check	• AA1000 Framework • SIGMA Environmental Accounting Tool • SIGMA Sustainability Accounting Guide • SIGMA Sustainability scorecard
Act	• AA1000 Assurance Standard

Common Elements: Assurance
There is a core commonality in all of the frameworks in that they advocate assurance in the particular sense that management of the company needs to ensure that what it is doing is what it thinks it is doing, and in addition may wish to communicate this in a credible way to others, inside or outside of the company. Then come some aspects of assurance that only overlap or are distinct between frameworks, as set out below. • The **AA1000 Series** includes a specialised "assurance standard" (AA1000 Assurance Standard) that in many ways goes to the heart of its values and orientation; • **SIGMA's** approach to assurance is in many ways similar to the AA1000 approach for the simple reason that it has formerly adopted the AA1000 Assurance Standard as the 'Intel inside' approach to assurance it advocates; • **ValuesManagementSystem**'s approach to assurance is based on what the framework calls *self-governance approach*, which emphasises the key plaid by the organisations who voluntary adopt a self-binding CSR management standard like VMS. Nevertheless, the existence and effectiveness of VMS within an organisation can be verified by an external auditor on a voluntary basis; • The **Q-RES** approach to assurance is twofold: in the Q-RES Guidelines the framework defines '*excellence criteria*' and '*auditing evidence*' for the external verification concerning the adoption of Q-RES management tools by the organisation; in the Q-RES Standard it defines a CSR management system based on a ISO-like model that can be certified by independent third party.

List of Figures and Tables

1. Introduction

1.1 CSR standards: The context

The purpose of the Q-RES Project is fundamentally about deepening our understanding of how to manage an organisation to improve its Corporate Social and Ethical Responsibility. Specifically, it explores the role of effective management systems, and how convergence of emerging systems can enhance effectiveness for both individual companies and the overall field.

Of course Q-RES does not exist in a vacuum, and neither do management systems. It is useful to paint a picture of the broader architecture of standards within which Q-RES not only exists but to which it is contributing.

Below is set out in graphical terms a way of looking at what we have called here the evolving 'global standards architecture'. Crucially, is that we have distinguished several levels:

Figure 1.   The evolving global standards architecture
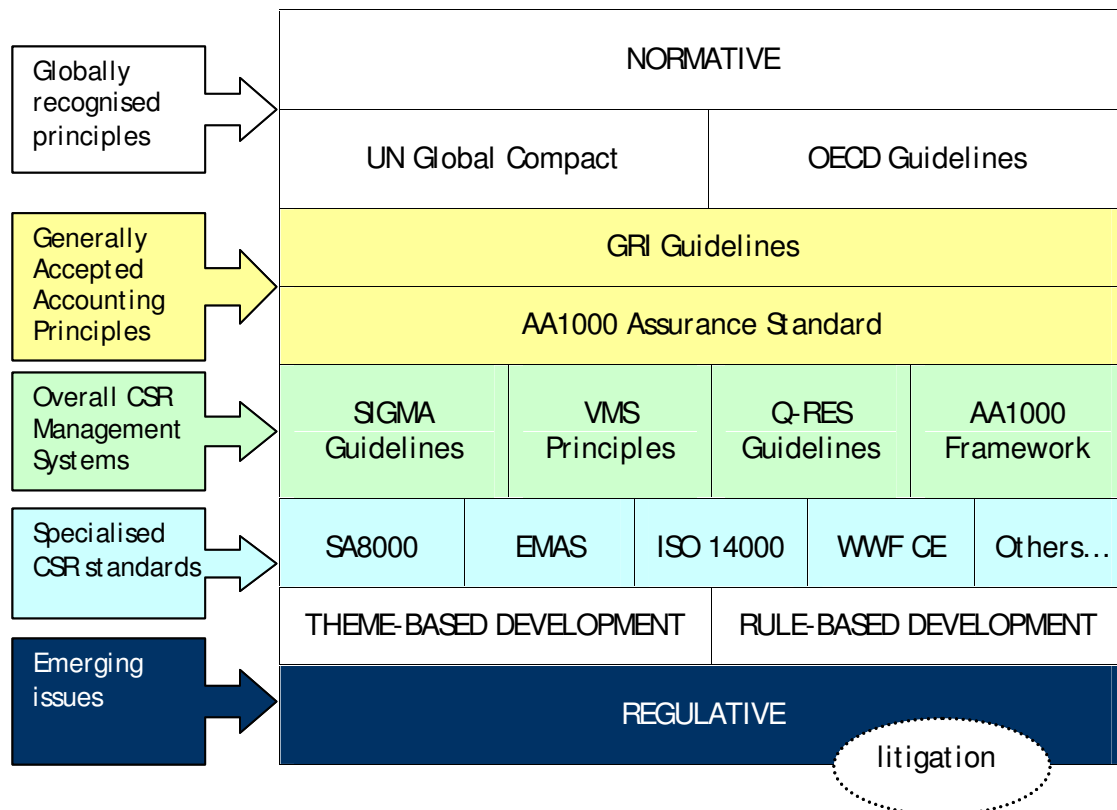
(a) Normative. Our starting point here is the 'universal values' best expressed in various UN conventions and agreements. These are in many ways best summarised by two normative statements, the UN Global Compact's Nine Principles, and the OECD Guidelines for Multinationals.

(b) Generally Accepted Accounting Principles (GAAP). The underlying process of accounting, auditing and reporting at its most general level concerns the replacement, or the upgrading of GAAP. Avoiding the specialised standards (see below), this is today best expressed in two related standards, the Global Reporting Initiative Sustainability Reporting Guidelines, and the AA1000 Series, including both the AA1000 Framework that embeds stakeholder engagement in the process of accounting itself, and the AA1000 Assurance Standard.

(c) Generalised Management Systems. There are several emerging generalised management systems, again avoiding at this level the specialised ones, including Q-RES, VMS, SIGMA and AA1000. Most developed is SIGMA, which is soon to transit to a British Standards Institute CSR and Sustainable Development Standard with the intention to discuss incorporating both the GRI and the AA1000 Series, the VMS and Q-RES frameworks, and the AA1000 Management Framework, part of the AA1000 Series. Also emerging is the ISO CSR Standard, and arguably the EFQM framework is increasingly suited to inclusion in this class of standards.

(d) Specialised Systems. There are literally hundreds of specialised standards covering everything from labour standards to carbon emissions to animal rights to organic certification. Some of these are pure process standards, and some incorporate normative standards, such as SA8000. This combination is not a problem as long as they are consistent with the overarching architecture.

(e) Regulation. The law is both part of many of the above, and adds additional aspects to the overarching architecture. For example, the management of risk, and avoidance of litigation results in a range of standards that are certainly linked to the above, but have distinct orientations.

The preceding remarks provide a general framework for a 'global standards architecture', and also illustrates its 'population' based on current trends, i.e. those groups who have relevant stakes in CSR management standard development. What is useful in addition to take into account are further underlying trends that will impact on the 'populating' of the framework. Most important, perhaps, is the shift from an almost exclusive focus on the 'front door' stakeholders to a greater focus on 'in-door' and 'back-door' stakeholders, where:

❑ *Front door*: include the media, and civil society organisations – essentially the forum of public opinion.

❑ *In door*: include in particular the management of the organisation, and also other staff.

❑ *Back door*: include in particular the investment community and regulators.

These shifting patterns may not change the topics being covered (although it may, also), but will almost certainly change how these issues are managed and accounted for, a factor that in turn drives changes in how management systems can be most effective.

1.2   Project objectives

Many CSR standards and management systems are currently being developed in Europe and internationally. Despite the similarities and clear overlaps among the different initiatives, there is a substantial lack of coordination and collaboration. This has resulted in a variety of approaches, on the one hand, but also of terminological and conceptual complexity, on the other hand. As a result, corporations willing to adopt a CSR approach find it very difficult to choose the most appropriate standard to suit their business objectives, organisational values and management culture.

This project represents a natural development of the Q-RES Project in particular looking at 'standardisation' and external verification issues of the **Q-RES Guidelines**[1] (2001), and exploring the possible benefits of future convergence among Q-RES and three other key CSR standards:

1. **AA1000 Series** (thereafter AA1000) including AA1000 Framework (1999) and AA1000 Assurance Standard (2003) developed by AccountAbility, London[2];

2. **The SIGMA Guidelines** (thereafter SIGMA) developed by the SIGMA Project, London[3], and

3. **ValuesManagementSystem**[4] Principles and Constituents for Sustainable Development (thereafter VMS), developed by the Centre for Business Ethics (ZfW), the scientific institute of the German Business Ethics Network based in Constance, in cooperation with a number of German companies.

This research is based on the assumption that an initiative in the direction of integrating - or at least putting in a common, meaningful framework - the different CSR standards would be very helpful for the business community, contributing to achieve the purposes of the EU Green Paper on CSR.

We carried out the research focussing on two key objectives:

c) **Developing the Q-RES framework** - in particular defining an internationally applicable verification process by establishing a multi-stakeholder, independent body, and expanding the piloting projects within participating organisations;

d) **Identifying and making explicit the *common elements*** and areas of complementarity among Q-RES and AA1000, SIGMA and VMS, by defining the key elements of a common framework for CSR management standards.

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[1] The English translation of the Q-RES Guidelines (2002) is available for free download at: http://www.qres.it/Q-RES%20Guidelines%20January%202002.pdf

[2] Document available for free download at http://www.accountability.org.uk/aa1000/default.asp

[3] Document available for free download at http://www.projectsigma.com/Guidelines/default.asp

[4] Document available for free download at http://www.dnwe.de/dnwe/redax/files/1006502972557-1/Final%20Version%20WMS%20English%20.pdf

Part A of this report addresses the first objective, presenting the rationale and theoretical background of the Q-RES Project, illustrating the content of the Q-RES Guidelines, discussing the main issues concerning CSR as a new corporate governance model and presenting a study on developing the Q-RES Guidelines in a CSR standard, based on ISO structure and language, which is available for external assurance.

Part B of the report is devoted to the benchmarking exercise among Q-RES, VMS, SIGMA and AA1000 on the basis of four aspects that we have identified as key elements of a common framework for CSR management systems:

- Values and Principles

- CSR Management Process

- CSR Management Tools

- Assurance.

1.3   Scope of the benchmarking

The primary focus of our benchmarking study are the four CSR management standards developed by the research partners: Q-RES, AA1000, SIGMA and VMS. In addition, where relevant we have made reference to the following standards:

- o   SA8000 – in relation to external verification

- o   EMAS – in relation to management process

- o   GRI Guidelines – in relation to reporting

- o   UN Global Compact – in relation to CSR values and principles

- o   ISO 9000 and 14000 series - in relation to management process

1.4   Partners involved

This research is the result of a collaboration of four partners:

- **CELE** – The *Centre for Ethics, Law & Economics* of LIUC University of Castellanza, Italy[5];

- **The Institute of Social and Ethical AccountAbility**, London[6];

- **The SIGMA Project**, London[7];

- **Centre for Business Ethics (ZfW),** Constance[8] (Germany).

The final report is the result of such an international collaboration and should therefore be seen as a joint product.

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[5] http://www.liuc.it/ricerca/default.htm
[6] http://www.accountability.org.uk/
[7] http://www.projectsigma.com/
[8] http://www.dnwe.de/2/en/ba_01_en.htm

However, it can be noted that Part A of the report is focussing on the Q-RES Project, and therefore contributions to this parts have been written by CELE members, namely Simone de Colle (paragraphs 1.2, 1.3 and 1.4 of Chapter 1 and 2.1, 2.2 and 2.3 of Chapter 2 – the latter with L. Sacconi), Emma Baldin (paragraph 2.4) and Lorenzo Sacconi (the whole of Chapter 3 and paragraph 2.3 with S. de Colle).

Part B of the report, focussed on the benchmarking analysis of Q-RES, VMS, SIGMA and AA1000 standards, includes two types of contributions:

- 'specific' paragraphs, which illustrate the specific elements of the standards and have been therefore written by the representative of that initiative (paragraphs 5.1 to 5.4, 6.1 to 6.4, 7.1 to 7.4 and 8.1 to 8.4);

- 'common parts', which analyse the general framework of a common CSR Management System (Chapter 4) and discuss the common elements among the different standards (paragraphs 5.5, 6.5, 7.5 and 8.5).

The contributions to Part B by the various authors can be summarised as follows:

- Josef Wieland wrote paragraphs 5.2, 6.2, 7.2 and 8.2 and contributed to Chapter 4 on the Key Elements of a CSR Management System and to the paragraphs on Common Elements 5.5, 6.5, 7.5 and 8.5. Moreover, Josef provided a major contribution to paragraph 4.1 on Values and Principles for CSR;

- Rosalind Oakley wrote paragraphs 5.3, 6.3, 7.3 and 8.3 and contributed to Chapter 4 on the Key Elements of a CSR Management System and to the paragraphs on Common Elements 5.5, 6.5, 7.5 and 8.5. Moreover, Rosalind wrote the first draft of paragraph 4.3 on CSR Management Tools;

- Simon Zadek and Jonathan Cohen wrote paragraphs 5.4, 6.4, 7.4 ad 8.4. and contributed to Chapter 4 on the Key Elements of a CSR Management System and to the paragraphs on Common Elements 5.5, 6.5, 7.5 and 8.5. Moreover, Simon Zadek wrote paragraph 4.4 on Assurance and paragraph 1.1 of the Introduction;

- Lorenzo Sacconi contributed to Chapter 4 on the Key Elements of a CSR Management System and to the paragraphs on Common Elements 5.5, 6.5, 7.5 and 8.5. Moreover, Lorenzo contributed to the specific paragraphs on Q-RES Values and principles (5.1) and Q-RES External Verification (8.1).

- Simone de Colle wrote paragraphs 4.1 (with J. Wieland and L. Sacconi) on Values and Principles for CSR; 4.2 on CSR Management Process and 4.3 (with R. Oakley) on CSR Management Tools; the specific paragraphs on Q-RES 5.1 (with L. Sacconi), 6.1, 7.1 and 8.1 (with L. Sacconi). Moreover, Simone provided the first draft and final editing for the paragraphs on Common Elements 5.5, 6.5, 7.5 and 8.5, and for the Executive Summary and Conclusions as well.

Lorenzo Sacconi provided the overall scientific supervision of the final report whilst Simone de Colle ensured the scientific coordination among the project partners.

Part A: Developing the Q-RES Framework

2.   The Q-RES model for managing the social and ethical responsibility of corporations

2.1   The Mission of the Q-RES Project: developing a quality standard on social and ethical responsibility

The rationale for developing a standard addressing the social and ethical responsibility can be summarised by the following considerations:

- The challenge for a successful company in the global economy is to build and maintain efficient, effective and fair relationships with its stakeholders;

- There are already signs of growing interest in society on the social and ethical dimensions of corporate activity;

- The investor community is increasingly looking beyond the crude numbers of financial performance to include environmental and social and ethical criteria to assess the reliability of corporations in which they invest;

- A prescriptive approach (like ethics) can provide a criterion to balance the different (and conflicting) stakeholder expectations and legitimate claims;

- Most social and ethical standards are single-stakeholder or single-issue (e.g. SA8000 on labour conditions; LBG on community investing; GRI on reporting);Current quality assurance systems (e.g. ISO) are unable to capture relevant dimensions of business activity – i.e. the social and ethical performance.

All the above considerations represents 'good reasons' for developing a new type of 'quality' standard addressing the social and ethical dimension of business activity.

It was from these assumptions that in 1999 a group of academic researchers, company representatives, experts of quality management systems and certification decided to join together and build the *Q-RES Project*, with the following *Mission*:

> "*To promote, together with participating organisations,*
> *a management framework for corporate social and ethical*
> *responsibility based on the idea of the social contract*
> *between the firm and its stakeholders, by developing*
> *a new type of quality standard, externally verifiable*".

2.2   History and partners involved

The Q-RES Project's final goal was set from the beginning as the definition of a complete, consistent and integrated set of management tools to foster corporate social and ethical responsibility within business.

The initial members of the project included representatives of CELE–Centre for Ethics, Law & Economics of LIUC University, which is responsible for research and project

management; *corporations* (companies interested in improving their social and ethical responsibility), *associations* (professional associations, industry association, NGOs and other *non-profit organisations* committed to improving the social and ethical responsibility of business).

Figure 2.   The Q-RES Participants

At the international level Q-RES established linkages with the **SIGMA Project** co-ordinated in the UK by ISEA, BSI and Forum for the Future (Simone de Colle, Q-RES Project Manager, was nominated member of the SIGMA Project Steering Group), with **AccountAbility** (Simone de Colle is a Council Member of AccountAbility) and with the **ValuesManagementSystem** (VMS) initiative co-ordinated by professor Josef Wieland in Constance, Germany (a joint presentation of Q-RES and VMS took place at the EBEN Conference in Constance, 18 May 2001, and Q-RES is presented in *Standards and Audits for Ethics Management Systems,* a book edited by Josef Wieland[9]).

The Q-RES Project working plan in the past 5 years can be divided into three phases. During the first phase (1999-2001) the following initiatives were organised:

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[9] See Wieland (2003).

- Analysis of the corporate social and ethical responsibility tools adopted by the participating companies in the project and examples of international best practices;

- Discussion of emerging standards and guidelines on corporate social responsibility in Italy and worldwide (SA8000, GRI, AA1000 etc.);

- Q-RES-Table meetings devoted to defining corporate social and ethical responsibility tools and identify criteria of excellence for their introduction and management;

- Development of the Q-RES Guidelines for social and ethical quality management.

This phase was concluded in July 2001, when the first draft of the **Q-RES Guidelines** were presented in an public event at the Chamber of Commerce in Milan, together with a presentation of Green Paper on CSR by the Commission.   The Q-RES Guidelines address the need of a holistic CSR management framework, as suggested by the Green Paper.

In May 2002 Q-RES was invited by the EU Commission to present the Q-RES Guidelines at the "*Second Round Table on CSR Management Standards*" [10].

The second phase of the project (2001-2003) included following activities:

- Starting adoption of Q-RES tools (*piloting projects*);

- Establishment of the "Q-RES Normative Group", a working group in charge of the development of the Q-RES Guidelines into a Q-RES standard, externally verifiable;

- Setting up an European working group on the integration of Q-RES with AA1000, *ValuesManagementSystem* (Germany) and SIGMA Guidelines;

- A feasibility study on the establishment in Italy of an independent, multi-stakeholder body promoting adoption of the standard and its external verification.

This phase was concluded in March 2003, with the **Q-RES Conference** in Milan "Corporate Social Responsibility: Management System to make it operational". In the conference the Q-RES Project presented three main results of the work done:

- An empirical Survey on the diffusion of CSR Management Tools among Italian leading companies (**Q-RES Survey**);

- A first draft of the **Q-RES Standard**, including and developing the Q-RES Guidelines into a new standard build on ISO structure, externally verifiable; and

- A proposal to establish a multi-stakeholder, independent body to take care of the external verification process of the Q-RES Standard.

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[10] The Q-RES presentation is available online at the EU CSR web site:
http://europa.eu.int/comm/employment_social/soc-dial/csr/qres.pdf.

The third phase of the Q-RES Project (2003- ongoing) has been focussed on two main initiatives:

- Diffusion of the adoption of Q-RES Guidelines among organisations;

- Strengthening the linkages with other CSR management standards, such as AA1000, SIGMA, VMS, GRI and SA8000, in order to highlight areas of convergence with Q-RES.

2.3   The six elements of the Q-RES management framework

The Q-RES Guidelines lay down a model of strategic management consisting of a process comprising the following six steps:

1. *Corporate ethical vision*: this is not a simple statement of the firm's mission but a *vision* of the social contract that the firm offers to its stakeholders , by which the company presents his own interpretation of the fair balance amongst of stakeholders' interests that will inspire day by day management of the firm;

2. *Code of ethics*: (i) general principles defining the firm's rights and duties *vis-à-vis* each category of stakeholder; (ii) preventive rules of conduct on every area of interaction between the firm and its stakeholders that is at risk of opportunism; these rules forestall typical forms of opportunism and state the standards of precautionary behaviour recommended;

3. *Ethical Training and Communication*: enables the organisation members to give proper interpretation of organizational events in the light of their bearing on ethical principles and allows the transmission of a sense of commitment;

4. *Organizational systems of implementation and control ('Ethics infrastructure'):* an ethics committee which impartially represents the points of view of the various stakeholders; top-down control (auditing); development of bottom-up dialogue to integrate CSR into work tasks and objectives; systems for the assessment and material and non-material incentivising of personnel;

5. *Social and ethical accountability*: external communication of principles and rules; a social report accounting for the relation between performance and commitments by means of proper illustration of relevant and material information expressed both by indicators or qualitatively; synoptic statement of the results achieved in relation to each stakeholder as regards both the economic value distributed among stakeholders and the other benefits or costs allocated among them; inclusion of the stakeholders' point of view;

6. *External verification and certification* of CSR by third-party (independent) auditors which examine evidence on each CSR tool and the results obtained in the various areas of management (resources, quality of products and services, etc.).

Each elements of this process fulfils a specific function inside the reputation mechanism and aims to increase the stakeholders' trust towards the company. The Guidelines define excellence criteria for each social and ethical responsibility management tool considering emerging international standards and current best practice.

Figure 3.   The Q-RES Management Framework
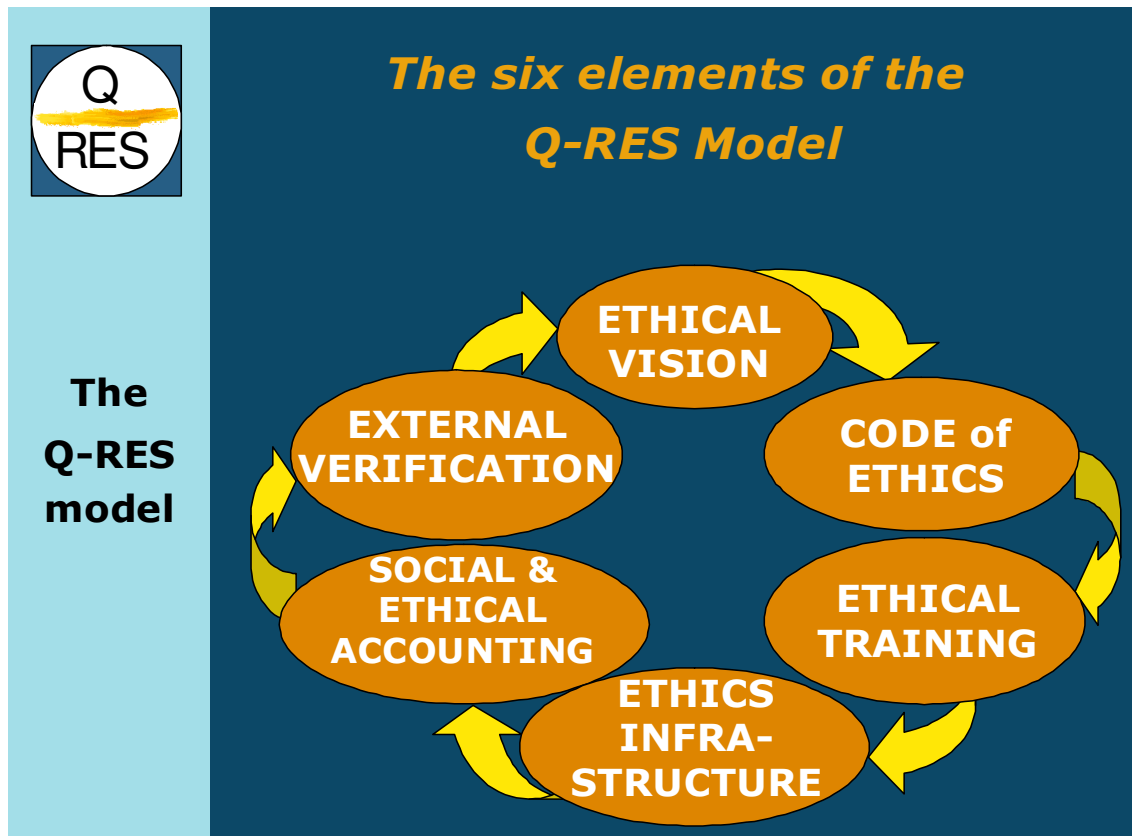
The Q-RES Guidelines describe the "quality requisites" of the above management framework, by identifying for each element a definition, its function, content, methodology of development, evidence for the verification process and criteria for excellence. The full text of the Q-RES Guidelines can be downloaded from www.qres.it.

2.4   From the Q-RES Guidelines to a Q-RES standard

The Q-RES management model described in the Q-RES Guidelines takes into account the issue of its verifiability by external bodies and it proposes the definition of a Q-RES *Standard* on which the external verification and the certification of the Corporate Social and Ethical Responsibility of an organisation may be based.

In order to develop Q-RES into a certifiable standard, the Q-RES Project established a specific working group of experts, called "Normative Group"[11]. The Normative Group first referred to the most recent body of standard on management systems (ISO 9000, 2000 ed.) and took into consideration the ISO 9004 standard that includes, besides the typical contents of the guidelines, the prescriptive test of the norm that can be certified (ISO 9001) thus adding the relationship with the stakeholders to the work. By

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[11] The members of the Normative Group were: Giovanni Bogani (AIOICI) - Leader of the Group; Emma Baldin (CELE) – scientific responsible; Stefano Senesi, Angela Leuci, Marisa Parmigiani, Valeria Fazio, Lucia Silva, Federico Versace.

adapting the ISO 9000 standard with reference to the Q-RES Model the group tried to produce a "certifiable" standard that might be easily understood by experts. This was possible because it was structured like other standards (that are very similar) and it can be integrated with other well-known management systems.

Why take the standards for the quality management system as a reference point for developing a CSR standard ?

The following *analogies* with quality management systems were considered:

- Their wide acceptance;

- Their focus on the organisation as a whole and not merely on some parts of it;

- The third-party verifiability which is a safeguard for the implementation of a quality policy.

But also some relevant *differences* were pointed out:

- Many resources in quality systems are considered "instrumental";

- In the Q-RES model all stakeholders are *ends* as well as *means:* It is necessary to combine the two different dimensions of the relationship and of the transactions with any stakeholder.

The "**Q-RES Standard: Norm and Guidelines for the improvement of ethical and social performances of the organisation"**[12] was first published by the Q-RES Project in May 2003 as a document for consultation. The Q-RES Standard was developed as a standard consisting of two parts:

    c) Part A: *The Q-RES model and tools for the management of ethical and social responsibility of organizations*

    d) Part B: *The management system for ethical and social responsibility.*

Part A - *The Q-RES model and tools for the management of ethical and social responsibility of organizations* - introduces and explains:

- the Q-RES model and tools for the management of ethical and social responsibility of organisations;

- its relationship with other management systems and with ISO 9000;

- its purpose and field of application; and

- the standards of reference and a glossary of terms and definitions.

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[12] Abailable at www.qres.it

Figure 4.   From the Q-RES Model to a Q-RES Management System

Model of a process-based Q-RES management system

Key ⟶ Value adding activities
- - - - - - -> Information flow
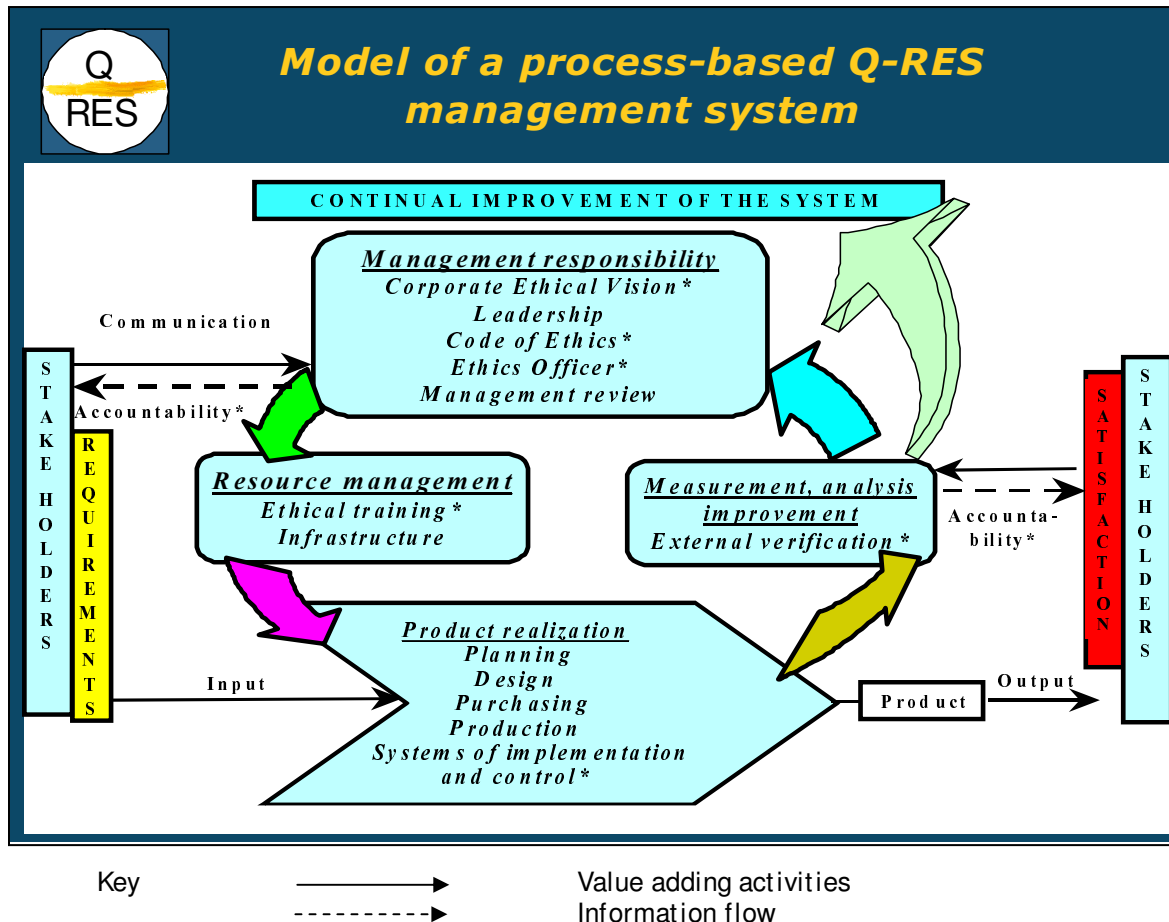
In the Q-RES Standard it is pointed out that "*the Q-RES management system for the management of the social and ethical responsibility of an organisation presents a structure and a content that are very similar to the ones used for other purposes (Quality, Environment and Safety). The so developed system (see fig. 4) shows the Q-RES Tools that must be used to put it into practice (already shown in Fig.3). It then turns into a management model for the organisation having as a goal continuous improvement. It considers the principles and processes that have already been identified by the ISO 9000 standard and shows the relationship existing between these and the six management tools of the Q-RES model.*"

Part B of the Q-RES standard, entitled *The management system for ethical and social responsibility*, describes the management system of an organisation with respect to the ethical and social responsibility in which all the Q-RES tools can be found.

The Q-RES tools are placed within a typical structure of an ISO document:

-   The *Corporate Ethical Vision* and *Code of Ethics* are discussed under "RESPONSIBILITIES OF THE MANAGEMENT";

-   *Ethical training* is discussed under "RESOURCE MANAGEMENT";

- *Organisational systems and internal control* are discussed under "PRODUCT REALISATION";

- *Social and ethical accountability* is discussed under "COMMUNICATION PROCESSES WITH THE STAKEHOLDERS" and in the chapter on "MEASUREMENT, ANALYSIS AND IMPROVEMENT"

- *External verification* is discussed under "MEASUREMENT, ANALYSIS AND IMPROVEMENT".

Part B is structured like the ISO 9000 system and is formed by five chapters:

1. MANAGEMENT SYSTEM FOR ETHICAL AND SOCIAL RESPONSIBILITY

2. MANAGEMENT RESPONSIBILITIES

3. RESOURCE MANAGEMENT

4. PRODUCT REALIZATION

5. MEASUREMENT, ANALISYS AND REPORT

Below we provide a short description of each of these chapters.

MANAGEMENT SYSTEM FOR ETHICAL AND SOCIAL RESPONSIBILITY

This chapter includes:

- The adoption and use of ethical and social responsibility tools (Q-RES tools) and the management of systems and processes;
- Documentation; and
- The inspiring principles of ethical and socially responsible management (the Q-RES principles).

The Q-RES system for the ethical and social responsibility management of an organisation presents a structure similar to that already developed for different goals (e.g. Quality, the Environment, Health & Safety, Security). It then combines the various tools that need to be used in order to implement it. A model for the organisation management that is geared up to a process of continuous improvement is derived by drawing on the principles and the processes identified by the ISO 9000 norm and showing their relationship with the Q-RES six instruments.

In particular this part includes:

- The ethical and social responsibility principles on which the entire management system is based (described in chapter 5.1 of these report under Q-RES Values and Principles).

MANAGEMENT RESPONSIBILITIES

This chapter includes:

- General guidance
- Stakeholders' needs and expectations
- Code of ethics
- Planning
- Responsibility, authority and communication
- Management review.

Briefly, as far as the MANAGEMENT'S RESPONSIBILITIES are concerned, the standard defines such responsibilities for the development and maintenance of a Q-RES management system.

The managers (executives) responsibility in the adoption and the implementation of the Q-RES tools and for the development and maintaining of a fair, effective and efficient management system, which is able to respond to the stakeholders' expectations and create reputation for the organization.

In brief, management responsibility means:

- Management Commitment to CSR;
- Identification of relevant stakeholder;
- Adoption of the Corporate Ethical Vision;
- Adoption of the corporate Code of Ethics;
- Define adequate planning and periodic re-assessment of the Q-RES management system;
- Assuring fairness in the exercise of authority.

RESOURCE MANAGEMENT

This chapter includes:

- General Guidance
- Employees (People)
- Infrastructure
- Work environment
- Suppliers and partnership
- Social Capital
- Information
- Natural resources
- Economic and financial resources

In the chapter: RESOURCE MANAGEMENT, where ISO 9000 defines the resources that must be available in order to put strategies into practice and pursue the organization's purposes, the Q-RES Standard adds:

- the definition of the resources and criteria for their use in order to implement and manage the Q-RES tools (specific);

- the definition of the relationship existing among the subjects bringing such resources with reference to the contents of the code of ethics (in general).

By introducing the concept of Social Capital, the Q-RES Standard emphasises and underlines the importance of a resource called *consent*. By acquiring trust and managing fairly the relationships with the local and national community, the State, Public Institutions and the different representatives of public interests, the organisation can operate positively within such communities.

The Q-RES Standard identifies the resources that need to be made available to implement the CSR strategies and generate the desired outcomes, and the resources and criteria for the implementation and management of the Q-RES tools.

PRODUCT REALISATION

This chapter includes:

- General guidance
- Processes related to stakeholders
- Design and development
- Purchasing
- Production and service operations
- Control of measuring and monitoring devices

In PRODUCT REALISATION, by integrating the principles stated in the Code of Ethics with the different phases of the production process (marketing, order acquisition, planning, supply, production, post-sales, and end of life cycle of a product), the norm adds a number of ethical considerations to different management and operational processes (production process, work-place health and safety, product safety, customer/consumer satisfaction, environmental impact assessment and risk management, etc.). In this way, responsible behaviours can directly affect the firm's output, thus going beyond legal requirements and meeting the legitimate expectations of local communities, consumers and workers.

Taking into account the commitments made in the Code of Ethics, including product safety, customer satisfaction and the external social and environmental effects of production, the production process management conveys social responsibility to the company's concrete output.

In brief, in dealing with the product realisation process the Q-RES Standard gives particular attention to:

- The consumer expectations, not only with regards not only to their material satisfaction but also in relation to their moral preferences (e.g. responsible consumption, respect of human rights in the supply chain, working conditions, etc.);
- the external social and environmental impacts of the production process that affect stakeholders' well-being (e.g. pollution, crowding etc.).

MEASUREMENT, ANALYSIS AND IMPROVEMENT

This chapter includes:

- General guidance
- Monitoring
- Control of non-conformity
- Analysis of data
- Improvement

In MEASUREMENT, ANALYSIS AND IMPROVEMENT, ISO9000 defines a system of measurement and systematic data collection, organisation and communication of the relevant data on the impact of the firm's activity on the well-being of the parties involved in order to improve the effectiveness and efficiency of the organisation. In addition, the Q-RES standard considers the improvement of the relationships with stakeholders, that is, deals directly with the improvement of the organisation's governance system.

In particular, it makes reference to:

• The development of a social accounting and reporting process, based on the dialogue with stakeholders;
• The collection of relevant data and evidence enabling an independent body to verify the actual implementation of the Q-RES management system.

Figure 5.   The path for certification according the Q-RES standard
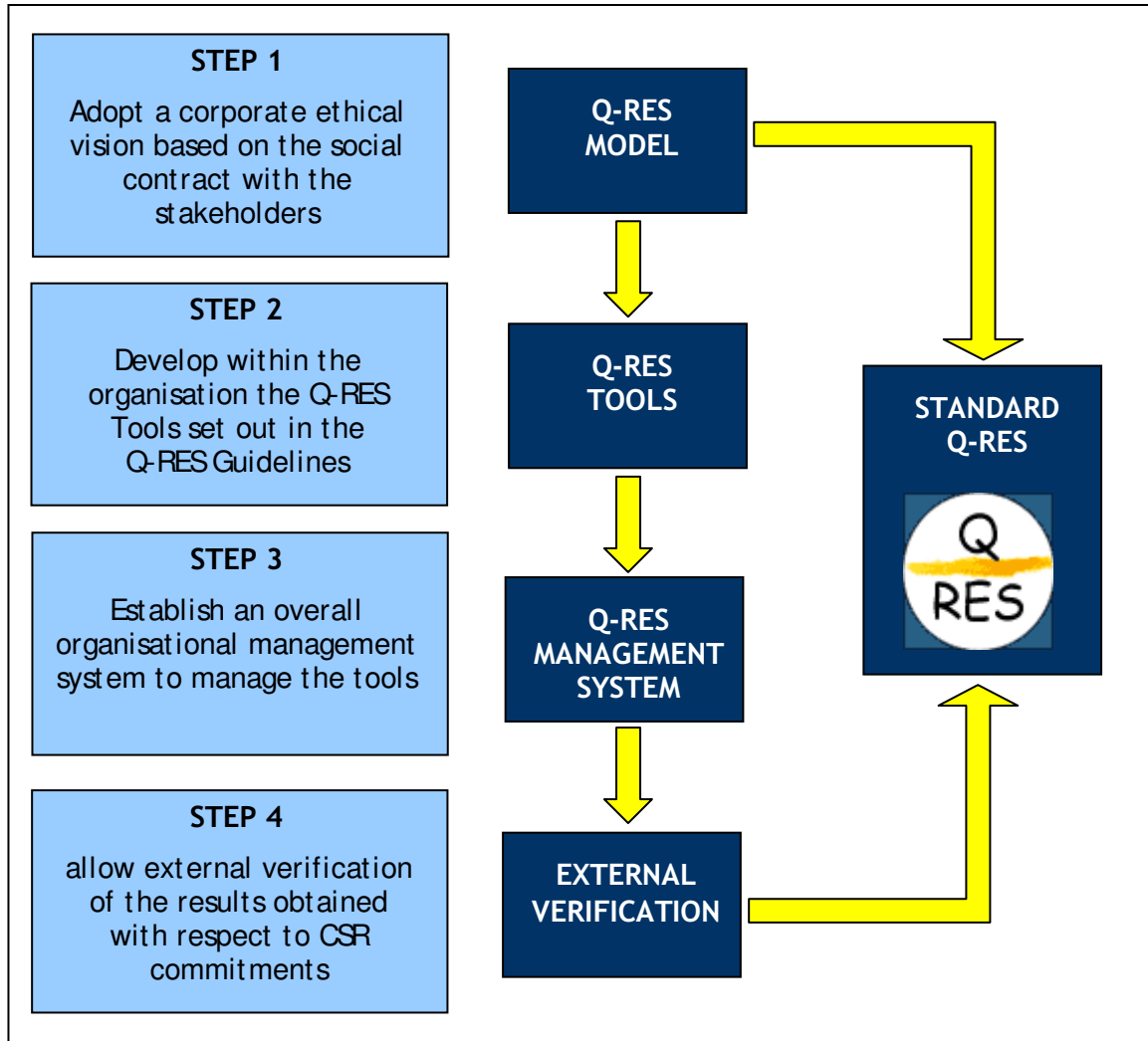
3.   CSR as a model of "extended" Corporate Governance: The theoretical rationale for a CSR management standard[13]

3.1   A definition of CSR

The EU Commission is quite demanding in its definition of CSR:

"By stating their social responsibility and voluntarily taking on commitments which go beyond common regulatory and conventional requirements, which they would have to respect in any case, companies endeavour to raise the standards of social development, environmental protection and respect of fundamental rights and embrace an *open governance, reconciling interests of various stakeholders in an overall approach of quality and sustainability*" (*Promoting a European Framework for Corporate Social Responsibility,* Green Paper, p.4, Brussels, 18.7.2001, emphasis added).

This quotation shows that the Commission regards CSR as a form of corporate strategic management that sets its standards of conduct at a level higher than legal constraints, and envisages CSR as a system for the governance of transactions and relations between the firm and its stakeholders. It is clear that here 'governance' is no longer the set of rules simply allocating property rights and defining the owners' control over the management of a firm. Instead it resembles the neo-institutional view whereby the firm, like the contract and other institutional forms, is a 'governance system' which establishes diverse rights and obligations in order to reduce 'transaction costs' and the negative externalities of transactions.

Going a little bit further, the following definition can be worked out (as it can be entailed by the Q-RES Project's approach):

CSR *is a model of extended corporate governance whereby who runs a firm (entrepreneurs, directors and managers) have responsibilities that range from fulfilment of their fiduciary duties towards the owners to fulfilment of analogous fiduciary duties towards all the firm's stakeholders.*

Definition is required of two terms in the foregoing proposition:

a) Fiduciary duties. It is assumed that a subject has a legitimate interest but is unable to make the relevant decisions, in the sense that s/he does not know what goals to pursue, what alternative to choose, or how to deploy his/her resources in order to satisfy his/her interest. S/he, the *trustor,* therefore delegates decisions to a *trustee* empowered to choose actions and goals. The trustee may thus use the trustor's resources and select the appropriate course of action. For a fiduciary relationship – this

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[13] This chapter is based on a parallel paper by L. Sacconi "Responsabilità sociale come governance allargata d'impresa: una interpretazione basata sulla teoria del contratto sociale e della reputazione", in G.F. Rusconi and M. Dorigatti (eds.), *Introduzione alla responsabilità sociale d'impresa* (with a foreword by Romano Prodi), Milano (Franco Angeli), in print; the English version of this paper will shortly appear as a *LIUC paper* in the series on *ethics, law and economics.*

being the basis of the trustee's authority *vis-à-vis* the trustor –to arise, the latter must possess a claim (right) towards the former. In other words, the trustee directs actions and uses the resources made over to him/her so that results are obtained which satisfy (to the best extent possible) the trustor's interests. These claims (i.e. the trustor's *rights*) impose fiduciary duties on the agent who is entitled with authority (the trustee), which s/he is obliged to fulfil. The fiduciary relation applies in a wide variety of instances: tutor/minor and teacher/pupil relationships, and (in the corporate domain) the relation between the board of a trust and its beneficiaries, or according to the predominant opinion, between the board of directors of a joint-stock company and its shareholders and then more generally between management and owners (if the latter do not run the enterprise themselves). By the term 'fiduciary duty', therefore, is meant the duty (or responsibility) to exercise authority for the good of those who have granted that authority and are therefore subject to it.[14]

b) Stakeholders. This term denotes individuals or groups with a major stake in the running of the firm and who are able to influence it significantly (Freeman and McVea 2002). However, a distinction should be drawn between the following two categories:

(i) *Stakeholders in the strict sense*: those who have an interest at stake because they have made specific investments in the firm (in the form of human capital, financial capital, social capital or trust, physical or environmental capital, or for the development of dedicated technologies, etc.) – that is, investments which may significantly increase the total value generated by the firm (net of the costs sustained for that purpose) and which are made specifically in relation to *that* firm (and not in any other) so that their value is idiosyncratically related to the completion of the transactions carried out by or in relation to that firm. These stakeholders are reciprocally dependent on the firm because they influence its value but at the same time – given the specificity of their investment – depend largely upon it for satisfaction of their well-being prospects (lock-in effect).

(ii) *Stakeholders in the broad sense*: those individuals or groups whose interest is involved because they *undergo* the 'external effects', positive or negative, of the transactions performed by the firm, even if they do not directly participate in the transaction, so that they do not contribute to, nor directly receive value from the firm.

We are now able to appreciate the scope of CSR defined as an extended form of governance: it extends the concept of fiduciary duty from a mono-stakeholder setting (where the sole stakeholder relevant to identification of fiduciary duties is the owner of the firm) to a multi-stakeholder one in which the firm owes fiduciary duties to *all* its stakeholders (the owners included). It is obvious that classification of stakeholders on the basis of the nature of their relationship with the firm must be regarded as important in gauging these further fiduciary duties.[15]

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[14] On fiduciary duties see Flannigan (1989).

[15] While positively defining CSR as a corporate governance model, it may be useful to say also a word about what CSR definitely is not. In order to stick to the level of what can be inferred from institutional initiatives, it can be said that CSR definitely should be not confused with what is intended by the Italian Government's initiative (Ministry of Welfare) called CSR-SC project. To begin with, CSR should not be confused with corporate giving and with the purpose of channelling of corporate donations into social programmes set up by the Government. The mistake in part resides in a muddling of the whole, which is CSR, with the part, namely corporate giving. But it consists above all in tampering with the structural

3.2   The economic bases of extended fiduciary duties

Theory of the firm

Let us now inquire whether economic theory provides support for the thesis that the firm has 'further' responsibilities towards its stakeholders. According to neo-institutional theory (Williamson 1975, 1986; Grossman and Hart 1986; Hart and Moore 1990; Hart 1995; Hansmann 1996), the firm emerges as an institutional form of 'unified transactions governance' intended to remedy imperfections in the contracts that regulate exchange relations among subjects endowed with diverse assets (capital, labour, instrumental goods, consumption decisions, and so on). These assets, if used jointly, are able to generate a surplus over the cost of their use that is higher than in the case of their separate use by each asset-holder. However, contracts by which these asset-holders regulate their exchanges are incomplete: they do not include provisos covering unforeseen events, owing to the costs of drafting them, or because the cognitive limits of the human mind make it impossible to predict all possible states of the world. Yet for these assets to be used in the best manner possible, specific investments must be made: investments undertaken with a view to the value that they may produce within an idiosyncratic contractual relation. This entails that the surplus generated with respect to the costs sustained by each party to the exchange is determined by the undertaking of *specific* activities with *specific* counterparts (suppliers, customers, employees, financiers, etc.). Let us assume that parties behave opportunistically (that is, they are egoists who act with astuteness). Thus, once the investments have been made, contractual incompleteness means that the terms of the contract can be renegotiated, so that the party in a stronger *ex post* position is able to

mechanism of the donation-based funding of the non-profit sector. Aside from differences in place and time, economic theory of nonprofit organisations sees the third sector as a response to 'supra-median' demand for quantity, quality and cultural differentiation in the supply of welfare goods and services that the governmental supply is unable to satisfy, as it is bonded to the level demanded by the "median voter" (Weisbrod, 1988). If *ad hoc* fiscal and financial incentives are used to channel donations towards social policies decided by the government (with the obvious intent of reducing even more fiscal pressure), there is a risk of distorting one of the structural mechanisms which fuel the development of the third sector and remedy inefficiencies in the overall supply of welfare services.

A second risk is misconceiving the incentives mechanisms that can promote voluntary CSR standards. This would ensue if – as the Italian Ministry of Welfare's proposal suggest - the promise of tax relief on donations – provided these are pledged to government's preferred social programs – is combined with the announcement of a system to ascertain how much companies are socially responsible - called "social statement". By filling the *statement* companies would give rise to a public register of firms eligible for tax relief and entitled to publicize themselves as 'socially responsible' - admitted that they give their donation to a "public fund" managed by the Ministry. This induces perverse incentives, for all firms – and rightly so – seek to obtain tax abatement on donations to the third sector, so that in order to admit them to tax reduction a minimal 'quasi-compulsory' and 'fiscal' verification is needed. Instead, voluntary CSR certification should repay with reputation benefits (and only with such benefit) only those firms effectively able to demonstrate their compliance with high standards of CSR. The linkage between CSR certification aimed to reputation and ministerial appraisal aimed to concession of fiscal benefits may arouse such discontent in the business community (afraid that the standard would be too high to many companies only interested in obtaining some tax relief) that at end the Government is forced to reduce CSR certification to simple a self-declaration about a short list of compulsory items, mainly concerned with corporate community giving, and much less committing and informative than a proper social report. (Which is easy to foresee: if a public 'label' is given in exchange for money contributed to a governmental fund, which the Ministry has interest to raise as high as possible, there are very poor incentives to be very selective in granting that 'label' – whose value result thus inflated.) At end, after much disorder and alarm, all that turn too indulgent towards those backward firms that see the 'voluntary approach to CSR' as mere discretion (the exact opposite of a moral *obligation* which firms are asked to account for).

appropriate the entire surplus, thereby expropriating the other stakeholders. But if agents expect to be expropriated, they will have no incentive to undertake their investments at the optimal level. This expectation of unfair treatment gives rise to a loss of efficiency at the social level.

The firm responds to this problem by bringing the various transactions under control of a hierarchical authority – the authority, that is, of the party which owns the firm and through ownership is entitled to make decisions over the contingencies that were not ex ante contractible. Unified governance supplements incomplete contracts with authority relations through the vertical and horizontal integration of the units that previously made separate contributions. The firm is therefore a special contractual form: when contracts lack provisos contingent upon unforeseen events, they can be 'completed' with the 'residual right of control' which entitles its holder to decide what should be done about decisions not *ex ante* contractible– that is, decisions 'left over' from the original contract and that become available only when unforeseen situations occur.

There is therefore an efficiency rationale for the idea of the firm as 'unified governance' of transactions: if one party (a class of stakeholders) has made a specific investment of greater importance than those made by the others at risk, or if its exercise of 'unified governance' discourages opportunism by the others to appropriate the surplus, then that party should be granted the property right and with it the right to take 'residual' decisions. This is also the basis for regulation of authority delegation from the owners to directors or managers by corporate governance rules, when the owners themselves are not able of directly exercising the entire residual right of control.

The risk of abuse of authority

However, one should not underestimate the risks of the firm *qua* unified governance. There is not just one single stakeholder at risk because of contract incompleteness; it is usually the case that multiple stakeholders undertake specific investments (investments in human capital, investments of trust by consumers, investments of financial capital, investments by suppliers in raw materials, technologies and instrumental goods). Contracts with these stakeholders are also incomplete.

Yet if a firm brings its contracts with certain stakeholders (labour contracts, obligations towards and relations with minority shareholders) under the authority of a party to whom is allocated control over residual decisions (for example, the controlling shareholder group) – and more generally if a party is enabled by its *de facto* power to exercise discretion over *ex ante* non-contractible decisions concerning implicit or explicit contractual relations with the other stakeholders (consumers, customers, suppliers, creditors, etc.) – what, one may ask, is there to ensure protection of investments and interests other than those of the controlling stakeholder? It is evident that if fiduciary duties attach *only* to ownership, those stakeholders *without* residual right of control will *not* be protected by the fiduciary duties of those who run the firm. The inherent risk, therefore, is an abuse of authority (Sacconi 1997, 2000). Those wielding authority may use it to expropriate the specific investments of others by exploiting 'gaps' in contracts – which persist even under unified governance (in fact it simply allocates to only one stakeholder the right to 'fill' those gaps with its

discretionary decisions). Those in a position of authority, in fact, are able to threaten the other stakeholders with exclusion from access to physical assets of the firm, or from the benefits of the contract, to the point that those other stakeholders become indifferent between accepting the expropriation and forgoing the value of their investments by withdrawing from the relation. Thus the entire surplus, included that part of its imputable to efforts and investments made by the non controlling stakeholders, will be appropriated by the controlling party. Again forward-looking stakeholders will be deterred form entering the hierarchical transaction with the controlling party. In general, this will produce an internal *crisis of legitimacy* between firm and stakeholders (a crisis in the relationships between the organisational authorities and participants in the organisation) and an external *crisis of trust* (in relationships with stakeholders that have entered into contractual or external relations with the organisation).

Therefore, when CSR is viewed as 'extended governance' it completes the firm as an institution of transactions governance (Sacconi 2000). The firm's legitimacy deficit (whatever category of stakeholders is placed in control of it) is remedied if the residual control right is accompanied by further fiduciary duties towards the subjects at risk of abuse of authority and deprived of the residual control right. At the same time, this is a move towards greater social efficiency because it reduces the disincentives and social costs generated by abuse of authority.

From this perspective, 'extended governance' should comprise:

- *the residual control right* (ownership) allocated to the stakeholder with the largest investments at risk and with relatively low governance costs, as well as the right to delegate authority to professional directors and management;
- *the fiduciary duties* of those who effectively run the firm (administrators and managers) towards the owners, given that these have delegated control to them;
- *the fiduciary duties of those in a position of authority in the firm (the owner or the managers) towards the non-controlling stakeholders*: the obligation, that is, to run the firm in a manner such that these stakeholders are not deprived of their fair shares of the surplus produced from their specific investments, and that they are not subject to negative externalities. [16]

However, a number of unanswered questions remain, which the proponents of CSR as 'extended governance' must necessarily address. Does there exist a criterion with

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[16] A number of recent economic and legal models of governance support this view of CSR. For example, the firm can be seen as a 'nexus' of specific investments regulated by incomplete contracts, rather than as a nexus of simple contracts, and therefore as a team of actors cooperating to produce a surplus from those specific investments (Rajan and Zingales 2000). Based on a similar view which combines different theories of the firm – the theory of incomplete contracts with that of team production – is the model of multi-stakeholder governance developed by Margaret Blair and Lynn Stout, and which sees the purpose of corporate governance structures as being prevention of opportunistic behaviour among the N members of the team that make specific investments. When applied to a public company, this model translates into a board of directors acting as a mediating hierarchy: an authority system charged with the task of finding the appropriate balance in the protection of diverse interests (cf. Blair and Stout 1999). The (controversial) legal basis for this form of "impartial governance" exercised by the board of directors and by management in the US joint-stock company is the 'business judgment doctrine': the manager's use of a standard of professional conduct which insulates his/her choices against claims by shareholders (cf. Blair and Stout 1999, but also see Meese 2002).

which to give more precise specification to these extended duties, and from which it is possible to derive a strategic management standard of sufficient clarity such that the 'extended governance' model cannot be accused to entail higher governance costs than the traditional 'narrow' corporate governance view? What norms are effective for the implementation of CSR? And what role can be played in that by self-regulation?

3.3   The Social Contract as a criterion for strategic management

If a firm is a team of participants with specific investments, then the metaphor of a 'bargaining cooperative game' among multiple stakeholders can be applied. These stakeholders must agree on a shared action plan (a joint strategy) which allocates tasks among the members of the team so that the contribution of each of them is efficient (because it produces the maximum surplus net of each stakeholder's costs). The 'bargaining co-operative game' played by the stakeholders is typically one of mixed interests. Although it is in their common interest to co-operate, because this enables them to produce a surplus that would otherwise be impossible, conflict nevertheless persists among the stakeholders over the distribution of the value created. 'Governance' and strategic management consequently consist in the solution of two problems:

a. Identifying the joint strategy that the stakeholders (as the players in the co-operative game) may utilise to coordinate themselves, in that they accept it *ex ante* as a voluntary agreement to co-operate – so that strategic management can reduce bargaining costs (time, conflict, etc.) and the costs of gathering information on the alternatives available and on the intentions of each players about co-operation.
b. Ensuring *ex post* that each member of the team complies with the agreement on the joint strategy selected and does not act as a free rider with regard to the others.

Choosing the joint strategy (point a) is equivalent to select a bargaining equilibrium. It must therefore answer the question of what is due to each stakeholder and what each of them can expect from the firm in exchange for its contribution, so that each stakeholder may agree on that joint strategy. The question thus arises as to how the stakeholders' interests can be balanced against each other, and what claims on the firm should be considered the appropriate basis for the management's fiduciary duties. 'Stakeholder', in fact, is a descriptive term. It reminds us that a variety of classes of individuals have interests at stake in the running of the firm, and that they may sometimes advance conflicting claims. The use of the term 'stakeholder', however, does not provide a *criterion* with which to balance claims when they are mutually conflicting.

To answer the question we consequently need a *criterion* able to identify the balance that *any whatever stakeholder* would accept as the basis for its voluntary cooperation with the firm: that is, an *impartial* criterion. It is here that ethics – understood as a set of *impartial criteria* for collective choice-making – come into play as part of the firm's governance and strategic management.
As an ethical criterion, therefore, it is suggested the 'social contract' among the stakeholders of the firm (Sacconi 1997, 2000). By 'social contract' is meant not any whatever real-life bargain but a 'touchstone' from which point of view to assess the diverse outcomes of day by day practical running of the firm. In other words, the social

contract is the agreement that would be reached by the representatives of all the firm's stakeholders in a hypothetical situation of impartial choice.[17] Corresponding to the notion of 'social contract' is the following multi-stage deliberative procedure which generates impartially acceptable agreements:

(i)   Force, fraud and manipulation must be set aside;
(ii) Each party comes to the bargaining table with only its capacity to contribute and its assessment of the utility of each agreement or non-agreement proposed (dispensing with any form of threat other than its possible refusal to agree);
(iii) The bargaining *status quo* must be set at a level such that each stakeholder results immune against the cost of its specific investments – that is, each stakeholder must obtain from the social contract at least reimbursement of the cost of the specific investment with which it has contributed to the surplus (otherwise the bargaining process would permit opportunistic exploitation of the counterparty's lock-in situation). The distribution of the surplus is regulated by the social contract – and by the corresponding deliberative procedure – on the basis of 'initial endowments' thus defined;
(iv) Each party in turn puts itself in the position of all the others, and in the position of each of them he can accept or reject the contractual alternatives proposed;
(v)   If solutions are found which are acceptable to some stakeholders but not to others, these solutions must be discarded and the procedure repeated (which reflects the assumption that cooperation by all stakeholders is recognised as necessary);
(vi) The terms of the agreement reached are therefore those that each stakeholder is willing to accept from its particular point of view: that is, the non-empty intersection of the joint strategies and relative distributions acceptable to each of them. Note that this intersection is necessarily *non-empty*, for otherwise the game would not allow a cooperative surplus. That is to say, it would not be the case that joint action by the parties may produce something more than their separate action and that at least one surplus distribution proves to be reciprocally advantageous (if it *must* be so, then there exists at least one agreement acceptable to all).

3.4   Social contract and the emergence of the firm

Thus far, the social contract has been presented as a normative deliberative procedure by which to identify the terms of an agreement that would be acceptable from an impartial standpoint – that is, from the point of view of any whatever stakeholder – so that it can be adopted as a standard of behaviour by who hold managerial authority on the firm. However, the social contract can also furnish a reconstruction – understood as a 'potential explanation' – of how bargaining has given rise to a firm with *both* fiduciary duties towards the owners *and* social responsibility (i.e. further fiduciary duties) towards all the stakeholders.

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[17] It is quite evident the debt of this contractarian view on the theory of firm to the works of both John Rawls (1971, 1993) and David Gauhier (1986). For the first formulation of the theory of the corporate social contract, based the revision of neo-institutionalist theory of firm and with reference to the problem of the abuse of authority *vis-à-vis* stakeholders, see however Sacconi (1991), and latterly Sacconi (1997, 2000). For a formulation external to economic theory see Donaldson (1982) and then Dunfee and Donaldson (1995). The ethical theories of contractualism - in its 'ideal' (Kantian) and 'real' (Hobbesian) versions – have been put forward as keys to interpretation of the abuse of majority power in joint-stock companies by Disiano Preite (Preite 1992).

Consider a 'state of nature' prior to the creation of the firm. Bilateral transactions among stakeholders regulated by incomplete contracts are subject to reciprocal opportunistic behaviour, with the consequence that prohibitive bargaining costs render them inefficient. At the same time, the parties to those transactions are entirely unconcerned about the negative external effects of their transactions on other agents, who although they do not participate, are nevertheless affected. This is a Hobbesian scenario in which the life of economic transactions among agents is "solitary, poor, nasty, brutish, and short" (Hobbes 1671). The stakeholders thus address the problem of creating an association whereby all their transactions can be undertaken in accordance with agreed-to rules and are therefore not subject to contract-costs, while at the same time the negative effects on those who do not participate in the benefits from the transactions are reduced to the minimum.

The 'First Social Contract' of the firm (*pactum unionis*) is nothing other than the agreement which the stakeholders reach *among themselves* to set up this association (the '*just* firm'). They negotiate on the association's constitution, which consists in a common plan of action (joint strategy) to which each of them contributes either by carrying out a positive effort or by simply refraining from applying his/her veto. This *first social contract of the firm* stipulates as follows:

a. rejection of shared plans of action which generate negative externalities for those not participating in the cooperative venture or, if these negative externalities are essential for the production of the cooperative surplus, a compensation of third parties so that they are rendered neutral;

b. production of the maximum surplus possible (difference between the value of the product for its consumers, who belong to the association, and the costs sustained by each stakeholder to produce it);

c. a distribution of the surplus which is 'fair', or rationally acceptable to each stakeholder in a bargaining process free from force or fraud and based on an equitable *status quo*, that is, considering the surplus net of the specific investments.

However, if an attempt is made to reach this form of an ideal association (the 'just firm') which eliminates all the participants' contract-costs, they arrive in practice to an organisational form which is found to be inefficient from the point of view of its governance costs. The stakeholders discover, for example, that the general assembly of all members is unable to take coherent decisions in a reasonable amount of time. In the absence of a monitoring system, once the members of the association have established fair shares of the surplus to be distributed among them, they have an incentive to act opportunistically and not to play their part. Co-ordination problems arise on how the joint strategy can be implemented under changing circumstances, which may alter beliefs and reciprocal expectations asymmetrically.

The stakeholders consequently draw up a *second social contract* of the firm (*pactum subjectionis*) by which they constitute, in the proper sense of the term, a governance structure for the association. It is only now that the association becomes a hierarchical structure.

The second social contract provides that authority should be delegated to the stakeholder most efficient in performing governance functions (the taking of residual

decisions, devising coordination solutions as circumstances change, monitoring, the enactment of sanctions, excluding potential free riders, etc.). For this reason, it can also be seen as a contract *between the stakeholders and* those who is given control over the firm (social contract *with the firm*). After comparative examination of the governance costs of each stakeholder, the one with the lowest costs is selected and assigned ownership, and is therefore the one to which the right of governing the association is delegated (Hansmann 1996). This class, which is remunerated with the *residual* is authorised to delegate some discretionary decisions in regard to running the firm to professional director and managers, and to appoint those who are in the authority position of running the firm. *Prima facie*, their authority will be effectively constituted –that is, the delegation will remain valid –as long as they comply with a

- *Narrow fiduciary proviso*: the owners are remunerated with the maximum residual revenue possible (in forms compatible with the diverse nature of the controlling stakeholder: profits, returns, discounts, improved conditions of service, improved conditions of employment, and so on) in the light of conditions obtaining in the firm's specific market.

However, it is evident that this proviso entails that the positions of the other stakeholders change (from the "just firm" to *just a firm*). Formerly co-equal members of the association, they are now subject in various ways to the discretionary decisions taken by the stakeholder entitled with authority, and by the administrators that it has appointed. Unlike in the standard economic theory of the firm, in the social contract theory the risk of the abuse of authority can squarely be faced. The *second social contract* is therefore conceived in a manner such that this cost of hierarchy is forestalled as well. Hence, under the second social contract, the stakeholders agree to submit to authority, thereby rendering it effective, if the contract contains a

- *Extended fiduciary proviso:*

  - *Towards the non-owners*:

    - The firm must abstain from activities which impose negative external effects on stakeholders not party to transactions, or compensate them so that they remain neutral;
    - The firm must remunerate the stakeholders participating in the firm's transactions with pay-offs (monetary or of other kinds, for example in terms of the quantity, quality and prices of goods, services, working conditions, etc.) which, taken for granted a fair status quo, must contain a part tied to the firm's economic performance such to approximate fair/efficient shares of the surplus (assuming that this is positive) as envisaged by the first social contract.

  - *Towards the owners*:

    - The firm must remunerate the owners with the maximum residual compatible with fair remuneration – as defined by the first social contract   of the efficient contributions made by all the other stakeholders.

3.5   Stakeholder value VS Shareholder value

The company's societary interest

What does the foregoing hypothetical explanation yield? It yields a definition of the 'societary interest' of the company – that is, the interest that the manager acting in the name of the company must serve – which is consistent with the contractarian model. According to this reconstruction, in fact, the manager (appointed through the second social contract) has a special fiduciary duty towards the owners (or the 'residual claimant') that has delegated authority to him/her (*via* narrow fiduciary proviso). This duty applies, however, only under the constraint that the *general* fiduciary duties are fulfilled towards *all* the stakeholders – which is defined *via* the extended fiduciary *proviso*. We may thus construct the corporate interest by means of a hierarchical decision-making procedure which moves from the most general conditions to the most specific ones:

- *First step*: minimise the negative externalities affecting stakeholders in the broad sense (perhaps by paying suitable compensation);
- *Second step*: identify the agreements compatible with the maximisation of the joint surplus and its simultaneous fair distribution, as established by the impartial cooperative agreement among the stakeholders in the strict sense;
- *Third step*: if more than one option is available in the above defined feasible set, choose the one that maximises the *residual* allocated to the owner (for example, the shareholder).

Hence, the narrow corporate interest (the one usually advocated by supporters of the "shareholder value" view) results from a series of steps which select the admissible ways in which also this interest can be satisfied –that is, those that are consistent with the various constraints imposed by the first social contract on the owner's behaviour. It should be emphasised that this concept cannot be reduced to that of value maximisation for the 'residual claimant' (the owners) once constraints imposed by positive contractual obligations have been fulfilled. This is because we recognise all contracts are incomplete, and they are always susceptible to opportunism (even by those who run the firm). Thus it is the entire hierarchical decision procedure which provides the satisfaction of the corporate interest –i.e. the social contract identifies the goals or the internal (not merely external) moral constraints that channels managerial discretion. It results from satisfaction in sequence of the three requirements set out above and which can be summarised as follows: maximise the value for the residual claimant under the constraint of complying with the social contract between firm and stakeholders which defines the 'stakeholder value'.

From general to particular, but not vice versa

We may thus answer the question as to the relation between stakeholders value and shareholders value (or in general the value allocated to the owners). In order to justify social responsibility over shareholders value, old institutional theories concerned themselves with the firm's interest *as such*, or with *survival* of the firm *as such*. But *as such* the firm is nothing. On the contrary it is a human artefact that derive it goals from human preferences and interests: it does not have an interest *per se* and its 'survival' is a misleading biological analogy with a single organism, rather than with a structure produced by the interdependent decisions of many individuals (moreover, the biological analogy is normatively debatable: is a firm never allowed to fail?).

New institutional theory, in the "social contract" version proposed here, does not need this biological analogy, for it can talk directly of the firm as an institutional/artificial solution to the problem of co-ordination and co-operation among different individuals holding multiple interests. It is an *artificial construct* whose mission is an *intermediate* and *not* final end; in other words, it is a *means* by which to solve problems of co-ordination and co-operation among stakeholders *for* (i.e. to the advantage of) their interests. Thus, the firm persists and is successful if it realises an equilibrium of co-operation among the stakeholders; it can create surplus wealth only if it achieves that equilibrium. However, contrary to the theory of the firm developed within the property rights school, here methodological individualism does not entail identification of a single individual or class interest to serve, because the firm is be explained as the *means* which enables a fair bargaining equilibrium to be achieved amongst *diverse* players in their mutual advantage. The bargaining equilibrium is the point at which the satisfaction of various interests intersect; the one, that is, where the interest of each stakeholder is fulfilled, with each of them maximizing their objectives under the constraint that also the counterparty, viewed as free and informed, is able to do likewise.

We have thus established an implication relation that holds in only one direction: the impartial agreement *always* entails satisfaction of the shareholder's interest, given that this is conditioned to the achievement of an agreement of cooperation with others. However, the reverse is not necessarily the case: the maximum interest of the shareholder *does not always coincide* with the joint interest of the stakeholders, at least in the short-run. Besides agreement, there are *other* ways in which a single stakeholder (for example the shareholder) could pursue his interest, even though this presupposes either *conflict* (force) or *deceit* (not abiding by implicit pacts and promises). The prototype of these situations is depicted by the 'prisoner's dilemma' game, where each player has an interest in taking advantage of the other's co-operation without doing his part; and if he expects the other player not to play his part in the co-operation, he has even more reason for not playing his own. This way of pursuing individual interest is clearly self-destructive, because the outcome of mutual defection is always inferior to that of reciprocal cooperation. Nevertheless, as far as the players think that exactly this is the game they are bond to play, there is not escape form this self-defeating way of following their individual self-interest. Therefore, should we wish to start from *one* stakeholder's pursuit of its interest, in particular the shareholder, we must establish *under what conditions* (i.e. non unconditionally) the 'particular' coincides with the 'general'. And this depends on the type of game that the stakeholders are required to play (in the prisoner's dilemma this would *not* come about, as we have seen), which concerns, amongst other things, the rules (not necessarily imposed from outside) that give some sort of structure to the games in question.

3.6   Self-regulation (1)

The discretionary approach

We may distinguish between two approaches to the CSR self-regulation. The first is the *discretionary approach* (which is the one preferred by the rear-guard of firms). Its basic tenet is that there is no reason to add any further specification or constraint apart from the *enlightened* self-interest of owners and those who runs the firm for their

advantage. Respect for the stakeholders' claims will come about through free choice, or through the firm's free exercise of discretion – the same discretion which, as we have seen, constitutes the problem in the theory of residual rights of control.

Enlightened self-interest would thus be an endogenous force able to induce self-discipline because it induces to account for personal interest into the *long-run*. By virtue of the long-run, the firm, as it pursues the simple goal of profit maximisation, would be induced to respect the fiduciary relation with the stakeholders and take due consideration of their well-being. On this view, self-regulation is nothing other than *self-discipline* whereby the firm does not behave in a manner such to abuse the trust that stakeholders have placed in it. The firm does not self-impose any formal system of rules or adopt any explicit management system required to abide by standards or norms, even if voluntary: this is self-regulation *without* explicit rules (and therefore we may term it *weak self-regulation*). It would be too easy to discredit this thesis by considering in its favour the only argument based on the obviously unrealistic hypothesis of perfect competition and the 'invisible hand' of the market. If competition were perfect, no firms would exist in the sense of being alternative institutions of governance to minimise transaction costs. It is therefore obvious that the argument does not pertain to the ideal world in which the 'invisible hand' operates. I shall instead take this thesis at its best, although even in this case it fails.

At best, the thesis maintains that enlightened self-interest leads to respecting trust of stakeholders, and therefore not to abuse them, in that the firm recognises the importance of safeguarding and enhancing its reputation, which depends on non-abuse of the stakeholders. Reputation is one of the most valuable, albeit intangible, of the firm's assets. It is reputation that induces the stakeholders to trust the firm and consequently to cooperate with it, so that transactions come about at low costs of control or bargaining. Unfortunately, however, reputation does not support the idea of *weak* self-regulation based on discretion of the firm, which, without imposing any constraint or explicit rule upon itself, would decide unilaterally what actions to undertake in the best interest of both the firm itself and its stakeholders. To understand this, we must delve at least a little way into the theory of games of reputation.

The reputation game

At the basis of the reputation mechanism lies a simple interactive situation (called *the trust game*, see Sacconi 2000) representing a transaction based on the fiduciary relation between a stakeholder A and the firm B. The stakeholder must decide whether or not to place its trust in the firm, entering or not into an exchange relation with it (assume that if it does so, necessarily he is making a specific investment). The firm then decides between abusing and not abusing. If, after the stakeholder has entered, the firm does not abuse its trust, there will be a reasonably good outcome for both. However, if the stakeholder places trust in the firm, the latter has an interest in abusing that trust, because in the current game this is the more remunerative option. Consequently, the stakeholder will not grant its trust and the transaction will not take place.

The idea underlying of a game of reputation is that there is an alternative solution which permits the transaction between the two parties to take place if the basic game is infinitely iterated, and if an incentive is thus created for the firm to protect its

reputation (Fudenburg and Tirole 1991, ch. 9). We thus have an infinitely repeated game (which expresses the idea of long-run) whose stage-game is the trust game already defined. The players in the game are on the one hand an infinite series of stakeholders, called A_i (where i denotes the order of entry into the game), each of them lasting only for the stage-game in which they decide whether to enter or not enter (and are therefore short-run players), and on the other a firm (B), the long-run player, which last throughout all repetitions of the game.

Information is crucial for the players: each A_i is uncertain about the *type* of B – in that B may be a *type* that never abuses trust or a *type* that always abuses it, or even a *type* that abuses with a certain probability and does not abuse with the residual probability. Hence the *types* can be understood as commitments to the stereotyped use of a given basic game strategy (unless a mistake occurs). For every player A_i, all these types of B have some *a priori* positive probability (and, in particular, the type that never abuses - which for simplicity we may call 'honest'- is assigned positive, though very low, probability). At each stage game the current A_i player changes his beliefs (the probability assigned to types) according to what he has learned from the previous stage game.

Player B's reputation is the probability assigned by each player A_i in the current stage to the various types of player B. Player B's reputation of being a certain type increases as evidence is gathered which confirms that *type*, but it diminishes dramatically if a single observation is made that falsifies the type.

Player B, on the other hand, is perfectly rational and informed, so that its strategic reasoning scheme also includes awareness of the limitedly informed reasoning performed by players A_i, and in particular it enables player B to predict about the mechanism by which they learn and update beliefs about types. The players' interests are such that each stakeholder A_i maximises its benefits in the current game (i.e. is short-sighted) while B is interested in long-run benefit. B may therefore be more or less far-sighted on the basis of a discount rate on future utilities which, in every period, increasingly reduces (even though at a marginally decreasing rate) payoffs associated to further outcomes of the repeated game.

These factors influence calculation of the players' rational choices. On the basis of its calculation of expected utility, each A_i chooses between entering and not entering in light of the current conditioned probability of the types of B. Obviously, in the first stages-games, the probability of types is such that the first players A_i will usually not place their trust in B. Sooner or later, however, some A_i will decide to trust B if they have observed a series of no abuse, as a result of which the conditioned probability of the honest type has increased sufficiently to give the entry choice an expected utility greater than no entry.

Analysing player B's choices requires consideration of the equilibrium strategies of the iterated game. At a first sight, B may opt for the equilibrium strategy of each stage-game, namely abusing which is certainly the best response to the choices made by the players A_i in the first periods. However, player B has a different strategy available, which consists in exploitation of its knowledge of the mechanism by which the beliefs of the various A_i are updated. It may choose to simulate the behaviour of the 'honest' type until the stage occurs in which the conditioned probability of this type reaches the critical level at which the first A_i will enter. At this point, B calculates whether to play the no abuse action, and consequently induce the players A_i to enter again, or to profit from the first opportunity to defect by choosing abuse, thereby gaining a unilateral

advantage but thereafter condemning itself to an infinite series of null outcomes. If B is not impatient, and therefore if the discount rate of future utilities does not excessively reduce the value of the future prospects of cooperation, infinite outcomes of future cooperation (which begin once the first A_i has entered) are able to off-set the cost of the initial series of null outcomes (in which no A_i enters but B does not abuse), and to thwart the incentive to take advantage of an individual stakeholder as it enters. One possible B's rational strategy therefore is to sustain its reputation and to induce the sequence of stakeholders to trust it. The best response to this strategy by stakeholders A_i, from the time that the first of them has placed its trust in B, is to continue to be trustful until they observe a period in which B abuses.[18] Hence, the long-run search for reputation induces the firm to behave as if it wants to fulfil its fiduciary duties towards the stakeholders.

However, it is essential to understand the conditions under which this result holds:

(a) *signalling the types*: the firm must be able to signal the possibility that it is an honest type which does not abuse trust;
(b) *quasi-simultaneity*: the firm and the stakeholder must act and observe the result of each game simultaneously, for if the stakeholder acts first, the firm would have no reason to reveal its choice had the stakeholder not entered, so that there is no basis for *learning*;
(c) *observability of the results*: at the end of each stage-game, the stakeholder must be able to observe the outcome of the firm's choice without ambiguity, and it must be able to determine without ambiguity whether the firm has behaved according to a *type*. Because types can also be viewed as commitments (to a certain game action), the essential condition is that at the end of each stage-game each stakeholder (the current one) should be able to observe that 'what had to be done has been done';
(d) *shared knowledge among stakeholders*: each stakeholder must be able to transmit what it has learnt in a given period to the stakeholder that comes next: that is, all the stakeholders in succession must have the same judgement on the firm's fulfilment of its commitments;

In general, these conditions *are not* spontaneously fulfilled in situations relevant to the purposes of CSR, the consequence being that weak self-regulation (based on simple enlightened self-interest) normally fails.

3.7   Self-regulation (2): voluntary compliance with explicit norms

The main reason for weak self-regulation fails is the *cognitive fragility* of reputation. This is evinced by conditions a, b, c and d above, all of which refer to the knowledge that the players must possess if the model is to hold true. Accumulating reputation may be prohibitively difficult if, in order to show that a commitment has been maintained, it is needed enabling *each* stakeholder to observe that *concrete* actions have been undertaken, or that the *concrete* results have been obtained, so that they match their description established *ex ante* in a commitment announced by the firm. Consider the following situations:

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[18] For an illustration of this model and result see Sacconi (1997, 2000).

- *incomplete contracts*: the contract does not contain clauses covering unforeseen contingencies, so that there is no concrete benchmark against which to assess claims of renegotiation when unforeseen events occur;
- *unobservable quality*: the customer may not be able to verify the quality of a good or service on the basis of the information available to him or her by inspection or experience, so that s/he must 'trust' the opinion of an expert (usually the supplier);
- *organisational authority*: the 'boss' takes genuinely discretionary decisions with regard to tasks to be ordered the employees by virtue of the managerial authority granted to him/her by work contracts;
- *collusion*: the firm has resources by which is able to reach collusive agreements with agents of customers, suppliers or with official acting in the name of the 'public', which can induce them to act in conflict of interest to their 'principals'. Information about these agreements is reserved, so those not present when they were reached are unable to determine whether or not an illicit collusive exchange has taken place.

These are all settings in which information or knowledge about the firm's action is incomplete or highly asymmetric. Either commitments have not been defined in relation to unforeseen events, and therefore cannot be verified, or their fulfilment is not observable. The problem is that incomplete information makes it impossible to determine whether 'what had to be done has been done': either it was not established *ex ante*, so that there is nothing to verify, or it is impossible to observe results by which it can at least be inferred whether the commitment has been respected (since the result coincides with at least one of the possible results contemplated ex ante). Activation of the reputation mechanism is obstructed by a cognitive gap.

Self-regulation in the strict sense must therefore be viewed as the remedy for this cognitive gap. Rather than responding to concern over the enforcement of CSR norms by an external authority, it concentrates on the need to create the cognitive and informational bases that enable the social mechanism of reputation – with its endogenous rewards and punishments – to function properly. This comes about through the voluntarily-taken decision to accept *explicit norms with an appropriate structure* decided by the firm in the light of a multi-stakeholder social dialogue such to configure their impartial acceptability.

For this reason, self-regulation is a voluntary but *not* discretionary approach. *Voluntariness* resides in the decision to endorse an *explicitly announced standard* for the firm's management system which is *ex ante* shared knowledge among the for and its stakeholders.[19] This standard sets out general principles, whose contents are such to elicit stakeholder consensus, as well as explicit commitments to compliance with principles and rules which are to be known *ex ante* by stakeholders. It is clear that stakeholders' consensus can be more easily obtained if the standard relative to the strategic management system, intended to ensure CSR, is established by the firm through explicit dialogue with the stakeholders. This should come about both through

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[19] This approach is the one preferred by the firms which, at national and European level, are endeavouring to define models and standards for the voluntary introduction of CSR management systems. Most notable in Italy are those firms that have participated in the Q-RES Project or have decided to apply the GBS and Accountability 1000 standards in their social accounting and reporting practices, or to promote and adopt SA8000.

the firm's direct relations with its most important stakeholders and through forms of multi-stakeholder social dialogue at the local, national or supranational levels.

However, dialogue does not detract from the voluntary nature of the agreed standards; nor does it preclude that compliance may then be obtained via the self-enforcement of the constraints and fiduciary duties established by the standard. How this occurs can once again be explained by referring to the reputation mechanism. The standard, and the procedures ensuring compliance with it, are announced *ex ante*; and it is *on these* – not in relation to particular (unforeseen) events or to particular (unobservable) actions or outcomes – that firm and stakeholders pass homogeneous judgement on *ex post* compliance with them. It is thus possible to activate the reputation reward and punishment mechanism, which generates endogenous incentives to comply with the standard. Everything rotates around the gap-filling function performed by the standard of CSR management system, whereby the firm's fiduciary duties towards its stakeholders are made explicit and announced. These duties assert –in the appropriate form – what is to be expected of the firm in *unexpected* situations, too, or in ones where the results of actions *are not observable*.

3.8   The logic of a CSR strategic management standard

The *logic* of the management system for CSR (and of the standard that regulates it) is the logic that the firm's strategic behaviour must conform to in a context of incomplete information. It has three components, as follows:

A. *Generality and abstractness of principles*
The principles define the *vision* of the social contract that each firm proposes to its stakeholders (which must therefore be completely identified). These principles must consequently offer fair treatment acceptable to each stakeholder. They are abstract and general in form, so that they apply to a wide variety of events, including those which cannot be predicted or described beforehand. Consequently, their application does not require a *detailed description* of the situation; all that is necessary is recognition of the presence of certain abstract features which reflect a pattern established at the outset. Unlike detailed rules and contracts, principles never remain mute when unexpected situations arise: they cover both foreseen events and unforeseen ones (which instantiate the abstract feature identified from the outset). It is true that their range of application is vague with respect to unforeseen states of the world. Yet vagueness can be governed by the logic of moral reasoning and the application of modern fuzzy logic. Without going into technicalities, one may say that an abstract and general principle defines a set of states of the world as its application domain, membership of which is a 'matter of degree' (fuzziness).[20]

B. *Precautionary protocols of behaviour*
Definition of the principles allows identification of areas of potential opportunism where interactions between stakeholders and firm put those principles at risk. For each of these risk areas, precautionary rules of behaviour can be established which assure the relevant stakeholder that a particular form of opportunism has been avoided. The distinctive feature of these rules is that their implementation is not conditional on the

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[20] See Sacconi (2000) and Sacconi (2003) for a technical description of the use of fuzzy logics and default logic in the case of general principles and procedures implementing a corporate code of ethics.

actual occurrence of concrete foreseen situations. More simply, they are applied when the risk that a principle will be breached exceeds a pre-announced threshold. They are consequently applied on the basis of a default logic (*in the absence of evidence to the contrary*): membership of the event in the domain of the principles need only exceed a given threshold of risk/vagueness for the rules to be applied. Hence, their conditions of implementation can be established *ex ante* by the firm, and on these the stakeholder may legitimately form expectations about the firm's behaviour. Their application constitutes the evidence that no principle has been intentionally breached, and consequently that the firm's reputation is well-deserved and that trust in it is well-placed.

C. *Communication and dialogue with stakeholders*
Principles and precautionary rules of behaviour must be communicated, given that reputation depends on them. The stakeholders base their judgements on the match among principles and rules announced *ex ante*, level of membership into the principles domain exhibited by any events have occurred, and the behaviour adopted. Essential, therefore, is *social accounting* and *reporting* of the firm's performance in relation to the principles and rules announced. As a consequence, such accounting and reporting must do more than set out 'social results' as unintended by-products of economic activity undertaken for other purposes (profit, for example). If the firm does not give account of the intentional achievement of objectives defined in terms of duties fulfilment, which have been established *ex ante* in relation to the principles and the rules of behaviour, why should the stakeholder attach a fiduciary value to actions and results whose occurrence may have been entirely fortuitous?

Once the firm has communicated its principles, rules and social performance, incorporation of appraisal by the stakeholder into its corporate decision process is entirely in the firm's interest. This equates to developing the firm's capacity to judge as an impartial spectator from the point of view of the average stakeholder — neither malevolent nor benevolent — so that reactions to its behaviour can be anticipated and crises of reputation forestalled.

This capacity can be fostered by developing dialogue with the stakeholders in all the phases of the CSR management system, as follows.

- *'Enunciation' of the social contract stating the firm's fiduciary duties towards its stakeholders*: If this statement is formulated on consultation with the stakeholders, its acceptability is ensured and the parameters with which behaviour is assessed are known to both parties.
- *Internal management and implementation*: The presence of external members on internal board or committee — both corporate board of directors or those committees set up *ad hoc* to manage CSR, like an ethics committee — enables representation of the stakeholders' points of view and prevents divergence between the *ex post* assessments by the two parties.
- *Social accounting and reporting*: Dialogue with stakeholders identifies the areas of their effective interest for which account should be made, and therefore ensures the relevance of social communications.
- *Verification by an independent third-party*: Multi-stakeholder bodies — based on multi-stakeholder dialogue — may control third-party verification and certification of CSR management standard compliance, preventing conflicts of interest amongst the auditors and granting credibility to the entire system.

3.9 Intermediate social bodies, multi-stakeholder dialogue and CSR assurance and verification

The idea is also spreading that forms of third-party verification and independent certification can heighten the reputational benefit accruing to a firm from implementation of an ethical and social responsibility standard (of which SA8000 certification – even if mono-stakeholder and single-issue in character - is the best-known example). What is still needed for this process to be successful? In short, what is needed are institutions of the civil society able to give the necessary salience to corporate social responsibility; one with the competence to ascertain compliance with standards and to assure the independence, credibility and authoritativeness of declarations concerning compliance . The next stage in CSR can therefore be envisaged as the creation of institutes and organizational forms of civil society able to promote social dialogue which (i) creates broad consensus on standards, and (ii) promotes independent verification of compliance with those standards by means of appropriate monitoring and certification methods, these too endorsed at the social multi-stakeholder level.

If each firm had its own private model of CSR management, or if this model remains implicit, comparative evaluations become impossible. Necessary, therefore, is the public statement of standards, accepted by both firms and stakeholders, so that companies' conducts are coherent to that publicly recognised benchmark which may lead to the increased reputational rewarding or sanctioning of the deserving firms. However, a problem still persists even in the presence of a shared and accepted standard; a problem that revolves once again around the fragility of the reputation mechanism. Stakeholders may not possess the contingent information or the relevant reference criteria and knowledge they need to judge the firm's concrete behaviour and communications. In the absence of a specialist agency able to collect, verify, evaluate, benchmark and transmit information in summary form, thereby bridging the information gap between firms and stakeholders, the endogenous reputation mechanism may be too slow and imperfect. If this is so, we cannot prevent that reputation may in the short run accrue to or spread also over those firms who do not effectively comply with CSR criteria, without a precise enough discrimination between compliant and not compliant. But, if the reputational mechanism is highly imperfect (so that judgements are often erroneous), the entire CSR system will lose its credibility.

The point at issue, therefore, is what social organisations or institutions could undertake this task. There is an obvious risk of collusion between an agency in charge of performing this informative function in the behalf of the stakeholders and the firms that this same agency should subject to its scrutiny, by independent monitoring and verification. Which entails that a social institution must be created with an optimal design in order to provide the incentives against the collusions and conflicts of interest (in the economics jargon we say 'collusion-proof') so particularly insidious in contexts such as these, given the 'soft' nature of the information at hand. Optimal design of such an institution should therefore provide the following two properties:

1. *Multi-stakeholdership.* A multi-stakeholder body is directly functional to establish a broad consensus on the reference standards that provide the framework for corporate self-regulation. The problem, however, is to ensure that parochial interests do not take over the institution, as far as it is not captured by vested

interests (those of who should be subjected to independent verification). Multi-stakeholdership is mostly important for, by appropriate design of the internal decision processes and symmetries in the distribution of decision rights and weights hold by every category of participants, it can help preventing collusion. The idea is simply resorting to the well known constitutional mechanism of 'checks and balances' among the various interests, so that both in standard setting and in the monitoring of independent verification parochial interests are reciprocally eroded, freeing the institution form their control;

2. *Independence*. Multi-stakeholdership in itself will not suffice if these institutions turn into arenas of constant negotiation where those with the greatest bargaining power prevail or symmetric veto powers are able to drive them in dead-locks. Also required is the adequate autonomy and separateness of ethical and techno-scientific professional infrastructure, able to ensure the independent working out of assessments which satisfy requirements of impartiality and competence.

An institution with these features could perform the following functions:

- setting CSR standards and the methodology for their implementation, holding their ownership, revising and updating them in a view of continuous improvement, promoting discussion for the progressive acceptance of CSR standards among the commonly accepted self-regulatory norms recognised by all the international bodies of standardisation and other international organisations;

- encouraging firms to comply with standards, and aiding them in performing pilot projects functional to fine tuning of the standards;

- disseminating information and promoting in-company training;

- agreeing with the accreditation bodies on the criteria and protocols that will be applied by auditors in carrying out their inspections concerning CSR compliance, and thereby establishing the procedures for the accreditation of third-party inspection and certification institutes collaborating in these activities in accordance with a pre-established protocol;

- especially in the initial phase, until CSR standards become commonsensical, maintaining close surveillance over the operations of the institutes of inspection that issue certificates of compliance with CSR standards;

- giving appropriate salience, by issuing surveys, reports and white papers, to the trend towards the adoption of CSR management systems;

- surveying and monitoring, by recollecting any source of information, the CSR profile of firms and furnishing the public with the information that it needs to form their judgements with objectivity, in particular to ethical finance operators and responsible consumers.

In summary, multi-stakeholder dialogue on CSR can be facilitated by the creation of civil society institutions endowed with competence, moral authority and independence, and at the same time considered representative of the interests at stake, so that they

can reliably be addressed to the end of promoting corporate social responsibility and ascertain conformity to it against the reference point of shared criteria and standards.

As multi-stakeholder bodies for the promotion, monitoring and independent verification of CSR, these institutes should take the form of non-profit organisations, with a broad base including business associations representing each type of enterprise (for-profit, cooperatives, non-profit) and the representative of their principal stakeholders: the trade unions, consumers, environmentalist associations, professional associations, non-profit associations advocating human rights and social welfare, and local authorities – all of them supported by a network of rigorously independent research centres (the Universities have here an important role to play). This would also lead to the strengthening of those intermediate social bodies that underpin a modern economic democracy and a democratic society in general.

Part B: Benchmarking Q-RES with VMS, SIGMA and AA1000

4.   Identifying the key elements of a CSR Management System

To approach our benchmarking exercise we decided to focus first of all on identifying the key elements that any CSR management system is likely to include. After examining the structure and content of a number of CSR management standards, we came to the conclusion that there are four key building blocks upon which a CSR management system should be developed:

- *Values and Principles for CSR* - the guiding principles shaping an organisation's overall approach to CSR and orientating its decision-making processes;

- *CSR Management Process* – an overall organisation process linking together values and principles for CSR, CSR Management Tools and the organisation's core strategy, policies and procedures;

- *CSR Management Tools* – a number of management tools helping the organisation to address specific issues and 'themes' linked with CSR performance, e.g. stakeholder engagement, reporting etc.; and

- *Assurance* –procedures of internal audit (self-governed by the organisation) and external verification (provided by independent third parties) aimed to raise the credibility of the system.

In this chapter we discuss more in detail each of the above identified elements, by presenting a definition of the element, discussing its main aim within a CSR management system, illustrating the typical content of the element and presenting one or two examples of practical application of the element.

4.1   Values and Principles for Corporate Social Responsibility

a) Definition

> Values and principles for corporate social responsibility are a set of economic, social, and ethical criteria for judgement - either explicitly stated or implicitly shared by all members of the organisation - defining the organisation's identity, vision and strategy, and guiding and reflecting decision-making processes both at strategic and at operational level.
>
> Values and principles thereby act as the normative ideals of a corporation that shape corporate action in the co-operative relations with its stakeholders by defining a fair balance amongst stakeholders' interests and the corresponding corporate commitments towards them. Stakeholders have the opportunity in this process to accept or reject the offered values and principles as guiding rules for economic and social transactions with the

Any organisation can be seen as the result of the cooperation among different stakeholders who provide their inputs – namely labour, capital, physical resources and knowledge - to produce the goods and services described by the organisation's mission. Corporate values and principles make possible such a cooperation and facilitate the coordination among all employees, as they provide the basis upon which the collaboration take place, by defining the rights and duties of the different stakeholder groups in their interaction with the corporation and the corresponding responsibility of the corporation towards its stakeholders.

Corporate values are originated by – and at the same time have an influence upon - the corporate culture and organisation's history, and reflect the way the organisation has developed its relationships with all its stakeholders, in particular the local communities in which it operates.

It is therefore logical to look at corporate values as at something in constant evolution according to changes in the social, economic and institutional context within which the organisation carry out its activities.

b) Aim

In order to be recognised as a basis for fair cooperation among stakeholders, values must be recognised as genuine moral principles. To this aim it is crucial that corporate values satisfy the following formal requirements [21] that make them meaningful from a moral point of view.

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[21] The prescriptive nature of moral values has been discussed by Richard Hare in its seminal work *The Language of Morals* (1952), Oxford University Press.

Conditions for ethical meaning :

- o **Prescriptive** – the values necessarily express a commitment about how to act and must represent a guide about how to behave within the organisation;

- o **Universalisable** - Moral values are universalisable. In other words, any moral judgment about what a particular stakeholder ought to do in some set of circumstances entails a universal judgment about what anyone with that person's characteristics ought to do in those circumstances;

- o **General** – values should cover the whole range of corporate activities and the whole spectrum of corporate relations with its stakeholders;

- o **Impartiality** – values must be impartially applied to all groups of stakeholders, and to each individual member of each stakeholder group;

- o **Compliance** – values must be effectively complied with by all organisation's members;

- o **Stability** - values must be set for a defined time-frame (but values can and should evolve over time).

Cognitive role

Moral values play a crucial role not only in social interaction, but also in economic transactions, particularly in complex transactions characterised by *contract incompleteness* and *asymmetric information* between the parts. This is, for example, the case when the buyer is only able to judge the quality of goods or services after some time of their purchase (e.g. the market of used cars) or, in even more complex situations, when the buyer is not able at all to make a judgment on the quality of goods and services, because of their intrinsic highly specific nature (think, for example, at medical or legal services). In this cases, economic transactions rely on *reputation* and *trust* among the parts. It is possible to extend this type of situations from the buyer-salesman relation to the various stakeholder-corporation relationships, both externally (e.g. between the organisation and the suppliers, or the organisation and the customers) and internally (e.g. between the management and the employees)[22]. By demonstrating that its policies and behaviours are coherent with its publicly announced ethical values the corporation can develop its own reputation, thereby sustaining its economic transactions with the different stakeholder groups.

In this perspective, it can be seen how values and ethical principles have a '*cognitive*' role in a CSR management framework: they help the corporation to make explicit the organisation's ethical view of fairness that must be acceptable (in principle) by any stakeholder, and by doing so they help filling the cognitive gap hindering the stakeholder capability to make reputation judgments. The underpinning reasoning is the following:

- By developing and making explicit its own values and ethical principles, the corporation defines standards of behaviour that can be a surrogate for lacking information about concrete actions;

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[22] See Sacconi (2000).

- Corporate values and ethical principles enable the formation of definite stakeholder expectations about the behaviour of the corporation in situations such that:

- There are unforeseen events (or not completely ex-ante describable in all their details);

- No evidence of company's behaviour is available (or intelligible).

- By establishing company's commitments which can be meaningful even in unforeseen situations, corporate values enable stakeholders to fix a parameter for deciding whether to trust or not to trust the corporation.

Improving co-operation among stakeholders, globally

Corporate Values can also influence positively the organisation's overall performance, by facilitating the co-operation among stakeholders. This is true both internally, through improvements in employee motivation, satisfaction and collaboration at the work place, and externally, reinforcing the legitimacy, enhancing the attractiveness and strengthening the reliability of the firm - all of these being positive effects of a good corporate reputation.

With the globalisation of markets and the organisation of global value-chains by globally transacting enterprises, a notable number of morally sensitive questions rise in the relationships between the corporation and its stakeholders, at local and global level. In table 1 we specified these dimensions by the factors *complexity, subjectivity,* and *society,* which, according to our analyses of the past years gained in importance for the corporate practice.

Table 1.   Driving forces and moral consequences

Rising factor	Positive effect	Negative effect	Ethics problems
Complexity	Utilisation of added value chain	Control Integration	Identity Co-opetition Culture-Fit Fraud Corruption Transparency
Subjectivity	Economies of Behaviour	Management of Diversity	Recruitment Career planning Motivation Quality of performance Multi-cultural teams Professional dependency
Society	Utilisation of resources	Legitimisation	Employment Social security Environment Social contract

The increase in *complexity* of economic decisions is a direct result of the extension of global value chains around the world. The positive effects already mentioned (access to knowledge, distribution, and capital) face the problem of integration and control of these organisational networks. For corporate policies this means not only work at the culture-fit of different countries, trades, enterprises, and teams,[23] but also the generating of a disposition of behaviour in the actors which is called "*co-opetition*".[24] It is the ability of top management and employees to live *cooperation* and *competition* in parallel. The ability to co-opetition is crucial in a time where one and the same company can be supplier, partner, and competitor of another company and competition for resources and orders as well as cooperation between the units of decentralised organisations do not exclude but mutually presuppose each other. Such a disposition of behaviour cannot be established without lived values like fairness, responsibility, and contractual fidelity. Phenomena such as intra-company fraud and corruption with their economic loss reaching billions are counted among the problems of control. In this context honesty, truthfulness, and straightness are values with a preventive effect.

The rise of the factor *subjectivity* is an amazing phenomenon in a highly institutionalised and organised economy, while the catch-words in the employment advertisements prove the tendency towards flexibility, responsiveness, entrepreneurship, orientation towards innovations. "Economies of Behaviour" are to be achieved, that is competitive advantages by idiosyncratic and preferably non-imitable competences and resources of particular employees. They constitute the competitive difference and represent an important resource in case of staff shortage. For the human resource management for example, this results in the task to practise a "Management of Diversity". This tension between admittance of individual subjectivity and organisational rules creates a number of ethical questions. As for recruitment, it is to develop selective mechanisms which are sensitive for the applicants' moral concepts. The nearly permanent organisational reconstruction of companies makes career planning to mutate to the employees' planning of life, that does no longer focus a position in a company but the ability to move around in the job market. At the same time, however, identification with the company and its objectives and an unreserved commitment of individual resources is to be achieved. Without a strong and credible culture of values, at this point a personnel policy will be confronted with incommunicable discrepancies.[25] The key words motivation and quality of performance, the professional dependency of the company from particular employees and the integration of trans-cultural teams on international level belong to this context as well.

Last but not least, for some time we experience a renaissance of the companies' role in *society*. For example, the transition from traditional social market economy to a global production- and sales economy put the whole system of social safety in Germany under close scrutiny, which until today was state-guaranteed and based on regular employment contracts. There is one fact that companies and their associations frequently ignore: the flexible, differentiated and firm-specific solutions which are demanded with good reason will, to a rising extent, shift the problem of their ethical justification from politics (general state organisations) and social parties (associations)

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[23] See WIELAND (1997).

[24] For the idea of "co-opetition" cf. basically NALEBUFF/BRANDENBURGER (1996); with regard to questions of business ethics cf. WIELAND (1998b).

to the companies themselves.[26] In this context an increasingly complex company management has to be reckoned with as well, for the present collective solutions were indeed meant to provide "standard" regulations that obtain legitimisation exactly by this criterion. Companies experience rising ethical pressure of legitimisation by an argument which is widely accepted in the public: that is, companies use the society's resources but are less and less of use for the society. Human rights, social standards, employment, social security, taxes and ecology are some of the key words that signalise a considerable need for corporate social responsibility, corporate citizenship and global compact which may hardly be answered by referring to shareholder value. At last there is the catch-word social contract which marks a development that can solve the increasing number of regulatory problems in the context of globalisation only by networks of politics *and* economy *and* science. For companies this means to have more and more political control options, but on the other hand they are called to account for a large number of social problems.

c) Content

Corporate values may have different sources and focus:

- Company's culture and vision (e.g. the famous "*Credo*" by of Johnson and Johnson, written by the company founder General Johnson in 1943);

- National/local context (e.g. the "Ethikmanagement der Bauwirtschaft" in Germany, an ethics management system which defines institutional arrangements and the desirable degree of market regulation in the German Construction Industry, and the "Codice Etico di riferimento per le Imprese Cooperative" of the Lega Nazionale Cooperative e Mutue, a model code adopted by the main Italian association of cooperative firms);

- International industry standards (e.g. "The Responsible Care" programme developed by the Canadian chemical industry to address its environmental and social responsibilities, and now applied worldwide);

- International organisations (e.g. the UN Global Compact, ILO labour conventions etc.);

- Professional codes (e.g. the "Core Ethical Values" for biotechnology developed by EuropaBio – see www.europabio.org);

- Business Ethics academic research. As an example, Thomas Donaldson[27] defines *ten fundamental international rights* (and corresponding duties for transnational corporations) on which corporate values should be build:

  1) Freedom of physical movement

  2) Ownership of property

  3) Freedom from torture

  4) Fair trail

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[26] For a relevant proposal cf. WIELAND (1996a).
[27] See DONALDSON (1989).

5) Non-discriminatory treatment

6) Physical security

7) Freedom of speech and association

8) Minimal education

9) Political participation

10) Subsistence

On the general and 'vague' form of values and ethical principles

Corporate values and principles are statements that need to be expressed in a form of generality and even vagueness – yet this vagueness is not a weakness, but an intrinsic characteristic of a moral value.

This is because values and ethical principles need to be universalisable and abstract, therefore they focus on characteristics that are invariant from situations to situations.

This vagueness also originates a number of positive implications for corporate values:

- Their application does not need an ex ante detailed descriptions of any situation, but only depends on the presence of abstract characteristics (*silhouette*);

- In no situation they are 'mute': they cover any situation, foreseen, unforeseen or even ex ante unconceivable;

- Their domains of application is necessarily vague (some ambiguity about the belonging of unforeseen situations in the domain of a given principle), but we can manage their vagueness by means of fuzzy measures (fuzzy logic and fuzzy pattern recognition represent our ordinary reasoning with vague concepts);

- Similar people will have a common understanding of these pieces of vagueness, therefore we can assume that the corporate stakeholders will be able to reduce the vagueness to a common understanding.

In this way, despite an intrinsic vagueness, principles can be linked with rules of behaviour and organisational procedures to avoid opportunism in every relation between the firm and the stakeholders (as discussed in Part A, paragraphs 3.7 and 3.8).

d) Example

BASF Group Values and Principles

Value

Sustainable Profitable Performance

Ongoing profitable performance in the sense of Sustainable Development is the basic requirement for all of our activities. We are committed to the interests of our customers, shareholders and employees and assume a responsibility towards society.

Principles

Our objective is to maintain a strong market and financial position, so that we can shape the future of BASF successfully and independently while maintaining our own identity.

We generate a total return on assets before taxes and interest for the BASF Group of at least 10%, averaged over a complete economic cycle. We expect our businesses and affiliates world-wide to meet their agreed-upon objectives.

"Verbund" is one of BASF's strengths. We continuously optimize this integrated manufacturing network to produce more efficiently and preserve valuable resources.

We compensate our employees and provide benefits based on local market conditions and on individual as well as company performance.

With our economic activities and targeted sponsoring of humanitarian, social and cultural issues, we contribute to a positive development of society.

Value

Innovation in the Service to our Customers

We are committed to customer satisfaction. We develop products and chemical processes and provide services of high scientific and technical levels to foster good partner ships with our customers.

Principles

We use our leading position to help shape scientific and technological progress, identify new business opportunities and utilize synergistic effects arising from integrated research.

We seek advantages arising from changes in markets, science and society and use these as an opportunity for value-enhancing growth.

We develop and optimize our products and services, together with our customers, in order to meet their requirements.

We measure customer satisfaction on a regular basis to improve our business processes.

We do not supply any products for the purpose of producing illegal substances or chemical weapons and we are not involved in manipulating the human genome.

Value

Safety, Health, Environmental Responsibility

We act in a responsible manner and support the Responsible Care® initiatives. Economic considerations do not take priority over safety and health issues and environmental protection.

Principles

We encourage awareness of safety, health and environmental issues among our employees and strive for continuous improvement through agreed-upon objectives.

We produce products that are safe to manufacture, use, recycle or dispose.

We support our customers to use our products safely and in an environmentally sound manner.

We minimize the impact on mankind and the environment during production, storage, transportation, sale, use and disposal of our products.

Value

Intercultural Competence

We foster intercultural diversity within the BASF Group and work together as a team. Intercultural competence is our advantage in global competition.

Principles

We seek employees from all cultures and nationalities who possess the appropriate skills and competencies and are willing to devote their energies to meet our objectives and to support our Values.

We recruit our future leaders from all affiliates and promote preferably from within BASF.

We do not tolerate discrimination based on nationality, gender, religion or any other personal characteristics.

Value

Mutual Respect and Open Dialogue

We treat everyone fairly and with respect. We pursue an open and trusting dialogue within our company, with our business partners and relevant groups in society. We encourage our employees to be creative and to make full use of their potential for the common success of the Company.

Principles

Our communication within the company, with our business partners, neighbours and relevant opinion leaders in society, is based upon an open and factual dialogue.

We involve our employees in work and decision processes in a timely manner through open communication and information sharing not hindered by hierarchical and organizational boundaries.

Goals, priorities and responsibilities are mutually agreed upon by the manager and the employee or team.

We encourage entrepreneurial initiative by means of appropriate empowerment. Managers discuss with their employees, on a regular basis, their development and foster their commitment to continuous learning.

BASF strives to maintain relationships with elected employee representatives in good faith and mutual respect based on internationally recognized fundamental labour standards and orientated towards the customs of the respective countries.

Value

Integrity

We act in accordance with our words and Values. We respect the laws and good business practices of the countries in which we operate.

Principles
Our executives are expected to be role models and set appropriate examples in accordance with our Vision and Values.

We abstain from any practice that is illegal and violates fair trade.

We place BASF's interests in any business transaction ahead of any personal interests. We protect the company's property against abuse.

BASF Group companies establish their respective Codes of Conduct based on the BASF Values and Principles and local laws and customs. Each Group company ensures that all of its employees are informed accordingly and use the Code of Conduct as the basis for their behaviour.

Every employee has the opportunity to seek confidential advice and help through the use of a compliance program whenever questionable legal issues arise in the workplace

4.2   CSR Management Process

a) Definition

> A CSR Management process is an overall organisational process, build on the Plan-Do-Check-Act model of traditional quality management systems, aimed at linking together CSR Values and Principles, Management Tools and any other core business and organisational process, integrating all of them under the overarching guidance provided by the CSR Values and Principles.

In traditional quality management systems the Plan-Do-Check-Act (PDCA) model defines a cycle of activities which can be applied to all processes to drive continuous improvement. The PDCA model can be described as including follow elements:

- **Planning** concerns how to reach the desired goals; defining the approach; planning its implementation; assessing what resources will be required; identifying who will have responsibility for what and how the effectiveness of the management system will be evaluated and communicated;

- **Do** refers to the implementation of the planned approach, which includes providing the necessary resources, operating processes as planned and taking measurements as planned;

- **Check** is the phase dealing with analysing and using the information gathered through the various measurements to determine whether the plan has achieved what it set out to do; and

- **Act** refers to the need to use the information gathered in order to ensure the organisation is achieving what it set out to, and taking action to correct any divergence/not compliance with the desired path.

For the purposes of CSR, an overall Management Process is needed in order to make sure that the different elements of the CSR management framework (values, principles, tools) are linked together in an interdependent framework and supported by adequate resources, policies and procedures.

b) Aim

To manage a corporation in a socially and ethical responsible way implies the adoption of guiding values and principles, the introduction of organisational process to support the implementation of the commitments towards stakeholders embedded in corporate values, and the use of a number of management tools to tackle different challenges. It is therefore necessary a logic, a unifying process to link together all these elements of a CSR management framework, in a meaningful and coherent way. This is the aim of an overall CSR management process, which is founded on the corporate values and enables them to be embedded in every business decision making process.

One of the greatest dangers in corporate approaches to social, ethical and environmental responsibility is the lack of integration of CSR programmes with overall business strategy. This is the case when CSR enters in the Board room agenda with a 'residual' approach, i.e. as a set of specific issues separated from mainstream management issues – others have called this the 'silos effect', to emphasise the lack of integration - and even communication – between the 'CSR people' and the other corporate management functions. Even corporate rhetoric can be a signal of such dangerous approach. When we hear a corporation talk about CSR only in terms of "Our activities in the *social* arena..." we might wonder whether that company is considering that CSR issues affect its *business* activities as well or not.

A more mature approach to CSR requires to integrating consideration of social, ethical and environmental issues into overall business strategy – that is the crucial message made the definition of CSR adopted by the Commission in the Green Paper, and the vision that Q-RES, AA1000, SIGMA and VMS all share together.

To enable corporations to bridge the gap of the 'residual' CSR approach and move to a 'holistic', integrated approach, we believe it is necessary to develop an internal organisational process – what we term a CSR Management Process – linking together in a meaningful way CSR Principles, Values and Management Tools and integrating them with core business decision-making processes.

c) Content

A CSR Management Process may include following elements or phases:

- Raising **awareness** on the relevance of CSR issues at various levels of the organisation

- Develop corporate **values** and principles

- Identifying all relevant corporate **stakeholders** and engaging with them to understand their interests, needs and legitimate rights towards the organisation

- Identifying key CSR **issues** for the specific business(es) in which the company operates

- Develop the **business case** for CSR

- Obtaining explicit top management **commitment** to CSR

- Providing corporate members with necessary **knowledge**, competencies and skills to identify and manage CSR issues in their daily decision-making

- Develop/revise corporate **policies** and procedures

- Design **organisational structures** to support CSR within the organisation

- Introduce mechanisms of internal **audit** and controls

- Communicate, **measure** and **report** CSR performance against stated values and policies

- **Review** every step of the process in light of performance measurements and stakeholder feedback

Obviously, the list above is only an illustrative description of the various elements that organisations should consider in order to support their CSR performance with an effective, underlying process. It is up to every organisation to find the right 'mix' of the above elements in order to integrate its own values, culture and management tools in a consistent and meaningful way.

d) Example

A practical example of the Plan-Do-Check-Act methodology can be found in the EU Eco-Management and Audit Scheme (EMAS), a "*management tool for companies and other organisations to evaluate, report and improve their environmental performance*"[28].

Figure 6 illustrate how the Eco-Management Audit Scheme (EMAS) relates to the PDCA model, also pointing out the complementarity aspect of the scheme with ISO14001, the certification developed by ISO for environmental management systems.

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[28] See http://europa.eu.int/comm/environment/emas/about/summary_en.htm

Figure 6.   Plan-Do-Check-Act model for EMAS and ISO 14001
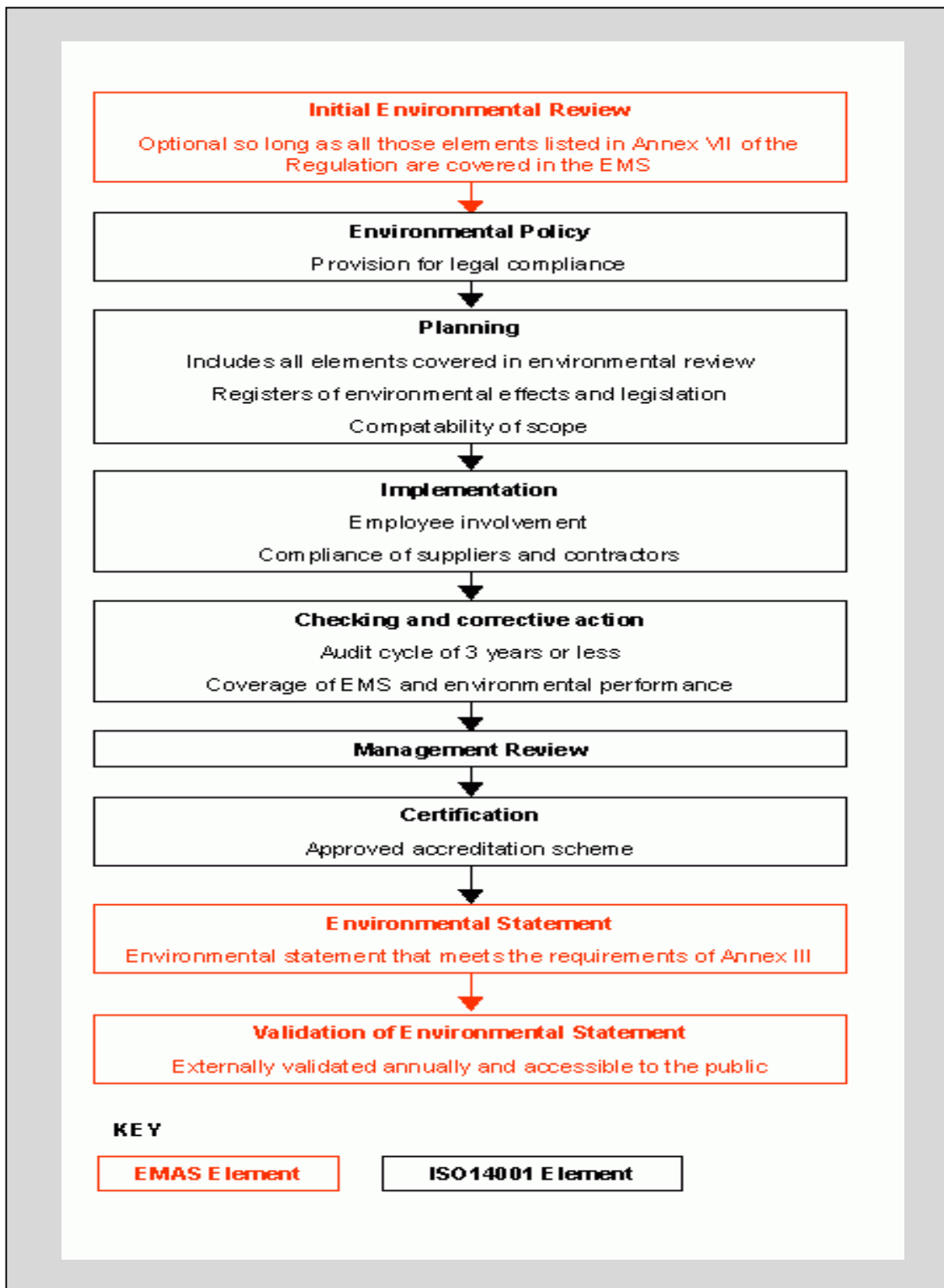
4.3   CSR Management Tools

a) Definition

> A CSR Management tool is an organizational process (e.g. an ethical training programme), a guidance document (e.g. the GRI Guidelines), a standardised methodology (e.g. the life-cycle assessment) or a source of advice (e.g. industry-based guidelines) to help an organisation tackle a particular challenge to its overall social, ethical, economic and environmental performance.

Management tools are tactical interventions, rather than strategic ones.   It is not merely the use of CSR tools that can make an organisation socially responsible: but any overall CSR strategy and management process needs a number of appropriate CSR tools to be effective in addressing the key social, ethical and environmental issues of that organisation.

CSR Tools are designed to help an organisation with a specific and sometimes highly specialist issue. In contrast Corporate Values and Principles and the establishment of a CSR Management process are not only relevant to all organisations but are of strategic importance and application.

Different tools will be of varying relevance to different organisations depending on their context and circumstances.   Organisations may make use of many or few tools and may apply them to particular parts of their operations or throughout.   Most tools are designed to be flexible so that organisations can tailor them to their specific circumstances.

b) Aim

The general aims of management tools are:

- to help an organisation address a particular challenge;

- to provide practical guidance particularly 'how to' advice for organisations enabling them to avoid known mistakes and enhance their chances of tackling an issues effectively;

- to distil existing experience and learning in ways that other organisations can learn from.

c) Content

CSR Management tools take a wide variety of forms. According to the definition given above, with regard to their content CSR Management tools can include various elements:

- <u>Organisational processes</u> implemented by single organisations, focussing on one particular phase or element of the overall CSR Management system, such as:

- o *social reporting*
- o *stakeholder consultation*
- o *ethical training*
- o *ethical help-lines*
- o *internal ethical auditing*

- Guidance documents made available by public institutions, private association or NGOs, that can help organisations to improve their CSR performance in various areas, such as:
  - o *Global Reporting Initiative Guidelines*, providing an internationally accepted common set of sustainability performance indicators to be used in public reporting;
  - o *Dashboard of Sustainability,* an online tool to assess sustainable performance designed by the International Institute of Sustainable Development (see www.iisd.org);
  - o *Corporate Responsibility Assessment Tool,* an internal assessment tool developed by the Conference Board of Canada that employees and management can use to evaluate the company's performance in a variety of areas of CSR (see www.conferenceboard.ca);
  - o *Human Rights Compliance Assessment,* a free web-based tool currently being developed by the Danish Institute for Human Rights to provide concrete achievable human rights standards for companies, and to help companies live up to those standards in practice (see www.humanrightsbusiness.org).

- Standardised methodologies –under this category there are tools that provide a more practical guidance on "how to" tackle a particular challenge to its overall social, ethical, economic and environmental performance, often with higher technical content such as:
  - o *Life-cycle assessment*
  - o *Cost-benefit analysis*

- Source of advice – more general source of information aimed at improving the understanding of CSR issues in business, promoting sharing of knowledge of best practices and thinking, such as:
  - o *Industry-based guidelines* (e.g. the FORGE Guidance developed in the UK by the Bankers Association provide advice on understanding the importance of CSR issues in the in the financial sector –see www.bba.org.uk);
  - o *Research centres* and *think-tank* active in the field of CSR, such as DEMOS, the New Economics Foundation and the Centre for Tomorrow's Company in

the UK, The Copenhagen Centre in Denmark, Zentrum fuer Wirtschaftsethik in Germany and CELE in Italy.

Another way of categorising CSR Management tools is by the type of approach, and according to which audience (users) the tool is aimed at. Some examples of these two types are given below.

CSR Tools by approach adopted

- *Descriptive (e.g. Case studies)* – typically a case-study includes a brief description of the situation and key CSR issues addressed, the organisation's actions to cope with them, the results achieved and lessons learned, thereby providing a useful guidance tool for organisations willing to address similar issues (see the WBCSD website http://www.wbcsd.ch/ for case study examples);

- *Prescriptive (Methodologies)* - these type of tools provide practical advice on 'how to do it', usually for a specific and clearly identified situation e.g. advice on how to conduct a life cycle assessment, or to prepare a sustainability report;

- *External Assessment (e.g. SRI rating schemes)* – the rating schemes adopted in the Socially Responsible Investing field (such as the FTSE4Good or the Dow Jones Sustainability Indices) differ from other approaches in that the organisation generally has less flexibility about how the approach is applied. The primary focus of the tool is not so much the needs of the organisation itself but of other stakeholders e.g. investors, analysts, NGOs. Nonetheless it may be appropriate to include such tools in a CSR management system as a way of demonstrating transparency and accountability.

- *Awareness raising (e.g. training)* - some tools do not address a specific CSR issue, but rather help an organisation to raise its awareness on the importance of social, ethical and environmental issues and improve its ability to identify and manage them. Internal capacity building and establishing clear commitments towards CSR are crucial pre-requisites for effective CSR management. Awareness raising tools may include activities such as an ethical training programme or a tool for developing the business case.

CSR Tools by audience addressed

A number of tools are written with a specific audience in mind:

- *For a specific sector* - for example the *GRI Guidelines* have been integrated with *sector supplements* which provide more specific guidance in a number of sectors, such as telecommunications, automotive, mining, and financial services; the *Transparency Guidelines for SRI retail funds* developed by Eurosif have been launched to help the financial sector to better reflect their approach to SRI fund management (see www.eurosif.org) ;

- *For a particular type of organisation* - for example CSR tools developed for SMEs, such as the Workbook on *Social Auditing for Small Organisations* developed by Zadek and others at the New Economics Foundation in the UK) or for NGOs (e.g. the "*Chart of Donations*" in Italy, defining principles and tools for NGO accountability – see www.cartadonazione.it;

- *For specific staff* - tools addressing common CSR issues faced by people working in the same function but across business sectors, such marketing staff – see for example the EFPIA European Code of Practice for the promotion of medicines (www.efpia.org) or HR staff – see the Code of Practice for the Employment and Career Management of Contract Research Staff by the University of Oxford (www.ox.ac.uk).

d)   Examples of tools

As an example for CSR Management Tools we illustrate the SIGMA project 'Tools and Resources' (www.projectsigma.com), which includes a number of CSR Management tools. The SIGMA toolkit consists of the following tools:

- *Guide to the AA1000s Assurance module*

- *Business case tool*

- *Compatibility tool*

- *Environmental Accounting tool*

- *Global Reporting Initiative guide*

- *Marketing and Sustainability guide*

- *Performance review tool*

- *Risk and Opportunity guide*

- *Guide to relevant standards*

- *Stakeholder engagement tool*

- *Sustainability accounting guide*

- *Sustainability scorecard*

- *Sustainability issues introductory guide*

More details of these tools and case studies can be found on the SIGMA Project's website. As an example, we present below the description of three *SIGMA Tools***.**

- *SIGMA Performance Review Tool*

The Performance Review Tool is a review checklist that assesses organisational performance against the SIGMA Management Framework.

The Performance Review Questionnaire consists of 16 question areas, each broken down into sub-categories. It is recommended that organisations complete this questionnaire when setting out on implementing the SIGMA Management Framework to lay down a benchmark of current performance. It can then be used throughout the process to review progress and track trends. Having completed the questionnaire, organisations are able to score their performance, which provides them with a picture of how well they are doing in terms of sustainable development performance. The questionnaire can also be used to benchmark performance between different parts of an organisation.

This tool is aimed at managers and practitioners with responsibilities for sustainable development and operations within organisations.

- *SIGMA Environmental Accounting Tool*

The Environmental Accounting Tool provides an introduction to accounting for 'internal' environmental related expenditure (expenditure already incurred and captured within a company's accounting system but perhaps lost in general overheads) and 'external cost accounting' (the internalisation of environmental externalities). A pro-forma set of external environmental cost accounts is presented together with a practical step-by-step guide to help individual organisations to begin the task of developing and drawing up their own external environmental cost accounts.

This tool is mainly aimed at users with a good level of environmental and financial knowledge.

- *SIGMA Marketing and Sustainability Tool*

The Marketing and Sustainability Tool provides an introductory bridge between the two specialist fields of marketing and sustainability and suggests some initial steps in developing a sustainability marketing plan. By first providing the marketer and the sustainability practitioner with an understanding of each other's field and how the two can support each other, the tool lays the foundations for collaboration. It then provides a number of practical steps towards identifying key opportunities, through understanding customers and the market, assessing the sustainability attributes of the organisation's products and services and determining which sustainability issues have the greatest potential for use in a marketing campaign.

This tool is aimed at managers with responsibility for sustainable development and marketing department professionals.

4.4   Assurance

a) Definition

> Assurance is an internal or external evaluation, against a specified set of principles and standards, of the quality of specified reports and the systems, processes and competencies that deliver the associated information and underpin the reporting organisation's performance. Assurance includes the communication of the results of this evaluation to provide credibility to the subject matter for its users.

Several aspects of this definition need to be highlighted:

1.   The applicability to 'specified reports', which might be public or not, meaning that this definition applies equally to internal and external assurance.

2.   The requirement to cover underlying competencies and performance as well as the contents of specified reports and associated information.

b) Aim

Assurance is to be distinguished from audit or verification in that 'assurance' is what you are trying to achieve, and audit and verification are two of many possible means of achieving this. Assurance, for example, might in Japan be achieved by the CEO making a formal apology for errors made. In the UK and the USA, assurance is often achieved by the company associating itself with known people or organisations (e.g. Greenpeace) who are unlikely to risk their reputations if they themselves do not believe in the company's claims. There are a growing number of product-based labels that attest to how it was made or transported. In continental Europe, in particular, assurance comes most of all through dialogue, often through structured process involving the labour movement.

c) Content

The content of assurance clearly varies enormously depending on:

a)   What elements make up the provision of assurance (e.g. formal audit and verification, opinion leader statements, social engagement, etc).

b)   Where formal audit and verification is provided as part of an assurance process, how this is carried out.

There is as yet no single agreed approach to providing sustainability assurance, and not even covering the audit and verification elements. Also most approaches taken are proprietary, or at least not fully disclosed.

To describe content, we have therefore set out below some excerpts from audit and verification statements published alongside public corporate social and sustainability reports. Although not complete, it allows for some insights into the methods adopted.

"We have…used a customized attestation process involving detailed challenge of the contents of the Review, selected document review, interviews with executives and managers, and site-based reviews to understand how the non-financial policies are being implemented and reported upon, the actions they are taking to address them."
[Extract from] Ernst & Young on their assurance of BP's 'Environmental & Social Review 2001'

Ashridge's work in verifying the production of this [Camelot's] report comprised four major tasks..[of which one is]..Ensuring the stakeholder consultation processes allowed a comprehensive and objective assessment of the interests and concerns of all stakeholder groups. This included commenting on and approving the final design of questionnaire surveys, interview discussion guides and other consultation tools and techniques."
[Extract from] Ashridge on Camelot's 'Social Report 2001'

"We have used a variety of established auditing techniques to check the accuracy of information reported. These include inspection of records and documents; internal and external enquiry; confirmation of information sources and accuracy; direct observation of dialogue and other key elements of the process. To assess the social reporting process as a whole against AA1000 we deployed our quantitative assessment tool, VeriSEAAR$^©$."
[Extract from] Bureau Veritas on British American Tobacco's 'Social Report 2002'

"Procedures used included..Reviewing the development and implementation of management systems and information collation systems that will influence the completeness, accuracy and integrity of the reported information..Assessing the adequacy of controls to ensure information timeliness, accuracy, completeness and consistency..Sampling reported quantitative data including monitoring procedures, metering or manual recording processes, recalculating etc..Sample review and substantiation of reported qualitative information based on our understanding obtained from the above points."
[Extract from] PricewaterhouseCoopers on WMC Limited's 'Sustainability Report 2001'

"We have checked that the contents of this report are consistent with data supplied by operating companies or obtained from audited financial statements. We have assessed and received satisfactory explanations about the appropriateness of data trends, but we have not sought to verify otherwise unaudited data."
[Extract from] The Corporate Citizenship Company on South African Breweries 'Social Report 2001'

Source: State of Sustainability Assurance 2003, AccountAbility

Further insights can be obtained by looking at how assurance providers have concluded in their assurance statements, as illustrated below.

"The objective of our work was to answer the following questions: (a) Are the focusing questions posed by Rio Tinto in reporting its performance the relevant ones? (b) Do the data support the claims made in the report? (c) Do the data presented in the report match those submitted by the sites? The short answer to these three questions is 'Yes'.
Arthur D. Little on HSE and greenhouse and energy information in Rio Tinto's 'Social and Environment Review 2001'.

"Ashridge is confident that this report presents a true, complete, balanced and accurate account of how the organisation is implementing the values and principles stated in the success models relevant to each stakeholder group."
Ashridge Centre for Business and Society on Camelot's 'Social Report 2002'

"We are satisfied that information conveyed in this social report and marked as verified is reliable and free from significant error or bias."
Bureau Veritas on BAT's 'Social Report 2002'

"In our opinion, in all material respects, CATCH is functioning as described in 'Scope of report', and the system ensures an appropriate data collection process at corporate level."
Deloitte & Touche on Novo Nordisk's 'Dealing with Dilemmas 2002'

"Based on this review, ERM finds that Bristol-Myers Squibb has a reliable system in place for collecting, summarizing, and reporting representative information on EHS performance for its corporate sustainability report."
ERM on Bristol Myers Squibb's EHS Program 2001

"I believe this report fairly represents the bank's economic, social and ecological impact on its Partners and its continuing implementation of its ethical values and policy."
Ethics Etc. on the Co-operative Bank's 'The Partnership Report 2002'

"In our opinion CIS accountability process has shown improvements against all eight AA1000 principles since the previous report. In our opinion the KPIs in the report have been properly prepared in accordance with the stated methodologies and the feedback from the dialogue research has been compiled fairly from the sources stated. In our opinion, the information in the report is, where relevant, consistent with the KPIs and dialogue feedback."

KPMG on CIS's Social Accountability Report 2001

"In our opinion (a) the data, statements and graphs, together with the case study and explanatory information on pages 29 and 48, properly reflect the performance of the reporting entities for each parameter [marked with this symbol] (b) The statements and data related to systems and processes [marked with this symbol] are supported by underlying evidence. (c) The data are properly aggregated at Group level for each parameter marked [with this symbol]…We also examined the whole Report to confirm consistency of the information reported with our findings."
PriceWaterhouseCoopers and KPMG on 'The Shell Report 2001'

"Except for the effect, if any, of unidentified issues due to the limited scope of consultation discussed above, I am satisfied that VanCity's 2000-01 Accountability Report is reliable, balanced and a fair representation of VanCity's social and environmental performance as defined by the SOVAC."
Solstice Consulting on VanCity's Accountability Report 2001-2

Source: State of Sustainability Assurance 2003, AccountAbility

5.   Benchmarking Values and Principles for CSR

This chapter presents the core values and principles of Q-RES, AA1000, SIGMA and VMS. In the final paragraph, we discuss the common elements among our four initiatives.

5.1   Q-RES core values and principles

The Q-RES project is based on the theory of the *social contract*. In this perspective, a firm can be described as a set of individuals or groups that cooperate together - among each other within the organisation, and with other individuals and groups externally - to achieve a common goal, usually identified in the corporate mission statement.

To enable efficient and effective cooperation – both internally and with the external stakeholders – one factor is crucial: the presence of trust. Any individual will only invest the optimal amount of resources – intellectual capital, personal effort or financial capital – if he/she can reasonably expect a fair treatment and reward of his/her contribution to the achievement of the ultimate goal of the cooperation. To build trust, a firm must be able to demonstrate fairness in the way it operates and in the relations with all its stakeholders. A number of definitions of fairness have been developed by philosophers. The Q-RES project embraces the *social contract* approach to define the social and ethical responsibility of the corporation, as illustrated in paragraphs 3.3 and 3.4.

The social contract is an *ideal* contract based on the following provisos:

- - Force, fraud and manipulation must be put aside

- - Everyone must follow the ideal procedure of putting her/himself in the position of every other stakeholder, taking the position of each in turn;

- - Everyone must find out the terms of agreement that she/he is ready to accept and conform to;

- - There is at least one agreement that everyone will accept given that she/he knows that it must also be acceptable by any other stakeholder.

The social contract defines the terms of agreement that are acceptable from the point of view of an impartial spectator - "yourself" - when considering the problem from every stakeholder point of view.   This implies that in a CSR management approach, the fair corporate action, decision or strategy is to be found as the result of a mutually advantageous agreement among free, rational individuals.

From the ideal of the social contract the Q-RES Standard has identified the following general principles of a CSR management system:

- • *Social contract* – The organisation conceive and operationalise its own Mission in light of the implicit social contract with stakeholders. The social contract is an ideal autonomous, free and rational moral agreement amongst all stakeholders. It is an unanimous agreement, accepted by all stakeholders in view of the satisfaction of their legitimate expectations of well-being. reached and shared by all stakeholders. The organisation is entrusted by the social contract to fulfil its own Mission, under the fiduciary duty towards all stakeholders that it will

fulfil it with *effectiveness*, *efficiency* and *fairness*. Hierarchical relations based on authority and contractual relations, particularly when re-negotiations take place, should be guided by the social contract principle, i.e. apply what the parts would autonomously and rationally accept.

- *Effectiveness* - The organisation pursues its Mission by respecting the social contract with all its stakeholders, i.e. in such a way to satisfy their legitimate expectations. Effectiveness is expressed by coherence between results obtained and fulfilment of the Mission.

- *Efficiency* - The organisation provides the incentives able to motivating all stakeholders who contribute to the fulfilment of the Mission to invest their resources (managerial financial, intellectual, physical) in such a way that generates the maximum surplus between costs and benefits. Stakeholders who do not directly contribute to the fulfilment of the Mission but are affected by the organisation's activities should be enabled to invest the right amount of trust towards the organisation.

- *Fairness* - The organisation must ensure to each of its stakeholders a fair share of the benefits generated − i.e. a level that would rationally and autonomously accepted by all parts as proportional to the contributions and expectations of everyone. Moreover, the organisation is committed to protect stakeholders from opportunistic behaviour and to reward cooperation.

- *Just conduct* - The organisation is committed to respect and enforce the principles of the social contract with its stakeholders and to prevent that situations of inequality of information, power and lead to outcomes that would be unacceptable from a social contract point of view.

- *Transparency* - The organisation must be able to give explanation and justification its actions and relevant omissions concerning the respect of the commitments towards its stakeholders. The organisations is committed to provide information enabling stakeholders to judge the coherence between outcomes achieved by the organisations and its commitments.

- *Honesty* - The organisations is committed to respect the laws and the social contract principles with all its stakeholders.

- *Responsiveness and Accountability* - The organisation is committed to respond and be accountable to its stakeholders, and is willing to be judged with regard to the respect of the social contract principles with its stakeholders.

- *Stakeholder dialogue and engagement* - The organisation apply leadership to build relationships of trust with its stakeholders; take care to establish two-ways communication with stakeholders and allow them to give voice to their concerns, expectations and opinions without fear or restrictions. Stakeholders who are enabled to understand decisions, participate in the decision-making processes and give voice to their opinions can contribute to improving the social and ethical performance of the organisation.

- *Trust and good reputation* - The organisation recognises to have a fiduciary mandate to pursue the Mission on behalf of all its stakeholders. Maintaining trust is fundamental to ensure cooperation among stakeholders, which is necessary to

fulfil the Mission in an effective, efficient and fair way. The organisation protect and increase its reputation by operating in the respect of the social contract principles

- *Continuous improvement* - Continuous improvement of overall organisational performance should be a constant objective of the organisation

- *Leadership* - The top management defines the organisation strategy and ensure coherence of intentions to improve the organisational social and ethical responsibility. It should create and foster an internal and external environment encouraging stakeholder engagement in the definition and pursue of organisational objectives.

5.2   VMS core values and principles

Every values management system is based upon definition and codification of those company values that determine its identity and structure its decision. Such codes of ethics have been standard for a long time in the international business.

These codes are something like a company's business card and as such do not only contain *moral values* but as well *performance*, *communication* and *cooperation values*. The following list contains potential values which we gained from analysing German company standards:

- *Performance values:*   *profit, competence, performance, flexibility, creativity, innovation, quality*

- *Cooperation values:*   *loyalty, team spirit, conflict ability, openness*

- *Communication values:*   *respect, affiliation, openness, transparency, communication*

- *Moral values*:   *integrity, fairness, sincerity, honesty, social responsibility, citizenship*

This list is not comprehensive but a selection of examples. The values of a business describe the definite set of values the stand for. The set must be company specific and is codified by a written document that always include statements from all four classes of values. They grant a company definable identity and "make a difference". They determine preferences of behaviour in a corporation, are a declaration of objectives and intentions and a criterion for making decisions in conflict situations. Only in this version they can become art of management processes. Codified values have to be communicated in the company and to all relevant stakeholders. Moral values, cooperation values, performance values and communication values of an organisation are to be correlated in a way that provides specific identity and orientation for decisions.

Background of the values orientation of the VMS is the fundamental belief that a business' value depends on its values. For this purpose corporate values and principles must neither contradicting themselves nor act as a basis on which the company's stakeholder are given promises that can not be kept. Only the basic values of a

corporation can be communicated credibly to all stakeholders. And credibility and moral reputation are the prerequisites of corporate success in its relation to markets and the society.

It is important to realise that a corporation does not only hold moral values. Because it is an organisation in a market environment it has to have performance values. But at the same time every firm is a project of cooperation between resource owner and the society. Therefore it needs values of cooperation, communication and moral values which guide this process. For this reason the German VMS does not prescribe a definite set of values but asks for a process inside the corporation to find out about the appropriate values for its mission. This process must start top–down and must also be continued bottom-up. Top management has to lead this process and has to involve people from the different levels within the organisation and their representatives.

The **principles** of the VMS are the following:

- *Sustainability*: keeping the license to operate and to growth in the legal, economic, ecological and social sense of the word.

- *Compliance*: to show integrity and fairness in every aspect of the business.

- *Competence*: organisations and individuals should have the resources to deal with corporate social responsibility as a business case.

- *Integration*: every component and element of a VMS must be consistent with and be part of the whole management process of a firm.

- *Self-binding*: a VMS can only be sustainable and successful if the actors bind and control themselves to this program.

- *Management Orientation*: a VMS must be an integrative part of all relevant areas of management.

- *Leadership*: a VMS needs top management as role models and responsible actors.

- *Values Driven*: only law driven compliance programs con not be successful but compliance must be accompanied by a values orientation.

- *Process Orientation*: the best practices in Corporate Social Responsibility needs a focus on the development of ethical competences inside a corporation.

- *Validation*: any serious VMS needs evaluation and audit. The German VMS focuses on self binding and self evaluation while external evaluation might enhance the credibility.

5.3   SIGMA core values and principles

The SIGMA Guidelines emphasise the importance of organisations establishing and implementing clear principles to guide their development. The SIGMA Guiding Principles seek to illustrate and reflect what an organisation working towards sustainability would look like and some of the characteristics that such an organisation might exhibit.

The purpose of the SIGMA Guiding Principles is:

- to help organisations understand how they can contribute to sustainable development

- to provide a framework that helps organisations to develop their own robust set of guiding principles that they can then follow.

The SIGMA Guiding Principles consist of two core elements:

1. The holistic management of five different types of capital that reflect an organisation's overall impact and wealth (in the broadest sense)

2. The exercise of accountability, by being transparent and responsive to stakeholders and complying with relevant rules and standards.

The figure below shows how the two core elements of the SIGMA Guiding Principles can work in combination within organisations.

Figure 7.   The SIGMA Principles

Source: *THE SIGMA GUIDELINES*
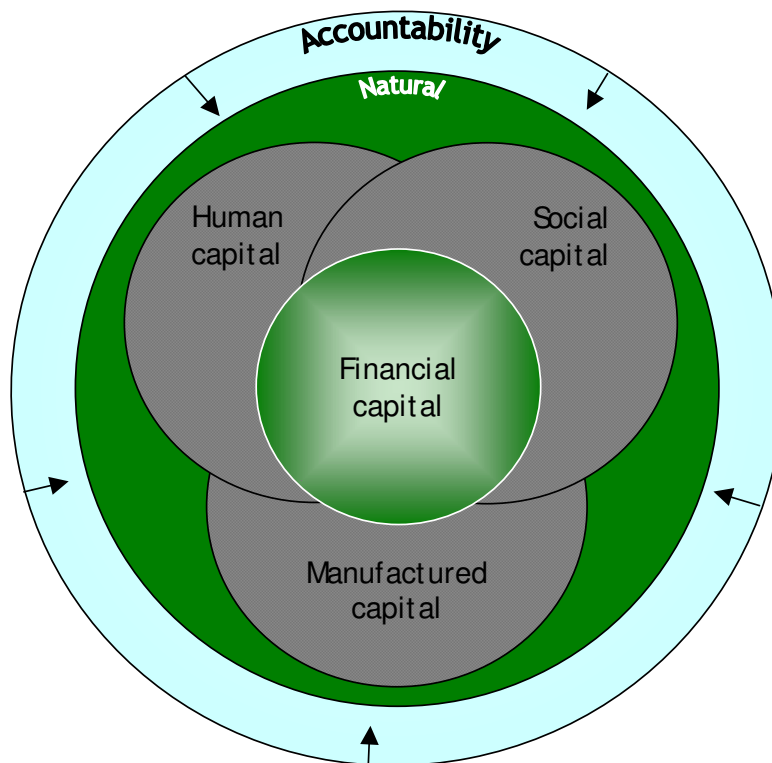
The five types of capital described in the figure are:

- Natural capital - the environment

- Social capital - social relationships and structures

- Human capital –people

- Manufactured capital - fixed assets

- Financial Capital - profit and loss, sales, shares, cash etc

Natural capital encompasses the other capitals as natural resources and ecological systems form the basis of life, on which all organisations (and wider society) depend. Social, human and manufactured capitals are critical components of an organisation and its activities. High levels of these capitals deliver value to both organisations and society, not to mention improving the quality of life of stakeholders. Financial capital is crucial to the ongoing survival of an organisation, and is simply derived from the value that the other four capitals provide. All of the capitals are heavily interlinked and there is some overlap between them.

This whole system is then encircled by the principle of *accountability*, representing the relationship that an organisation has with the outside world - with its stakeholders and for its stewardship of the five capitals[29]. Accountability' consists of three elements:

1. *Transparency* means the duty of an organisation to account to its stakeholders.

2. *Responsiveness* means the need to respond to stakeholders.

3. *Compliance* means the duty to comply with standards to which an organisation is voluntarily committed, and rules and regulations that it must comply with for statutory reasons.

An organisation's accountability is fulfilled by being transparent, being responsive and by its compliance with appropriate rules; and by engaging with and accounting to stakeholders for its performance in these respects.

Organisational accountability is based on effective engagement with stakeholders. An organisation's stakeholders are those groups who affect and/or are affected by the organisation and its activities. Stakeholders may include, but are not limited to owners, trustees, employees and trade unions, customers, members, business partners, suppliers, competitors, government and regulators, the electorate, non-governmental organisations (NGOs), not-for-profit organisations, pressure groups, and local and international communities. Engagement builds relationships with stakeholders to determine what is important, or *material*[30], to all involved in order to improve overall performance.

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[29] The SIGMA Guiding Principles including the concept of the five capitals is explained fully in Chapter 4 of the SIGMA Guidelines. The SIGMA Guiding Principles seek to build upon a range of existing approaches, whilst remaining compatible with them. For a review of 20 standards and guidelines relevant to sustainable development see 'SIGMA Guide to Guidelines and Standards relevant to sustainable development' in the SIGMA Toolkit. This can be found at www.projectsigma.com.

[30] Material means information needed by stakeholders for them to be able to make informed judgements, decisions and actions about an organisation's sustainability performance.

5.4   AA1000 core values and principles

The initial AA1000 Accountability Framework was launched in November 1999. Following a review of practice in 2001, work was initiated on the AA1000 Series, which includes:

a.   The Management Framework embedded in the original Accountability Framework, focused on the organisation's engagement with its stakeholders as a core aspect of their process of learning, accounting, auditing and reporting, and management for change.

b.   A series of 'plug-in' modules, starting with the AA1000 Assurance Standard, the world's first open-source sustainability assurance standard.

At the heart of the AA1000 Series in its various iterations is the view that organisation's should be accountability to stakeholders. Following from this is that any and all systems for managing, accounting and reporting an organisation's performance should be oriented with this approach to accountability at its core.

Accountability is, then, the AA1000 Series core value. The more recent iterations of the AA1000 Series have, however, been explicit in linking accountability to the related paradigm of sustainable development. This is expressed most directly in AccountAbility's own mission statement, *'promoting accountability for sustainable development'*. At the heart of this linkage are the two, related views that:

(a)   The *reason* for developing and promoting use of the AA1000 Series is to advance the cause of sustainable development.

(b)   Meaningful progress towards sustainable development requires fundamental shifts in accountability.

The AA1000 Series focus on stakeholder accountability is expressed through its core requirement that *"Organisations adopting any part of the AA1000 Series, including the AA1000 Assurance Standard, commit themselves to the practice of 'inclusivity'"*. This practice is operationalised through the three-part definition of 'accountability':

- Commitment to *identify* and *understand* its social, environmental and economic performance and impact, and the associated views of its stakeholders.

- Commitment to *consider* and to *coherently respond* (whether negatively or positively) to the aspirations and needs of its stakeholders in its policies and practices, and;

- Commitment to *provide an account* to its stakeholders for its decisions, actions and impacts.

The AA1000 Series proposes that accountability can be best expressed by the application of three key principles. These principles were developed as part of the development of the AA1000 Assurance Standard, and simplify the longer list of principles originally developed for the AA1000 Accountability Framework.

- The AA1000 *Materiality Principle requires that the organisation has included in its reporting the information about its sustainability performance required by its stakeholders for them to be able to make informed judgements, decisions and actions.*

- *The AA1000 Completeness Principle requires that the organisation can identify and understand material aspects of its sustainability performance.*

- *The AA1000 Responsiveness Principle requires that the organisation has responded to stakeholder concerns, policies and relevant standards.*

5.5 Values and principles for CSR: Common Elements

In the previous four paragraphs we have presented the key values and principles of Q-RES, VMS, SIGMA and AA1000. In order to identify the common elements among these standards, we have conducted a benchmarking analysis of relevant documentation published, but also – and probably most importantly – we have discussed the 'spirit' of each initiative.

This discussion within the research team has allowed to point out a number of common elements, overcoming differences of approaches that language diversity and different cultural backgrounds might make appear more significant than they really are.

However, still significant differences among our approaches do exist, as one should expect if looking at the different theoretical constructs beneath Q-RES, VMS, SIGMA and AA1000.

- *Social contract theory* – **Q-RES** is founded on the idea that the relationships between the corporation and its stakeholder should be governed according to the social contract perspective based on the concepts of *efficacy, efficiency and fairness*;

- *Corporate Ethics and Compliance* – **VMS** is founded on the concept of *governance ethics*[31]. This theory explains that the ethical performance of an individual or collective actor depends on the efficiency and effectiveness of the structure which governs a distinctive moral transaction. Governance ethics does not mean the individual virtues to be unimportant. On the contrary, the governance structures of a company are the context in which individual virtues have to be proven and realized. The crucial question is: Are the governance structures of a company designed in a way to encourage the individual's ethical conduct in business or is it just the other way round? Then ethics of governance is a strategic management task and has wide-ranging practical consequences;

- *Sustainable development* – **SIGMA** is build upon the values embodied in the concept of sustainable development, reflected in the Five Capitals model that help organisations to integrate sustainable development in their management processes, and by the principle of accountability, guiding the relationships that an organisation has with the outside world;

- *Accountability* - **AA1000** is founded on the principle of organisational accountability to promote sustainable development. The concept of accountability is expressed by the application of the three key principles of *Materiality*, *Completeness* and *Responsiveness*.

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[31] Cf. the monograph "Die Ethik der Governance" (Wieland 1999a) and "The Ethics of Governance" (Wieland 2001).

The figure below tries to points out the four different 'angles' from which the four approaches look at CSR:

Figure 8.   Variety of theoretical approaches to CSR
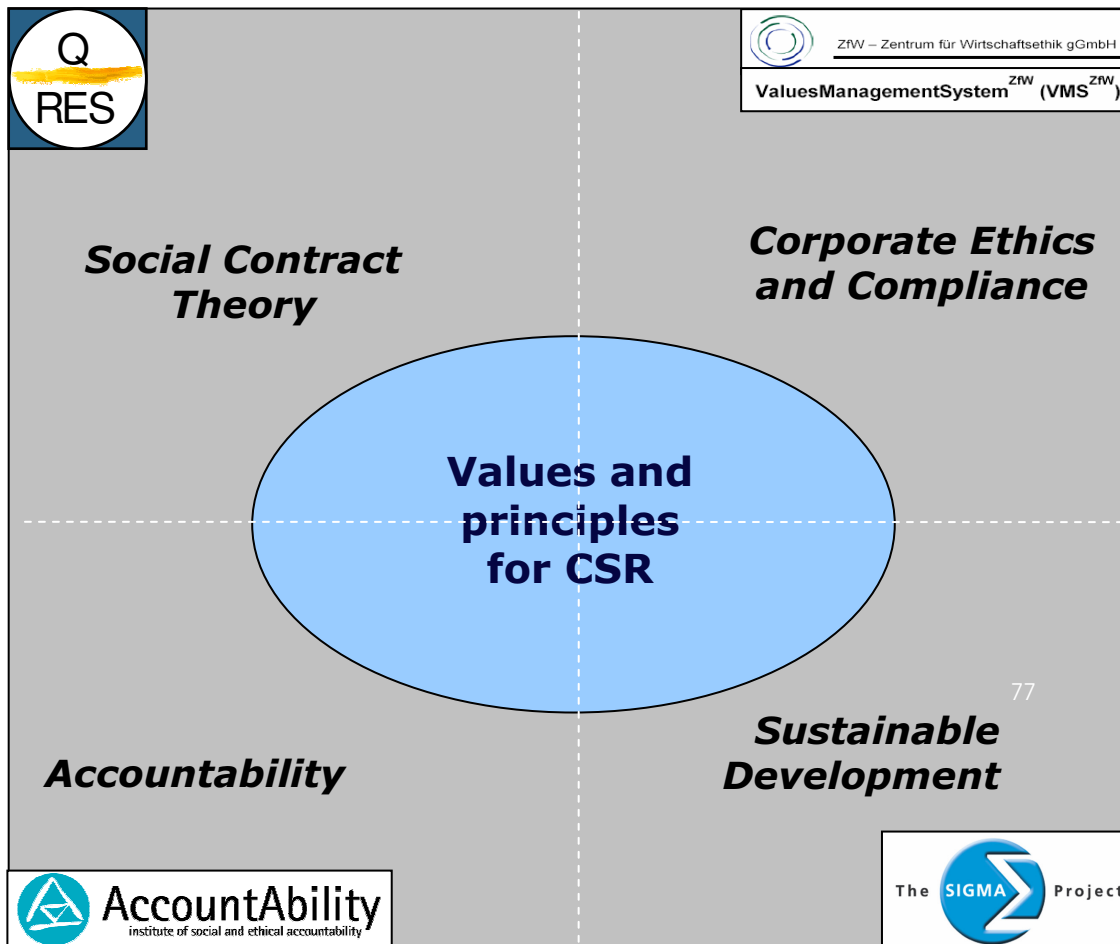
Whilst the different approaches have important implications on the meaning and practical application of values and principles developed in each approach, we think that these different 'angles' are not incompatible with each other, but should rather be seen in a continuum, as the figure suggests.

In fact, having pointed out key differences in the approaches, it is possible to recognise a number of common elements shared by all four initiatives concerning values and principles for CSR.

The following table present our conclusions, at this stage, on the common values and principles for CSR shared by Q-RES, VMS, SIGMA and AA1000:

Table 2.   Common Values and Principles for CSR

Common Values and Principles for CSR
Corporate Values: *The organisation should define and develop its own values guiding its overall business (and CSR) strategy* This principle is stated by Q-RES in chapters 1 and 2 of the Guidelines, on Corporate Ethical Vision and Code of Ethics and is clearly at the heart of the whole VSM. In SIGMA and AA1000 the definition of corporate values is expressed as one of the key phases of the management framework, under Leadership and Vision in SIGMA and in principle P3 (Planning) within the AA1000 framework (see chapter 6.3 and 6.4 respectively). In particular, the following core values are shared by our initiatives: • **Sustainability** – It includes a reference both to economic efficiency and environmental and social impacts in the long-run, and also a concern for inter-generational fairness; • **Mutual advantage** – As the rationale for stakeholder cooperation, clearly expressed in the social contract approach (Q-RES), but also embedded in the idea of cooperation among the 5 different capitals in SIGMA; • **Fairness** – As the guiding value for balancing the different stakeholder interests and legitimate rights towards the company.
Multi-stakeholder approach: *The organisation should take in due consideration the interests and needs of all its stakeholders* This principle is expressed clearly by the *social contract theory* adopted by Q-RES, is one of the basic assumption stated in VMS *Aim*, and is routed in the principle of *Inclusivity* shared by SIGMA and AA1000.
Governance: *The values and principles for CSR should be understood as the main governance system of the relations between the organisation and all its stakeholders (including owners/shareholders)* This principle is at the heart of Q-RES, which defines CSR as "*a model of extended corporate governance whereby who runs a firm (entrepreneurs, directors, managers) have responsibilities that range from fulfilment of their fiduciary duties towards the owners to fulfilment of analogous fiduciary duties towards all the firm's stakeholders*" (see paragraph 3.1). Governance is also clearly at the core of VMS, which includes the principle of 'governance ethics' (see chapter 5.5). Similarly, "*AA1000 can play a key role in supporting an organisation's governance. The standard feeds into the organisation's control process by which it ensures the alignment of its values and strategy with its behaviour and the outcomes of its activities*" (AccountAbility 1000 Framework, p. 12). The SIGMA Guidelines indicates the importance to "*Reviewing and refining corporate governance arrangements and performance*" (SIGMA Guidelines, p. 38) as one key activity to be undertaken in the Planning Phase.

Common Values and Principles for CSR

Management Integration: *The organisation should develop its CSR Management System in an integrated way with respect to its core business management systems and decision-making processes*

This principle is stated by Q-RES under the introduction of the Q-RES model (part A of the Guidelines). VMS includes 'integration' as one of its key principles. SIGMA is about Sustainability *Integrated* Guidelines for Management and the issue of integration is stressed in the introduction of the use of the SIGMA management framework. In the language of AA1000 integration is expressed by the principle of *embeddedness*, which means "*making the social and ethical accounting, auditing and reporting processes part of the organisation's operations, systems and policy making, and not treated as a one-off exercise to produce a social and ethical report*" *(AA1000 Framework, p. 12).*

Accountability: *The organisation should be accountable towards its stakeholders and respond – whether positively or negatively - to their legitimate claims*

This principle is stated by Q-RES in chapter 5 of the Guidelines, on Social and Ethical Accountability and is clearly at the core of SIGMA and AA1000 principles, although with different emphasis. In VMS, the principle of accountability is expressed by the communication values and reinforced by the implementation process (see chapter 6.2) under the phase *Communication*.

Performance Improvement: *The ultimate aim of the CSR Management System is to help the organisation improve its social, ethical, economic and environmental performance.*

This principle is another underpinning assumption of Q-RES and it is stated in the introduction of the Q-RES Guidelines. VMS includes 'performance values' among its core values. Improving performance is one of the key aim of SIGMA (SIGMA Guidelines, p. 7). AA1000 also has been developed "*to improve the accountability and overall performance of organisations by increasing quality in social and ethical accounting, auditing and reporting*" *(AA1000 Framework, p. 1).*

6.   Benchmarking CSR Management Processes

This chapter presents the CSR Management Processes of Q-RES, AA1000, SIGMA and VMS. In the final paragraph, we discuss the common elements among our four initiatives. It is useful to remind our definition of CSR Management Process:

> A CSR Management process is an overall organisational process, build on the Plan-Do-Check-Act model of traditional quality management systems, aimed at linking together in a meaningful way CSR Principles, Values and Management Tools and integrating them with core business decision-making processes.

6.1   Q-RES management process

The Q-RES management framework includes six tools for managing the social and ethical quality of corporations. For each of them there is a corresponding phase of the CSR management process, as described in the following table:

Table 3.   Q-RES Management Tools and corresponding phases

Tools of the Q-RES management framework	Corresponding phases of the Q-RES management process
• Corporate Ethical Vision	• *Ethical Values*
• Code of Ethics	• *Norms & Policies*
• Ethical Training	• *Communication & Training*
• Organisational Systems of Implementation and Control	• *Support & Control*
• Social and Ethical Accountability	• *Reporting*
• External Verification	• *Assurance*

Each phase fulfils a specific function within the Q-RES management framework (see chapter 2.3) and with regards to the reputation mechanism which increases stakeholder trust towards the company.

The logic underpinning the Q-RES management process is illustrated in the figure on next page.

Figure 9.   The Q-RES Management Process

VALUES	→ Companies make commitments concerning their social and ethical responsibility, which are made explicit by the formulation of the Corporate Ethical Vision and the introduction of a corporate Code of Ethics;
NORMS & POLICIES	→ Commitments are further stated with regards to critical areas in the relations with stakeholders and embedded in the corporate activities by the revision ('enrichment') of corporate strategies, policies, processes and procedures;
COMMUNICATION & TRAINING	→ Employees are informed on commitments made by the company and provided with cognitive tools to understand, share and apply them through internal communication and training programmes;
SUPPORT & CONTROL	→ Organisational systems to **support implementation** and **monitor compliance** with the stated ethical principles are introduced – e.g. an internal ethical auditing is undertaken as a way to identify and investigate areas of ethical risks within the business, with a related sanctions systems;
REPORTING	→ A social and ethical **accountability** process is introduced to assess the corporate social and ethical performance and communicate to stakeholders the results achieved;
EXTERNAL VERIFICATION	→ The social communication enables stakeholders to **evaluate** the correspondence between commitments stated by the company and behaviours observed or communicated, and increase or decrease accordingly their trust towards the company;
TRUST & REPUTATION	→ The external verification of the Q-RES tools adopted by the company enhances the reliability of corporate communication to stakeholders, thereby supporting the credibility of the company's commitments.

6.2   VMS management process

Ethics Standards con refer either to an exactly described *performance* or to the development of a *process*. This leads to the distinction of performance and process standards:

• *Performance Standards*: Performance standards in the field of corporate ethics usually attempt to set up objective indicators for an organisation's performance and use them to measure this performance;

• *Process Standards*: In contrast, process standards try to define the organisation's basic values, concepts, structures, routines, and instruments to them, and their interaction. They are guided by the assumption that the implementation of the defined basic values is dependent from the process-related structure but that it is impossible to define the detailed moral performance of an business. The VMS doubtless is a process oriented standard.

As a consequence the VMS is embedded into the organisation's specific business strategy and operation. This supports the relevance of the VMS inside the corporation for the every day business and ensures the efficiency in applying it. In this way the VMS management process is part of the "normal" strategic and operational management process and is not a separated process of a separated firm department, e.g. the communication department. There is a strong belief behind the VMS that a successful process of Corporate Social Responsibility has to be part of virtually every process of a organization or it will fail. VMS is change management.

Nevertheless, the declaration of the basic values of a VMS is implemented by a distinctive four steps process. These four steps are:

1. **Codification** – As already mentioned in Chapter 6.2 values management is based upon the definition of four types of business values: performance values, co-operation values, communication values and moral values. They must be codified in a written document (Code of ethics, Mission-Vision-Values Statement, Statement of Principles etc.);

2. **Communication** – Codified values have to be communicated in the company (intra team communication), among companies and customers (extra team communication) and with regard to the society (extra team communication) Communication is the crucial medium to animate standards of socially responsible conduct. Yet this is less a matter of information and public relation but of something we call **"institutionalised communication".** This form of communication is distinguished by the fact that it is integrated into the operative business and its standard routines. *Policies* and *Procedures* are important media of communication because they have consequences for the way business acts responsible;

3. **Implementation** – Implementation can be carried out and audited via compliance- and/or values programme on the one hand. Compliance programmes strongly focus the legal aspect of business decisions and employee's action. Usually this consists of information of the legal duties and the company's professed intention to have fulfilled. Values programmes, on the other hand, aim at the values-oriented self commitment and self control of the company. Topics such as training, recruiting methods, 'ethics barometer', bottom-up assessments and internal ethical auditing

are all part of values programmes. Law driven and values driven programmes must be coordinated in order to be successful;

4. **Organisation** – While "Ethics Officer" plays an dominant role in the US context, the German VMS prefers the functional integration into the already existing departments of a business. This could be Compliance Officer, Quality Management, Internal Audit departments or a position directly reporting to the top management. All the possibilities are productive as long as there is a top management commitment and the willingness of the top management to act as a role model.

The focus of the management process to realise the VMS is to integrate the above mentioned four steps process into the **systems** of the corporation - namely strategic management, organisational development and learning, policies and procedures, internal and external communication and controlling.

6.3   SIGMA management framework phases

The SIGMA Management Framework is a cycle of four flexible implementation phases:

- Leadership and vision;
- Planning;
- Delivery; and
- Review, feedback and reporting.

Organisations may enter and move through the phases at different speeds and give the different phases different emphasis depending on their individual circumstances, the availability of resources and the level of maturity of their sustainable development policies, strategies and programmes.

In order to ensure compatibility with existing practice, the SIGMA Management Framework is modelled on approaches widespread in formal and informal management systems. The 'Plan, Do, Check, Act' model that underpins the SIGMA Management Framework is familiar to many organisations and has the benefit of being both practical and effective in delivering improved organisational performance.

Below, a description of the key elements of the four phases of the SIGMA Management Framework and their meaning for sustainability management.

Leadership and Vision

- To develop a business case to address sustainability issues and secure top-level commitment to integrate sustainable development into core processes and decision-making.

- To identify stakeholders and open dialogue with them on key impacts and suggested approaches.

- To formulate the organisation's long-term sustainable development mission, vision and operating principles and a high-level strategy that supports them, and to revisit them periodically.

- To raise awareness of sustainability issues and how they may affect the organisation's licence to operate and its future direction and its training and development requirements.

- To ensure that the organisational culture is supportive of a move towards sustainability.

Figure 10.   The SIGMA Management Framework

Source: THE SIGMA GUIDELINES
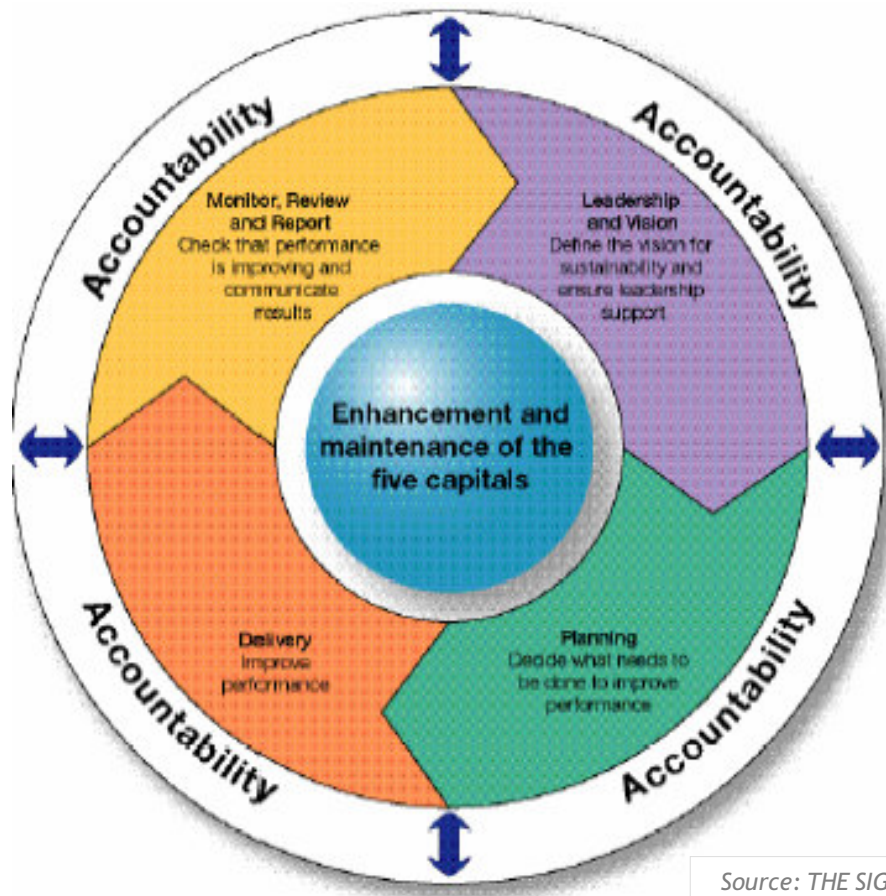
Planning

- To ascertain the organisation's current sustainability performance, legal requirements and voluntary commitments.

- To identify and prioritise the organisation's key sustainability issues.

- To develop strategic plans to deliver the organisation's vision and address its key sustainability issues.

- Consult with stakeholders on plans.

- To formulate tactical short-term action plans to support the agreed sustainability strategies with defined objectives, targets and responsibilities.

Delivery

- To align and prioritise management programmes in line with strategic and tactical planning and the organisation's sustainability vision.

- To ensure that identified actions, impacts and outcomes and legal and self-regulatory requirements are managed and appropriate internal controls are in place.

- To improve performance by delivering sustainability strategies and associated action plans.

- To exercise appropriate external influence on suppliers, peers and others to progress sustainable development.

Monitor, Review and Report

- To monitor progress against stated values, strategies, performance objectives and targets.

- To engage with internal and external stakeholders via reporting and assurance, and by incorporating feedback into effective strategic and tactical reviews culminating in appropriate and timely change.
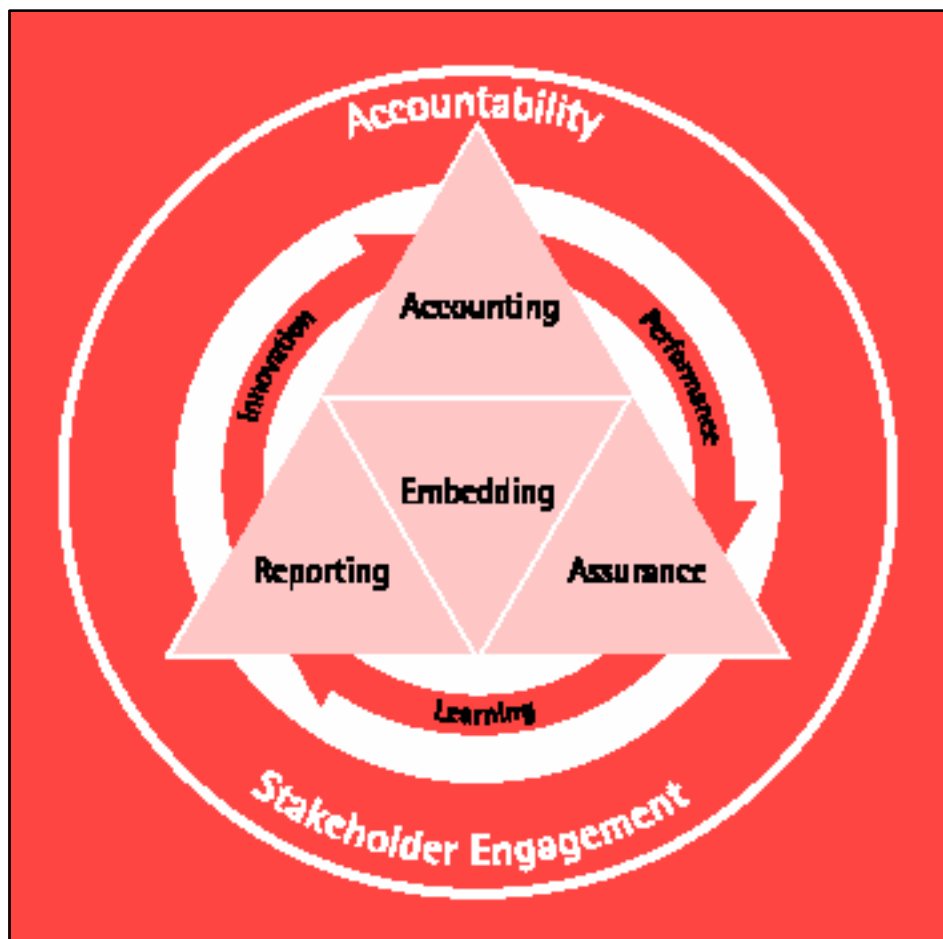
6.4 AA1000 management process

The *AA1000 Framework* covers a process from agreeing on the terms of engagement with stakeholders through to reporting and assurance.

The process standards cover the following stages:

- *Planning*
- *Accounting*
- *Assurance and reporting*
- *Embedding*
- *Stakeholder engagement.*

Figure 11.   The AA1000 Process Model

Source: AA1000 FRAMEWORK

Planning

Process (P) 1 Establish commitment and governance procedures
The organisation commits itself to the process of sustainability accounting, auditing and reporting, and to the role of stakeholders within this process. It defines governance procedures to ensure the inclusion of stakeholders in the process.

P2 Identify stakeholders
The organisation identifies its stakeholders and characterises its relationship with each group of them.

P3 Define/review values
The organisation defines or reviews its current mission and values.

Accounting

P4 Identify issues
The organisation identifies issues through engagement with its stakeholders regarding its activities and sustainability performance.

P5 Determine process scope
The organisation determines, based on engagement with its stakeholders, the scope of the current process in terms of the stakeholders, geographical locations, operating units and issues to be included, and identifies how it plans to account for the excluded stakeholders, operations, locations or issues in future cycles. It identifies the timing of the current cycle. The organisation also identifies the audit method(s), the audit scope, and the auditor(s) to provide a high level of quality assurance to all its stakeholders.

P6 Identify indicators
The organisation identifies social and ethical indicators through engagement with its stakeholders. The indicators reflect the organisation's performance in relation to: its values and objectives; the values and aspirations of its stakeholders, as determined through a process of consultation with each group of them; and wider societal norms and expectations.

P7 Collect information
The organisation collects information about its performance in respect of the identified indicators. The organisation engages with stakeholders in the design of the collection methods, which allow stakeholders to accurately and fully express their aspirations and needs.

P8 Analyse information, set targets and develop improvement plan
From the information collected, the organisation: a) Evaluates its performance against values, objectives and targets previously set b) Uses this evaluation and engagement with stakeholders to develop or revise objectives and targets for the future, with a focus on improving performance.

Assurance and reporting

P9 Prepare report(s)
The organisation prepares a report (written or verbal communication) or reports relating to the process undertaken in a specified period. The report(s), clearly and without bias, explains the process and demonstrates how the organisation's performance relates to its values, objectives and targets. It includes information about its performance measured against its key social and ethical performance targets. The organisation provides comparative information for previous period(s) to help stakeholders understand the current performance in the context of prior period trends and in the context of external benchmarks, if available.

P10 Assure report(s)
The organisation arranges and supports the external audit of the process, including the social and ethical report(s). Support is provided to the auditor throughout the planning and accounting processes as appropriate.

P11 Communicate report(s) and obtain feedback
The organisation communicates information on the process and the sustainability performance of the organisation to all stakeholder groups. This includes making accessible to all stakeholder groups the social and ethical report(s) together with the independent audit opinion(s). The organisation actively seeks feedback from its stakeholder groups in order to further develop its process.

Embedding

P12 Establish and embed systems
The organisation establishes systems to support the process, and the on-going achievement of its objectives and targets in line with its values.

Stakeholder Engagement

Each of the above process stage is permeated by the organisation's engagement with its stakeholders.

The **AA1000 Framework** process can support an organisation's strategic management and operations, by assisting it to:

1. Align its systems and activities with its values;

2. Learn about the impacts of its systems and activities, including stakeholder perceptions of these impacts;

3. Serve as a part of a framework for internal control to enable the organisation to identify, evaluate and better manage the risks arising from its impacts on and relationships with its stakeholders;

4. Meet the legitimate interest of stakeholders in information about the social and ethical impact of the organisation's activities and its decision-making processes;

5. Build competitive advantage through the projection of a defined stance on social and ethical issues.

6.5   CSR Management Process. Common Elements

Both Q-RES, VMS, SIGMA and AA1000 include an overall process which organisations should put in place in order to link together in a consistent and meaningful way their values, management tools and systems. Looking at the elements constituting the process of our initiatives, it is possible to identify several similarities and overlapping phases – such as the development of corporate values which is explicitly addressed in each process.

The following table summarises the key elements of the management process adopted by Q-RES, VMS, SIGMA and AA1000 respectively.

Table 4.   Benchmarking CSR Management Processes

	Q-RES	VMS	SIGMA	AA1000
CSR Management process phases	• Values	• Codification	• Leadership and Vision	• Planning
	• Norms	• Communication (internal and external)	• Planning	• Accounting • Assurance and reporting
	• Communication and Training • Implementation and Control	• Implementation (including training and internal audit)	• Delivery	• Embedding
	• Reporting • External verification	• Organisation	• Review, monitor and report)	• Stakeholder Engagement

The colours indicate the linkages among the management process phases applied by Q-RES, VMS, SIGMA and AA1000. These can be further analysed with reference to the Plan-Do-Check-Act model (see Table 5).

Table 5.   A Plan-Do-Check-Act analysis of common elements in CSR management processes among Q-RES, VMS, SIGMA and AA1000

PHASE	KEY ACTIVITIES
Plan	• Define the organisation's Mission, Values and Principles • Develop code of ethics, policies, procedures • Identify stakeholders and prioritise CSR issues
Do	• Communicate Values, Strategies and Policies internally • Train employees • Monitor compliance
Check	• Measure performance • Reporting • Assurance
Act	• Respond to stakeholders • Review the process • Learning & innovation

This analysis highlight how Q-RES, VMS, SIGMA and AA1000 share a similar logic based on a PDCA model and - despite differences in terminology – the elements of overlap are significant.

However, it is important to point out that beneath the similarities in the elements of their management process, the analysis identifies some differences in approach which are of significance. As already noted when discussing the common elements with respect to values and principles, (see chapter 5.5), the different theoretical backgrounds of the initiatives generate considerable implications in terms of different emphasis of particular elements of the above described management processes.

What can be probably seen as the major difference among the initiatives is the degree of 'openness' of the overall CSR management process, i.e. the degree of stakeholder participation and stakeholder engagement with the organisation throughout the different phases of the process. Clearly, AA1000 is more strongly supportive of such an approach than the other initiatives, advocating continuous and 'inclusive' stakeholder engagement from the planning to the reporting and monitoring phase.

7. Benchmarking CSR Management Tools

7.1 Q-RES management tools

The Q-RES Guidelines include a methodology for the adoption of each of the six CSR Management Tools, discussing steps, competencies and management responsibilities.

Table 6.   Q-RES Management Tools

Q-RES Tools
Corporate Ethical Vision   The corporate Ethical Vision comprehends and goes beyond both the organisation's Mission and its values. The corporate ethical vision identifies a balancing ethical criterion between many different rights and many different claims of various stakeholders, putting together in a unitary vision of strategic nature the corporate mission and values. The ethical vision sets out the way in which the company wants to achieve its mission and justifies the stakeholders' participation in fulfilling the mission. The balancing criterion defines the company ethical identity. Therefore, the ethical vision is the basic guidance for corporate strategic choices. The development methodology includes following steps: • Brainstorming among members of the top management in order to make explicit their ideas and intuitions concerning the corporate mission, values and ethical vision;   • Dialogue through appropriate tools (interviews, questionnaires, focus groups, etc.) with managers and relevant stakeholders groups, aimed to gather and analyse different opinions on: the corporate identity, aims and purposes, responsibilities, relations with different stakeholders, procedures and criteria to meet their expectations and interests, shared ethical values, procedures the company wants to follow to pursue its mission;   • First formulation of the ethical vision: intuitive judgements and opinions needs to be compared with the more general criteria expressed by different ethics theories (reflexive equilibrium). The corporate ethical vision arises from the process of comparing and balancing. An external ethical point of view (ethical consultant) is necessary to rationalise intuitions and peculiar judgements in a more reliable ethical vision.   • Discussion and mediation among different positions in order to agree the corporate ethical vision. In this dialogue intuitions have to be consistent with principles and the general ethical theory itself can be adjusted according to individual judgements.   • Integration and alignment between corporate ethical vision and business objectives;   • Explicit and unitary formulation of the corporate mission, values and ethical vision;   • Information and communication activities to all employees in order to reach agreement and widespread values sharing; and   • Revision and updating the vision as a result of important organisational changes (for instance, repositioning on the market, property change, mergers and takeovers).
Code of Ethics   The Code of Ethics states the rights, duties and responsibilities of the company towards all its stakeholders. It contains behaviour principles and rules of conduct to fulfil the principles enriching the decision making processes and orientating corporate activity. The Code of Ethics expresses the "ideal social contract" between the company and its stakeholders which puts into practice, through principles and rules of conduct, the ethical criteria for balancing stakeholders' expectations and interests. For this reason the Code of Ethics is a governance tool in the relationships between the company and its stakeholders and a strategic management tool as it guides decision making. Moreover, it is a source of behavioural rules for the company's employees.   The corporate code of

ethics provides to external stakeholders a reference parameter on which they can reasonably form their opinions on the company reliability and reputation.

The Code of Ethics development methodology implies:

- Management and stakeholder dialogue: extensive interviews, questionnaires to the top management and relevant stakeholders on subjects such as mission, ethical vision, ethical principles, stakeholder rights and corporate duties;

- Engagement with managers responsible for setting internal rules and procedures;

- Analysis of risk areas for opportunistic behaviour and unethical conduct via interviews, questionnaires and focus groups on:
  - decision context: identification of decision maker and involved stakeholders; analysis of the involved stakeholders' ability to influence the decisional process;
  - opportunistic conduct: identification of opportunism typology and source;
  - opportunism effects: identification of harmed stakeholders and stakeholders taking an advantage; identifying the presence or absence of specific investments;
  - ethical principles: definition of ethical principle or principles relevant to the typology of observed opportunism;

- Making explicit standards of conduct: for each class of potential opportunistic conduct. A standard of conduct has to be identified and formulated as a precautionary conduct duty. This allows internal and external stakeholders to check correspondence between actions and the Code of Ethics principles. If the conduct complies with the precautionary standard, it is assumed that in a risky area the relevant ethical principle was fulfilled;

- Participative approach: the Code of Ethics is a self-regulation process, not an imposition of rules, therefore participation in the drawing up phase makes sharing and implementation easier from a psychological point of view. The Code of Ethics partly 'invents' and partly 'reproduces' the principles on which a shared culture is based. Compliance is based on voluntary agreement by people working in the company. It is not verifiable as observance of definite rules, it has to be interpreted. The contractualistic approach applies the idea of hypothetical agreement, wherein the Code of Ethics principles and standards correspond to those rules every rational individual would accept: the Code meets the condition every rational stakeholder would accept.

Ethical Training

Corporate ethics training is the whole of activities developing – and continuously maintaining up-to-date - the ability to recognize, analyse and solve ethical dilemmas within the company by using conceptual, philosophical, economic, legal and organisational tools. Moreover, ethics training facilitates values sharing around the principles and standards of conduct of the corporate code of ethics and encourages the introduction and support the implementation of the different tools of corporate ethical and social responsibility. It enables decision makers to apply the idea of the social contract to their day-to-day decisions and actions.

Training must be tailored according to the role of the receivers:
- Management training supporting the introduction of the different Q-RES elements (especially the Code of Ethics);
- Employee training: including training programmes at the beginning of a Q-RES process, so that every employee is involved and takes part in it (inclusion);
- Specific ethics training courses addressing specific issues of different business areas (such as marketing, Hr management, security, governance etc.).

Ethics training is effective if:
- Its aims and purposes are clearly communicated: training improves individual skills within the scope of an organisational learning and change process; the commitment of the top management in that direction has to be clearly communicated as well;
- A participating training approach is adopted: this implies dialogue and discussion on case-studies (team works, focus groups, problem solving, analysis and solution of dilemmas, etc.);
- It is supported by the use of specific teaching tools (decision-making workshops, role-plays etc.) for the development of decision-making skills based on ethics.

To achieve the above goals the company should:

- Plan training courses with timeliness and regularity;
- Set up a permanent training program assuring the inclusion of all employees (including new recruits), their active involvement and participation, as well as support the management in new situations concerning organisational structure changes (mergers, acquisitions, etc.) or external environment modifications for the company (globalisation, multiculturalism, etc.);
- Continuously involve employees at all levels in discussions on critical areas and development and adjustment of teaching tools;
- Periodic revise of the training program to adapt and improve it, for instance according to information emerging from the internal ethical auditing;
- For large companies operating in different countries, rolling out a global training programme can be a significant investment of time and resources. To overcome the difficulty of acting in the short run and the non-contemporaneousness implementation large multinationals can rely on a network of research institutions and organisations providing Business Ethics training (egg within the European Business Ethics Network, EBEN), to ensure the global ethical principles of the Group are spread locally in an appropriate and effective manner.

Organisational Systems of Implementation and Control

Organisational systems of implementation and control form the 'ethical infrastructure' of a company that enables ethical performance improvement and monitoring. The ethical infrastructure includes processes and activities to support CSR management, by aligning corporate strategies, policies and business objectives to the ethical values and principles of the company, and auditing and monitoring activities concerning compliance of processes and individual behaviour with organisational rules.

The development methodology of an organisational implementation and control infrastructure for social and ethical quality has to follow two processes: a *top-down* and a *bottom-up process*.

The top-down process concerns monitoring the alignment of organisational procedures and individual conduct with organisational rules and ethical principles. Given the ethical principles, the focus is on monitoring compliance. It implies monitoring ethics with dedicated staff structures reporting to the senior management (e.g. to the Managing Director and Board of Directors) – for instance, extending internal auditing to monitoring and assessing areas of social and ethical risks. *The top-down process* aims to reach a reasonable assurance on: Operational effectiveness and efficiency; Financial book-keeping reliability; Risk control and risk management; Safeguard of corporate assets; and Observance of law and internal regulations (Code of Ethics). The process implies: Audit and control of compliance with rules; Compliance audit in written procedures and tacit routine procedures; Collecting information on conduct compliance through audit activities; Heeding warnings; Promoting investigations; and Proposal of sanctions and corrective actions.

The bottom-up process concerns the integration of social and ethical responsibility principles and criteria within the strategic and operational management of the company, in order to enrich business objectives in light of the ethical vision. The focus is on ensuring consistency between results and the ethical vision, that is, on assessing and measuring the company social and ethical performance (e.g. through *social and ethical KPIs - Key Performance Indicators*).

The bottom-up process is based on the assumption that an ethical vision has been clearly stated and an enriched strategy has been defined. Pursuing business objectives must take into account the social and ethical criteria. The ethical infrastructure must support a better understanding of the impacts of business decisions in relation to the company's principles. Clarifying business objectives and enriching them with the ethical vision, the demand for measuring and reporting the ethical performance of the company follows as a logic consequence.

Social and Ethical Accountability

A social and ethical accountability process implies:

- Planning a system for systematic collection; measurement and communication of relevant information concerning the impacts of corporate activity on the well-being of different

stakeholders;
- Evaluating consistency of results with the objectives resulting form the company's Mission, Ethical Vision and the Code of Ethics principles;
- Engaging in dialogue with stakeholders during the social accountability process in order to gain understanding of their level of satisfaction and verify the correspondence between their expectations and the objectives and results of corporate activity.

The production of a Social Report relies on the establishment of organisational systems to collect and analyse information on the social and ethical performance of the company, including the following steps:

- Establishing a working group and nominating a coordinator responsible for the whole process;
- Defining reporting objectives and improvement targets;
- Initiating a stakeholders engagement process, in order to:
  - Assess the satisfaction level of different stakeholder groups in relation to their expectations, applying scientifically accepted and unbiased social research methodologies;
  - Collect testimony of external experts and representatives of the company's stakeholders, and report them truthfully, even if differing from the company's view;

- Defining/updating key performance indicators: they have partly to refer to accepted international and national standards enabling meaningful benchmarking and partly to be specifically developed, so, they can be tailored to reflect the specificity of the business and the company's social and ethical responsibilities;
- Identifying corporate sources of information and defining a data collection methodology;
- Elaborating a document reflecting the structure described in § 5.3;
- Defining a communication plan: since the Balance is a transparency tool, it is important to enable stakeholders to have access to information; and
- External verification by a social auditor.

External Verification

External verification is the activity carried out by a third party in order to check consistency between the social and ethical responsibility tools adopted by the company and the excellence criteria defined by the Q-RES Guidelines. Auditing carried out by accredited organisations will lead to the issue of the Q-RES certification.
The external auditing activity develops according to the following procedures: the company contacts competent, qualified and accredited organisations; the external auditors start the auditing process by checking consistency between the Q-RES tools adopted by the company and the Q-RES excellence criteria; the auditors suggest necessary actions to meet quality requirements and, if the requirements are met, issue the Q-RES certification.

The external auditor carries out the following tasks:

- Request to relevant internal managers (Ethics Officer, Ethics Committee, Ethical Auditor etc.) for accounts and reports concerning Q-RES activities and tools;
- Request for relevant specific documents and information (evidence);
- Surveys (questionnaires, interviews etc.) among stakeholders;
- Analysis of collected information (comparison between excellence criteria and evidence);
- Evaluation on data truthfulness and consistency;
- Evaluation on data relevance according to quantitative and qualitative social and ethical performance indicators;
- Formulation of an impartial and fair opinion (impartiality of judgement);
- Formulation of an objective judgement not depending on external comments (freedom of judgement);
- Formulation of a valid and professional judgement (validity and professionalism);
- Pointing out inconsistencies;
- Proposals and suggestions to improve the implementation of Q-RES tools, if necessary.

7.2   VMS management tools

Because VMS is a process standard instruments and tools must be appropriate to the chosen values/principles and the systems to implement theme. There a different levels of systems and tools belonging to these systems. These systems are strategy, organisation, policy and procedure, communication, and controlling.

Table 7.   VMS: The relationship between principles, systems and tools for CSR

PRINCIPLES / basic values:		
• sustainability • compliance • individual competence	• self control • management orientation • management responsibility	• Integrative • values orientation • process orientation • evaluation

SYSTEMS	TOOLS
Strategy	declaration of basic values, Mission-Vision-Values statement, Code of Ethics
Organisation	Compliance officer, ombudsman, Ethics officer, project assistant, helpline
Guidelines	EFQM / QM, gift giving and receiving policy, Code of Conduct, supplier development
Communication	training, stakeholder dialogue, intranet platform, internet platform, brochure, ethics quick-check, discussion with
Control	documentation, internal control, self-evaluation, audit, ratings

For the VMS instruments for its own sake are not important. The VMS focus on the relationship between the principles (which codify organisations values), the instruments (which make this values living documents) and systems (which organize the process and gives him consistency).

The logic underpinning the VMS process is the following. Every organisation consists of a distinctive set of **principles** and values which have to be codified by a written document. Such documents are a Code of Ethics, Mission-Vision-Value Statement or a Statement of Principles. The crucial question is how to transform the paper version of social responsibility into a living document. In order to do this an organisation needs tools and systems.

A social responsible organisation needs tools because the creation of appropriate tools is the only way to implement principles and values into the day-to-day operation of a business. Such **tools** are a Code of Ethics, a helpline, a gift giving and receiving policy, training and assurance. But a social responsible organisation needs also systems which have the function to integrate principles and tools in a meaningful and consistent manner. Such **systems** are strategic management, organisational devolvement, policies and procedures, management of communication and controlling mechanism.

Table 7 above shows possible relations between principles, tools and systems according to VMS.   Only a carefully chosen combination of principles-tools-systems enables the sustainability, relevance and effectiveness of the process of corporate social responsibility.

7.3   SIGMA management tools

The SIGMA toolkit consists of a range of supporting tools, guides and case studies to support the implementation of the SIGMA Guidelines and to address specific sustainability challenges. Some of the tools in the toolkit were developed specifically for SIGMA and others introduce tools from external sources such as GRI and environmental accounting, as they represent the best current approach. All the SIGMA-specific tools have been developed in conjunction with piloting organisations.

Description of the tools

The table below provides a brief summary of each of the tools and what they can achieve for an organisation[32].

Table 8.   SIGMA Tools and Resources

SIGMA Tools and Resources
SIGMA Guide to the AA1000 Assurance Standard The *AA1000 Assurance Standard* is a generally applicable standard for assessing, attesting to, and strengthening the credibility and quality of organisations' sustainability reporting, and their underlying processes, systems and competencies. It provides guidance on key elements of the assurance process. This tool provides a simple summary of the standard. It includes an explanation of the principles to be applied in an assurance process undertaken using the *AA1000 Assurance Standard*: materiality, completeness and responsiveness.
SIGMA Business Case Tool The SIGMA Business Case Tool provides a simple process to develop an organisation-specific case for addressing sustainable development. By taking a pragmatic approach that recognises the language and core priorities of the organisation, users can build a strong business case that incorporates real-life examples. This will highlight what sustainable development means to the organisation and how improved sustainability performance can maximise the opportunities this may bring and minimise the potential risks.
SIGMA Compatibility Tool The SIGMA Compatibility Tool provides organisations with an understanding of how their existing management systems and approaches map on to the SIGMA Management Framework. It helps organisations to achieve the desired outcomes and outputs envisaged in the Management Framework without duplicating effort. The tool maps SIGMA against EFQM, AA1000 Framework, Investors in People, EMAS, ISO14001, ISO14031, OHSAS 18001, ISO 9000, SA8000, AS/NZS 4581, The Natural Step (TNS) The UN Global Compact and the Charter Mark.

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[32]   More details of the tools and case studies can be found on the SIGMA Project's website: www.projectsigma.com.

SIGMA Environmental Accounting Tool

The Environmental Accounting Tool provides an introduction to accounting for 'internal' environmental related expenditure (expenditure already incurred and captured within a company's accounting system but perhaps lost in general overheads) and 'external cost accounting' (the internalisation of environmental externalities). A pro-forma set of external environmental cost accounts is presented together with a practical step-by-step guide to help individual organisations to begin the task of developing and drawing up their own external environmental cost accounts.

SIGMA Marketing and Sustainability Tool

The Marketing and Sustainability Tool provides an introductory bridge between the two specialist fields of marketing and sustainability and suggests some initial steps in developing a sustainability marketing plan. By first providing the marketer and the sustainability practitioner with an understanding of each other's field and how the two can support each other, the tool lays the foundations for collaboration. It then provides a number of practical steps towards identifying key opportunities, through understanding customers and the market, assessing the sustainability attributes of the organisation's products and services and determining which sustainability issues have the greatest potential for use in a marketing campaign.

SIGMA Performance Review Tool

The Performance Review Tool is a review checklist that assesses organisational performance against the SIGMA Management Framework.
The Performance Review Questionnaire consists of 16 question areas, each broken down into sub-categories. It is recommended that organisations complete this questionnaire when setting out on implementing the SIGMA Management Framework to lay down a benchmark of current performance. It can then be used throughout the process to review progress and track trends. Having completed the questionnaire, organisations are able to score their performance, which provides them with a picture of how well they are doing in terms of sustainable development performance. The questionnaire can also be used to benchmark performance between different parts of an organisation.

SIGMA Risk and Opportunity Guide

The Risk and Opportunity Guide provides basic information and simple tools to enable organisations to improve their understanding and management of sustainability risks and opportunities. By providing an explanation of social, environmental and economic risks from stakeholder perspectives, organisations can build an understanding of a fuller range of threats to organisational success, including not fully realising opportunities. A generic risk and opportunity process, supported by tools and assessment guidance, enables users to enhance their existing processes or develop new ones.

SIGMA Guide to the Global Reporting Initiative Sustainability Reporting Tool
The GRI Sustainability Reporting Tool is designed to provide guidance for an organisation of any size on producing a sustainability report. Based on the Global Reporting Initiative Guidelines, it sets out reporting principles that organisations should follow. The guidelines also provide core indicators for economic, environmental and social performance that organisations should include in their report, and a list of additional indicators that organisations should include where relevant. Both the principles and the indicators have been developed over the past five years, involving input from a wide range of stakeholders around the world.

SIGMA Guide to Guidelines and Standards relevant to sustainable development

This guide reviews 20 standards and guidelines relevant to sustainable development. It includes the UN Global Compact, EMAS, The Natural Step, Social Accountability 8000, Investors in People, Global Sullivan Principles, The Ethical Trading Initiative Base Code, Balanced Scorecard, the European Foundation Quality Model - Excellence Model, The Global Reporting Initiative, AA1000 framework, Combined Code of Corporate Governance, ISO family of standards, the London Benchmarking Group, OECD Guidelines for Multinational Enterprises, Caux Roundtable Principles for Business, Amnesty International's Human Rights Guidelines for Companies, the Principles for Global Corporate Responsibility, Business Impact Task Force, UK Government Sustainable Development Strategy.

SIGMA Guide to Stakeholder Engagement

The Stakeholder Engagement Tool provides organisations with two ways to improve their stakeholder engagement practices. The first approach is based on the AA1000 Framework, which incorporates stakeholder engagement as a core element of the process of managing, measuring and communicating performance. This process helps an organisation capture different stakeholder aspirations and needs, and balance and manage the interlinked elements of social, environmental and economic performance. The second approach is a set of tools that help organisations explain and evaluate their stakeholder engagement. The first tool looks at the drivers of engagement, and the second provides a set of key questions on the who, what, where, when and how of engagement and the best techniques to use

SIGMA Guide to Sustainability issues

The Guide to Sustainability issues lists and briefly explains a wide range of sustainability issues that organisations need to be aware of.

SIGMA Sustainability Accounting Guide

The Sustainability Accounting Guide summarises the current state of research and availability of tools and approaches that help organisations account for organisational sustainability performance. Recognising that this is at an embryonic stage, and that there are many inadequacies in current financial accounting, the guide explores the latest sustainability thinking around resource flows and assets and liabilities in the context of Generally Accepted Accounting Practice (GAAP). Users can understand the drivers for change and benefits of sustainability accounting and see real-life examples of organisations adopting these approaches. Different ways of bringing the information together are presented to help organisations understand options for new accounting frameworks. Data sources for environmental coefficients and values are also provided.

SIGMA Sustainability scorecard

The Sustainability Scorecard builds on the concept of a Balanced Business Scorecard. The approach allows organisations to identify key drivers and how they are linked and use these to develop targets and measures.

7.4   AA1000 management tools

AA1000 Framework has been developed as a *process standard* for the activity of social and ethical accounting, auditing and reporting.   Nevertheless, parts of the AA1000 Framework can be used as a Stakeholder Engagement Tool (and, in fact, AA1000 has been utilised by SIGMA to develop the SIGMA Guide to Stakeholder Engagement, as described in previous paragraph).

In addition, AA1000 Assurance Standard can be used as a tool by assurance providers – or by organisations willing to gain an external assurance on their CSR management systems and processes, including published reports. Also on AA1000 Assurance Standard SIGMA has developed a guide to its use, which is part of the SIGMA Toolkit.

In section 8.4 we discuss more in detail the characteristic and principles of AA1000 Assurance Standard, also by presenting a practical example of its use in a corporation.

7.5   CSR Management Tools: Common Elements

In terms of CSR Management Tools the elements of similarity among our initiatives are less obvious – nevertheless the opportunities for convergence and 'mutuality' seems even bigger in this area than in the previous examined.

Tools are by their nature more specific and focussed on a single issue or phase of the CSR management process, therefore it is natural to find a wide range of CSR tools being developed among our and other CSR standards.

At the same time, because of their purpose of providing to some degree a 'standardised' methodology to address a specific CSR challenge, tools are more easily interchangeable and therefore tools developed within one framework can be utilised by companies adopting other CSR management frameworks.

With reference to the previously described Plan-Do-Check-Act-Model, it is possible to map a number of CSR Management Tools developed by Q-RES, VMS, SIGMA and AA1000, which could be linked together to develop a common platform of CSR Management Tools available for company use, supported by an underlying common logic[33].

Table 9.   A common platform of CSR Management Tools

PHASE	CSR MANAGEMENT TOOLS
Plan	• Q-RES Code Of Ethics Development Methodology • SIGMA Business Case Tool • SIGMA Stakeholder Engagement Tool
Do	• Q-RES Ethics Training Methodology • VMS Procurement Methodology
Check	• AA1000 Framework • SIGMA Environmental Accounting Tool • SIGMA Sustainability Accounting Guide • SIGMA Sustainability scorecard
Act	• AA1000 Assurance Standard

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[33] The boundaries among the different phases of the PDCA model are in some cases overlapping. In fact, some tools can (and should) be used in more than one phase – for example for Stakeholder Engagement which is as important in the Planning as well in the Performance Measuring and Process Review phases.

8.   Benchmarking Audit and Assurance

8.1   Q-RES external verification and certification

In the Q-RES Guidelines external verification is defined as "*the activity carried out by a third party in order to check consistency between the social and ethical responsibility tools adopted by the organisation and the excellence criteria defined by the Q-RES Guidelines*".

As illustrated in paragraph 2.3, the Q-RES Guidelines identify for each of the six Q-RES Management Tools – namely Corporate ethical vision, Code of ethics, Ethical training, Organisational systems of support and control, Social and ethical accountability and External verification – a number of 'excellence criteria' and 'auditing evidence'. Their role is the following:

- *excellence criteria*: a number of recommendations aimed at identifying a 'quality check-list' for the introduction and implementation of each Q-RES Management Tool. The excellence criteria summarise the key guidance notes on the following areas:

    o   content of the tool;
    o   development methodology;
    o   competencies required; and
    o   management responsibilities.

- *auditing evidence: an illustrative list of information, documentation, data and* other types of evidence that an external auditor should look for in order to verify the effective adoption by the organisation of a Q-RES management tool and assess the quality of its implementation.

The idea of the Q-RES Guidelines was therefore to provide a methodology and guidance notes in order to enable independent third parties to verify the adoption of Q-RES Management Tools by an organisation.

However, this is only the first step of the Q-RES verification process - namely the verification of the adoption of Q-RES management tools. The necessary, logically following step is to verify the introduction in the organisation of a CSR Management System, aimed at linking together in a meaningful and coherent way the tools and processes, under the unifying vision provided by the corporate ethical vision and CSR values and principles.

To fulfil this second step, the Q-RES Project developed the Q-RES Standard, which integrates the Q-RES Guidelines by defining the elements, characteristics and founding principles of a Q-RES Management System, as discussed in paragraph 2.4. The Q-RES adopts a similar logic of traditional quality management systems to provide a normative basis for the certification of the social and ethical responsibility of organisations.

With reference to external verification and certification, the key issue that every management systems – and particularly in the CSR field – needs to address is the issue of *credibility* – or, in other words, the famous dilemma: *Who guards the Guardians?*

In paragraph 3.9 we have discussed this issue, by illustrating the role that intermediate social bodies and multi-stakeholder dialogue can play to solve this crucial dilemma and ensure the credibility of the verification process.

In brief, we have supported the idea that what is needed are institutions of the civil society able to give the necessary salience to corporate social responsibility, i.e. institutions with the necessary competences, independence, credibility and authoritativeness to perform following functions:

- setting CSR standards and the methodology for their implementation, holding their ownership, revising and updating them in a view of continuous improvement, promoting discussion for the progressive acceptance of CSR standards among the commonly accepted self-regulatory norms recognised by all the international bodies of standardisation and other international organisations;

- encouraging firms to comply with standards, and aiding them in performing pilot projects functional to fine tuning of the standards;

- disseminating information and promoting in-company training;

- agreeing with the accreditation bodies on the criteria and protocols that will be applied by auditors in carrying out their inspections concerning CSR compliance, and thereby establishing the procedures for the accreditation of third-party inspection and certification institutes collaborating in these activities in accordance with a pre-established protocol;

- especially in the initial phase, until CSR standards become commonsensical, maintaining close surveillance over the operations of the institutes of inspection that issue certificates of compliance with CSR standards;

- giving appropriate salience, by issuing surveys, reports and white papers, to the trend towards the adoption of CSR management systems;

- surveying and monitoring, by recollecting any source of information, the CSR profile of firms and furnishing the public with the information that it needs to form their judgements with objectivity, in particular to ethical finance operators and responsible consumers.

A key pre-condition for such institutions is the promotion of social dialogue to foster consensus on CSR standards and independent verification by means of appropriate monitoring and certification methods.

To overcome the obvious risk of collusion between such institutions and the organisations that are the subject of its monitoring activity, we have discussed the two key characteristics that would provide the incentives against the collusions and conflicts of interest and make 'collusion-proof' such civil society institutions:

1. *Multi-stakeholdership*: to establish a broad consensus on the reference standards that provide the framework for corporate self-regulation, and ensure that parochial interests do not take over the institution, as far as it is not captured by vested interests (those of who should be subjected to independent verification);

2. *Independence*: to ensure adequate autonomy and separateness of the institution's CSR scientific experts and professional members, able to guarantee the independent

working out of assessments which satisfy requirements of impartiality and competence, and avoid the risk of constant negotiations where those with the greatest bargaining power could prevail.

8.2   VMS self-governance and external audit

Today there are two different versions of audit systems for corporate social responsibility programs. One could be called "self governance approach" and the other on "third party approach".

The VMS is based on self-binding and self-control of the corporation. The idea is basically that companies are the owners of the processes because they are the ones who voluntarily implement it and therefore also have to bear the consequences.

The VMS audit system is based on self governance and the assumption that only the existence and implementation of a companies internally institutionalised process is assessable. From the VMS point of view one can not measure the ethical performance of a corporation but only the existence and the dynamics and relevance of the internal and external processes which make the ethical aspirations living documents. Nevertheless the existence and efficiency of such a VMS can also be verified by an external auditor. This is on a voluntary basis and is carried out in the Bavarian Construction Industry for more then six years.

Standards need to be validated by an audit. Usually, performance standards try to organise this by forming objective ethics indicators and verifying them by documentation and stakeholder perception. In contrast, the audit process developed for the Bavarian Construction Industry and the VMS is based on the documentation of the Principles, Systems and Tools and its actual meaning for the every day business. This means, the audit investigates both the existence of formal structures (documentation) and its realisation in the day-to-day business and the atmosphere of the moral process (validation). **Documentation** and **Validation** are the core principles of the voluntary VMS audit system that can be carried out either by the company itself (self assessment) or by an external auditor.

Documentation:

This part is conducted along a questionnaire that the company can use as a internal check list or in the case of self evaluation or send it back to the external auditor before the audit takes place. This questionnaire refers to the specific regulations of a corporations, control- and reporting systems, compliance components, incentive systems, training programs, communication channels and media and so on. Relevant documents have to be submitted. In general the documentary part conduces to the verification with regard to the effective establishment of a values program.

Validation

In contrast, the validating part of the audit helps to gain an impression about the realisation of the values program. Members of the executive board, managers, employees working in sensitive areas and randomly selected worker a interview for this purpose. In a final conference management and the auditors discuss the result of the audit and proposals to advance the company-specific VMS.

Reporting

- Putting in place internal assurance and verification processes for reporting and undertaking an internal assurance / verification programme.

- Agreeing the need for, scope and objectives of, and service providers to deliver, assurance and verification of reporting.

- Working with external assurance / verification providers to achieve production of a favourable assurance / verification statement.

Empirical studies about the Bavarian Construction Industry show the reliability of this audit systems and its efficiency to support the real ethical decision process inside the corporation. Below the results of an Empirical study are presented.

Experiences with Values Programs in the Building Industry – Results of an Empiric Study[34]

Pulsed by the German Association of the Bavarian Building Industry and oriented to US experiences, in 1996 approx. 40 member companies started to implement an EthicsManagementSystem (EMS) specific for the Bavarian Construction Industry.

An assurance method was developed at the Konstanz Institute for ValuesManagement that determines in a two-step process if and how companies realized corporative ethics programs. This consists of a "documentary" and a "validating" part. The first one is conducted along a questionnaire that the companies send back to the auditors before the audit takes place. On the date of the on-site audit first of all the allegiance to the truth of the data stated in the questionnaire is reviewed. Relevant documents have to be submitted, such as the written values program including standards of conduct, internal work instructions, training programs, agendas of management conferences, minutes on relevant decisions, materials of the PR work and so on. So the documentary part of the Ethics Audit conduces to the verification as regards the *establishment* of a values program. In contrast, the validating part of the EthicsAudit conduces to gain an impression about the *realization* of the values program in the routine business. Members of the executive board, managers, employees working in "critical" areas (e.g. sales, cost accounting, purchasing, site supervision) and randomly selected workers are interviewed for this purpose. In a final talk with the management the results of the EthicsAudit and proposals to advance the company-specific values program are discussed.

We now want to present some results of an empiric study on the experiences made so far with values programs in EMB-companies. The study refers to a sample of ten companies (15 business units overall) in which we interviewed 97 employees and 20 persons responsible for the company's internal values program, furthermore called "Ethics executives" (normally members of the executive board).

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[34] For a detailed discussion of all results see Wieland/Grüninger (2003).

The predominantly positive ratings of the employees interviewed with regard to the existence of corporate values programs in their companies (cf. figure 12) may be ascribed to the characteristic that such programs generate *capability of action* and *certainty of expectations* with the actors.[35] That is, for employees values programs do not only clarify which actions and conduct are permitted on behalf of the company and which are not (capability of action), but do as well convey the message –via embedding them into the governance structures of the organization (e.g. management commitment, incentives) – that the observation of the conduct is taken seriously (certainty of expectation). This seems to be a semantic doubling of one and the same circumstance but in a closer view emerges as necessary differentiation. From the numerous interviews with employees of the companies studied and of others that established values programs, we know that the mentioned difference runs exactly between the mere verbalization of codes of conduct and their reliable internal communication.

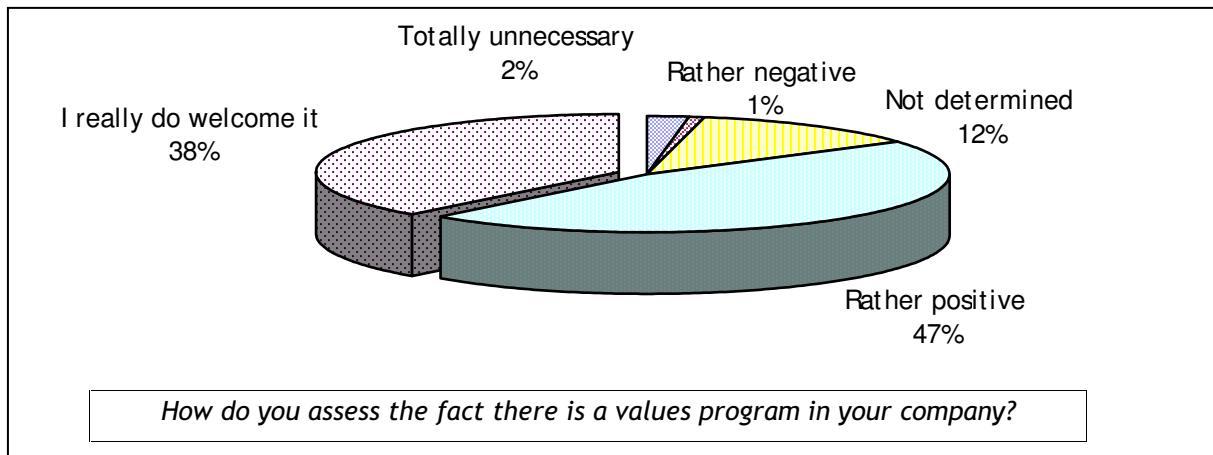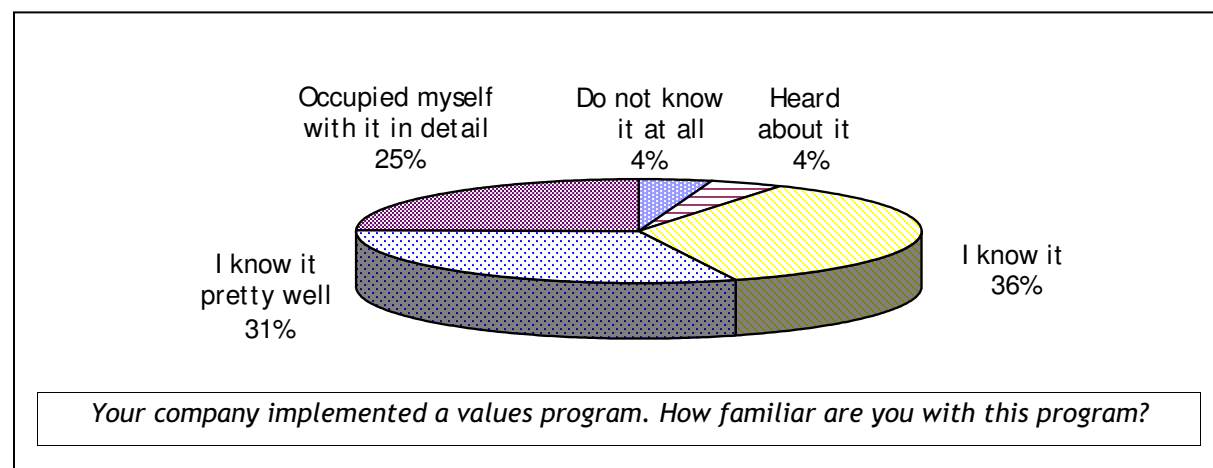**Figure 12.   Existence of values programs: Employees' rating**

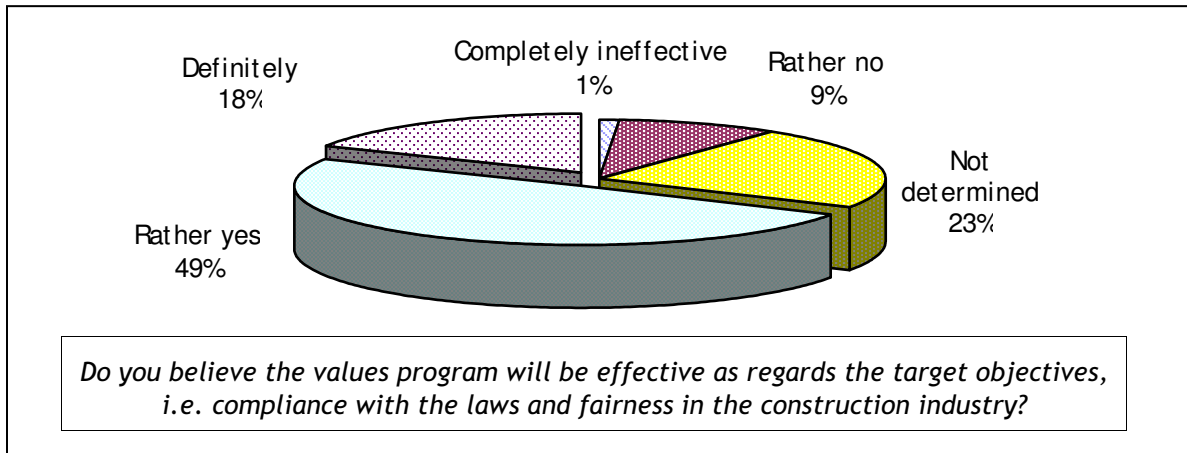*How do you assess the fact there is a values program in your company?*

Figure 13.   Employees' awareness of the values programs

Your company implemented a values program. How familiar are you with this program?

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[35] Wieland (1999a), p. 68.

The employees' great approval of implementing and realizing values programs (cf. figure 12) can be attributed to the fact that a broad majority of the employees know the programs (cf. figure 13) and actually think them capable to solve problems (creation/support of legal faith and fair business practices; cf. figure 14).

Figure 14.   Effect of values programs: Employees ratings

Do you believe the values program will be effective as regards the target objectives, i.e. compliance with the laws and fairness in the construction industry?

About one year after the implementation, the most important reason to practice the programs clearly is the "improvement of corporate culture" (cf. fig. 15). This statement backs our experiences from qualitative interviews as part of the EthicsAudits described above that the internal (and external) communication of business ethics programs sooner or later leads to questions about a collective actor's identity and its aims.

Figure 15.   Most important personal motives to implement values programs and most important motives for their realization
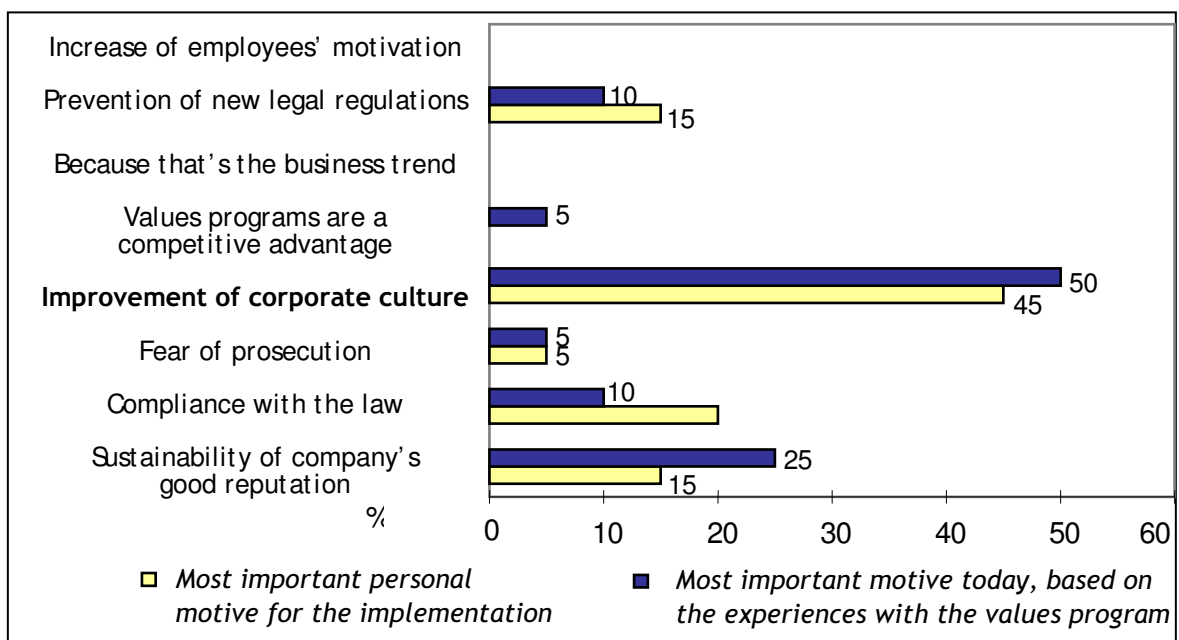
From discussions with the management of EMB companies we meanwhile know that implementing values programs indeed led to losses of orders in some areas, but that orders could be attracted on the other hand that would not have been acquired without a values program. This means values programs do possibly re-structure the company's client potential because the company itself defines the conditions for its transactions. So competition under defined conditions (no illegal price agreements, no bribery) leads to a greater decisional independency of the company (cf. figure 16).

Figure 16.   Influence of values programs on co-operation partners: Ethics executives' rating
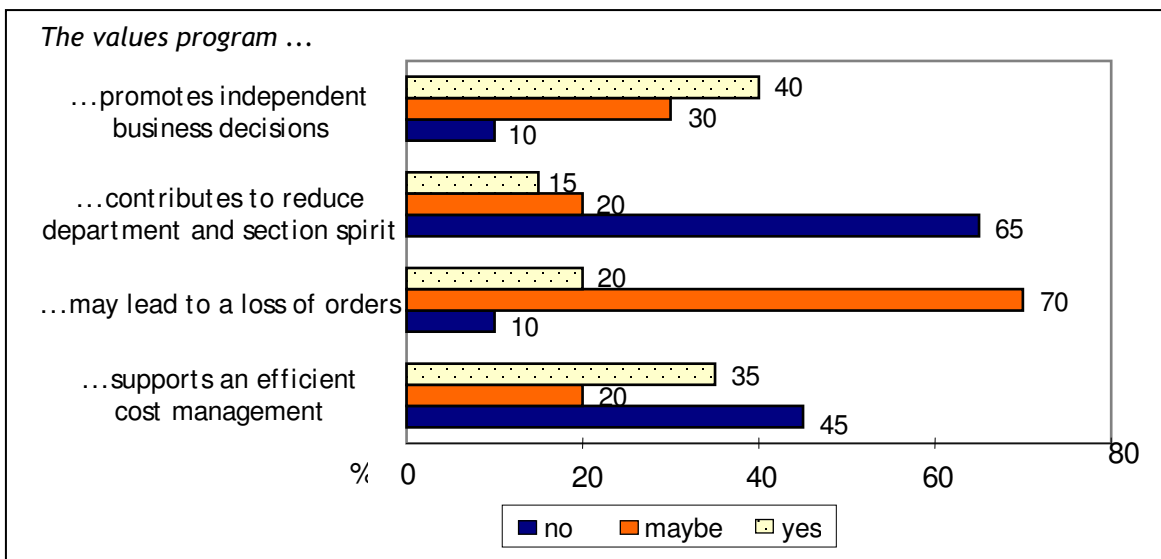
The insight confirmed in the present study that apart from market-induced reasons very "home-made", i.e. organizational ones, too, are "responsible" for breaching moral standards belongs to this context as well (cf. figure 17).[36] Especially the detection of employees' and management's different perceptions with regard to such "sources of error" (in our study e.g. "standards are not exactly fixed", "pressure of time", "career is first priority") may be a useful starting point for organizational measures (e.g. introduction/adaptation of incentive systems, trainings) in order to embank immoral behaviour.

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[36] Cf. Wieland 1996b, 1999a.

Figure 17. Reasons for breaching moral standards: Comparison employees vs. ethics executives
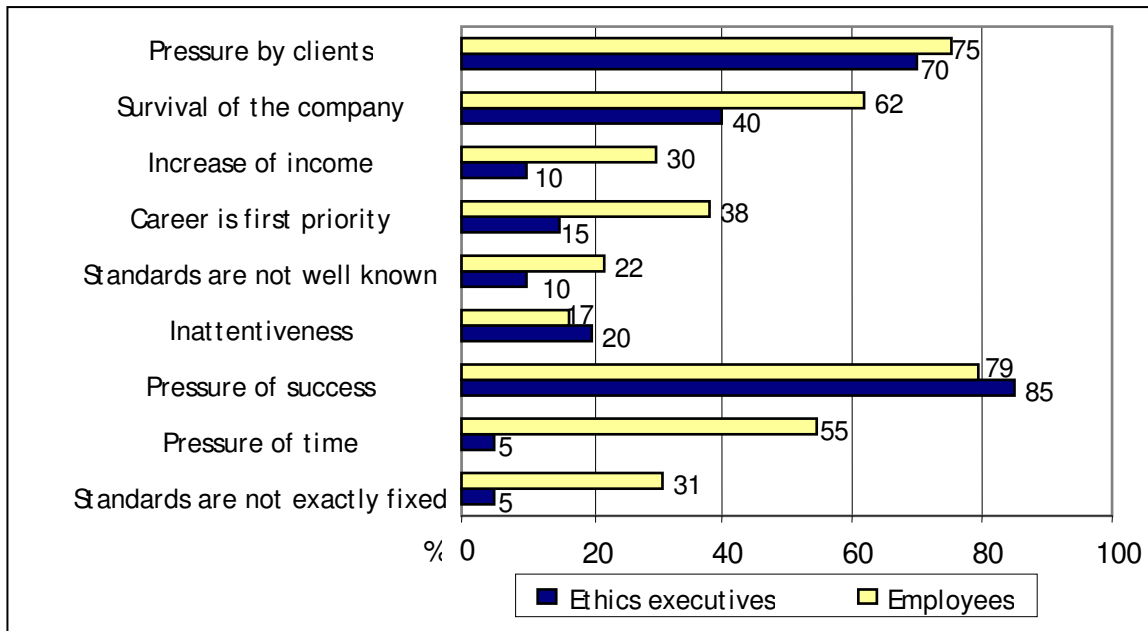
In this process regular EthicsAudits have a assurance function. An external verification does not only promote the external and internal reliability of values programs; it also contributes to the further development and progress of the programs (cf. figure 18).

Figure 18. Benefit of external verification of values programs: Ethics executives' opinion
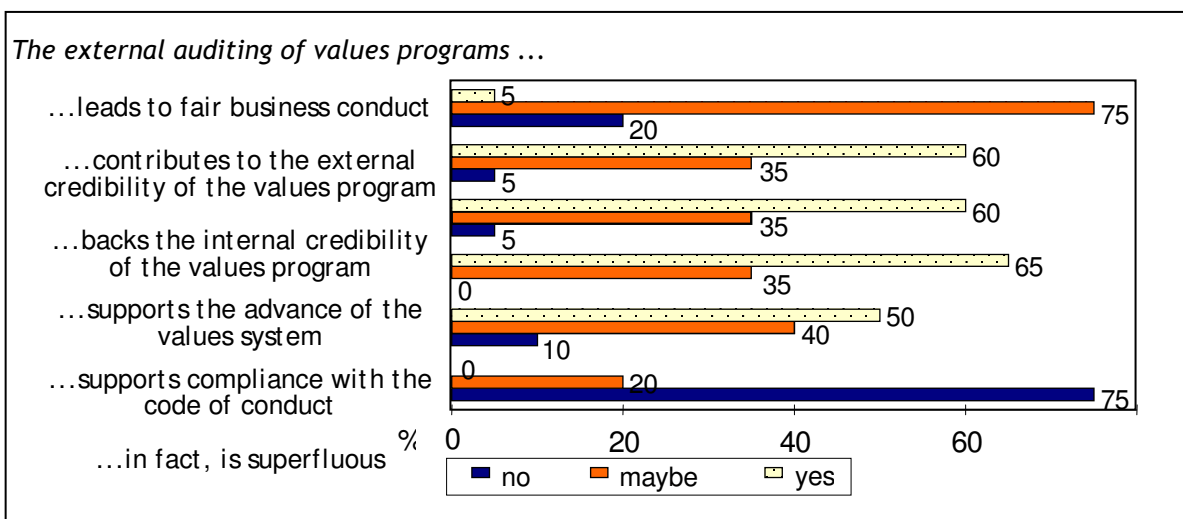
8.3 SIGMA assurance of reporting

SIGMA believes the unique nature of sustainable development requires an innovative and flexible approach to assurance. This is unlikely to be delivered through a conventional 'requirements-based' certification scheme.

The MRR phase of the SIGMA Framework outlines how organisations can monitor review and report their activities. Sub-phase MRR4 of the SIGMA Management Framework deals specifically with how organisations can assure their processes and reporting, in particular by engagement with stakeholders. These are summarised below:

Table 10   SIGMA Monitor, Report and Review phase

Phase		Activity
MRR1	*Monitoring, measurement, auditing and feedback*	• Training for, planning and executing the organisation's internal audit/assurance programmes • Communicating audit/assurance findings and recommendations to relevant internal and external stakeholders, including those responsible for conducting the strategic and tactical review process • Taking preventive, corrective and innovative actions as appropriate • Consulting with stakeholders on performance and future challenges
MRR2	*Tactical and strategic review*	• Reviewing strategies and tactical plans to assess their effectiveness and ability to deliver against the organisation's vision and targets for sustainable development • Reviewing audit/assurance findings and recommendations • Assessing any changes in stakeholder priorities and their implications for the organisation's vision, activities, targets, processes, products and services • Making recommendations to the next round of the organisation's Strategic and Tactical Planning processes • Making immediate amendments to Strategic and Tactical Plans to take account of changing circumstances and priorities (as appropriate) • Communicating the findings and recommendations from reviews to all relevant personnel

Phase		Activity
MRR3	*Reporting progress*	• Collecting information and data, agreeing the scope, media, audiences and levels of disclosure for reporting, distributing the reports through a range of communications channels • Establishing or reinforcing mechanisms for handling and responding to stakeholder feedback on reports
MRR4	*Assurance of reporting*	• Putting in place internal assurance processes for reporting and undertaking an internal assurance programme. • Agreeing the need for, scope and objectives of, and service providers to deliver, assurance of reporting. • Working with external assurance providers to achieve production of a favourable assurance statement.

8.4   AA1000 Assurance Standard

The AA1000 Assurance Standard is a generally applicable standard for assessing, attesting to, and strengthening the credibility and quality of organisations' sustainability reporting, and their underlying processes, systems and competencies. It provides guidance on key elements of the assurance process.

The AA1000 Assurance Standard's key characteristics are that it:

• Covers the full range of organisational performance, i.e. 'Sustainability Performance'

• Focuses on the materiality of subject matter to stakeholders, as well as its accuracy

• Examines the completeness of an organisation's understanding of its own performance and impacts, and associated stakeholder views

• Assesses Reporting Organisations' responsiveness to stakeholders, and in doing so interprets Reporting as part of an ongoing engagement with them

• Provides a forward-looking approach that indicates how able an organisation is to carry out stated policies and goals, as well as to meet future standards and expectations

• Establishes the basis for public assurance statements that build the credibility of public sustainability Reports

• Supports and integrates approaches to assurance using multiple providers, approaches and standards, including specific compatibility with the Global Reporting Initiative Sustainability Reporting Guidelines

• Applies to different types and sizes of organisations and assurance providers from diverse geographical, cultural and social backgrounds

- Requires disclosure by assurance providers covering their competencies and relationships with the reporting organisation (i.e. client)

The AA1000 Assurance Standard principles are:

1) *Materiality*

2) *Completeness*

3) *Responsiveness*

1) The AA1000 *Materiality Principle* requires that the Assurance Provider states whether the Reporting Organisation has included in the Report the information about its Sustainability Performance required by its Stakeholders for them to be able to make informed judgments, decisions and actions. Information is material if its omission or misrepresentation in the Report could influence the decisions and actions of the Reporting Organisation's Stakeholders.

2) The AA1000 *Completeness Principle* requires that the Assurance Provider evaluate the extent to which the Reporting Organisation can identify and understand material aspects (see P.1) of its Sustainability Performance.

3) The AA1000 *Responsiveness Principle* requires that the Assurance Provider evaluate whether the Reporting Organisation has responded to Stakeholder concerns, policies and relevant standards, and adequately communicated these responses in its Report.
Use of the AA1000 Assurance Standard

The **AA1000 Assurance Standard** is primarily intended for use by assurance providers in guiding the manner in which their Assurance assignments are designed and implemented. In addition, the **AA1000 Assurance Standard** should inform the way that:

- *Reporting organisations'* assess, plan, describe and oversee the implementation of their Assurance (including internal Assurance), as well as guide Directors and Boards in overseeing non-financial disclosures.
- *Reporting organisations' stakeholders* query and assess the quality of Assurance and associated Reporting.
- *Standards bodies and policy-makers* develop private, voluntary standards, as well as voluntary and statutory aspects of organisational accountability, particularly reporting and assurance.
- *Professional development and training practitioners* build professional competencies in assurance and overall organisational accountability.

The **AA1000 Assurance Standard** supports assurance (whether made public or not) of reporting that adheres to specific standards and guidelines, and is customised by the reporting organisation. It is specifically designed to be consistent with, and to enhance, the Global Reporting Initiative Sustainability Reporting Guidelines, as well as other related standards.

All 'AA1000 principles' must be applied in any Assurance assignment. The manner in which they are applied depends on the level of assurance pursued. Assurance levels may depend on the extent and quality of the following:

- Information available.
- Sufficiency of evidence.
- Underlying systems and processes.
- Internal assurance systems.
- Existing assurance for specific aspects of performance reporting.
- Resources allocated for assurance by the reporting organisation.
- Legal or commercial constraints.
- Competencies of the assurance provider.

The level of assurance is expected, although not required, to increase over time as information and underlying systems and processes for accounting for sustainability performance improve. The assurance provider must convey in the report how the application of the AA1000 principles may vary across different aspects of performance and, consequently, the report, within a single assignment. The assurance provider and reporting organisation should together plan and agree on the level of assurance to be pursued.

The assurance provider must evaluate whether the reporting organisation has provided adequate evidence to support the information contained in the report. The assurance statement should address the credibility of the report and the underlying systems, processes and competencies that deliver the relevant information and underpin the organisation's performance.

The credibility of a report's assurance relies on the assurance provider's competencies, independence and impartiality, as well as the use of appropriate standards, including the *AA1000 Assurance Standard*. In addition, the organisations through which individuals provide assurance must be able to demonstrate adequate institutional competencies.

The application of the completeness and responsiveness principles by the assurance provider will be conditioned by the level of assurance. Most companies' non-financial 'accounts' are at a very poor stage of development, meaning that a high (or indeed any) level of assurance cannot reasonably be given on the wider challenges of materiality and completeness. Also, limits exist for any company on how much it can legitimately spend on sustainability assurance.

An Example of the use of AA1000 Assurance Standard:

Company Profile: The Co-operative Bank

The Co-operative Bank is one of the largest financial services organisations in the UK with more than 6 million customers; it has an annual income of £3.5 billion and assets of more than £28 billion.

The Co-operative Bank was first in its sector to introduce corporate social responsibility programmes with fully audited triple bottom line (social, environmental & financial) reports in the UK. The Co-operative Bank has a well-established Ethical Policy, which

reached its 10th Anniversary in 2002. The policy reflects customers' views about how their money should and shouldn't be invested.

The content of the assurance statement contains the following information:

- Who the assurance provider is and some indication of their qualifications to carry out the assignment;

- That the assurance provider does not have any relationship with the company or with its stakeholders that may compromise their ability to make impartial and objective judgements about the report and the company's management systems. In particular the assuror should not have been involved in designing the systems or in writing parts of the report, other than reviews and commentary that have been clearly identified.

- That the directors are responsible for the content of the Partnership Report;

- That the assurance provider's primary responsibility is to consider the interests of stakeholders and not those of the company's managers;

- A short description of the reporting and assurance standards the assurance provider has used, the scope of the assurance work and the methods used to assess the company's report and management systems;

- A statement of the assurance provider's opinion. This is produced after carrying out investigations and tests, and states whether the report provides a reliable, complete and balanced view of the company's economic, social and ecological impact on its stakeholders. It also questions whether the company has behaved consistently with its stated values.

- The assurance provider's signature and the date the report was completed.

The process used with the bank follows a number of sequential steps:

1. **Engagement**. This involves a preliminary discussion with bank staff working on the report to agree the scope of the assurance work (the full report and supporting management systems), a timetable and budget. These are confirmed in writing. The assuror needs to be satisfied at the outset that they will have access to all necessary information and people, and that enough time has been allowed to carry out the engagement effectively. The engagement for the 2002 Partnership Report took 25 days work.

2. **Planning**. Planning involves two stages:

   - Ongoing issues and risks. The assuror makes an independent review of findings from earlier assurance engagements with the company, taking account of previous Assurance Statements, working papers and reports to directors. The assuror carries out an assessment of those aspects of performance and reporting where there may be a risk of information being omitted, misrepresented or inadequately supported by evidence and effective management systems. In practice this involves going through the indicators and targets, assessing their importance (or materiality) and deciding which data sets will need detailed investigation and which will just require sample checks, (because the assuror is confident from previous assurance cycles that the relevant systems are robust

and reliable). The assuror pays particular attention in planning assurance work to the bank's responses to issues and concerns stakeholders have raised through previous reports, current engagements or directly with the assuror;

- Planning the assurance work. On the basis of the described risk assessment, the assuror will discuss with bank staff arrangements and times for interviewing managers, staff and other stakeholders, and for accessing bank records and information systems relevant to investigations.

3. The Assurance Work. This involves the following activities:

o   Interviewing managers and staff in order to gain an understanding of how specific policies, management information systems and controls have been designed and their views on their effectiveness. Discussions will focus on systems that have changed since the previous audit cycle or systems that have been identified as weak or at risk.

o   Testing systems and their data output on a sample basis where appropriate.

o   A review of accounting processes and the findings of internal audit procedures requested by the assuror.

o   Interviewing managers and staff about stakeholder engagement processes and stakeholder surveys that have taken place during the year.

o   Checking the output from stakeholder surveys for: compliance with the intended sample frame: bias: accuracy of processing: and misinterpretation or understatement in the reported results and commentary.

o   Consulting stakeholder representatives (e.g. the bank staff trade union representatives) where necessary to corroborate stakeholder survey findings or their interpretation by the bank or its consultants.

o   Testing all data in the report for source and accuracy, on a full or sample basis depending on the previously detailed risk analysis.

o   Assessing the materiality of information to be included in the Report to the interests of the bank's stakeholders (Partners) and the time period covered by the report.

o   Assessing the extent to which the bank has responded to stakeholder concerns and whether actions during the year covered by the report are likely to impact on stakeholder interests later on.

o   Checking that all commentary in the report and all graphical presentations are consistent with the underlying data and do not misrepresent performance.

o   Carrying out independent reviews of bank data relating to the 'campaign' issues and consulting independent experts and external parties involved in the campaigns as appropriate.

o   Documenting investigations and findings.

8.5   Assurance: Common Elements

There is a core commonality in all of the frameworks in that they advocate assurance in the particular sense that management of the company needs to ensure that what it is doing is what it thinks it is doing, and in addition may wish to communicate this in a credible way to others, inside or outside of the company.

Then come some aspects of assurance that only overlap or are distinct between frameworks, as set out below.

(b)   The **AA1000 Series** includes a specialised "assurance standard" (AA1000 Assurance Standard) that in many ways goes to the heart of its values and orientation, by defining the key Assurance Principles of *Materiality*, *Completeness* and *Responsiveness*, and also includes specific requirements concerning the *independence, impartiality* and *competencies* of the assurance providers;

(c)   **SIGMA's** approach to assurance is in many ways similar to the AA1000 approach for the simple reason that it has formerly adopted the AA1000 Assurance Standard as the 'Intel inside' approach to assurance it advocates;

(d)   **ValuesManagementSystem**'s approach to assurance is based on what the framework calls *self-governance approach*, which emphasises the key plaid by the organisations who voluntary adopt a self-binding CSR management standard like VMS. Nevertheless, the existence and effectiveness of VMS within an organisation can be verified by an external auditor on a voluntary basis;

(e)   The **Q-RES** approach to assurance is twofold: in the Q-RES Guidelines the framework defines *'excellence criteria'* and '*auditing evidence'* for the external verification concerning the adoption of Q-RES management tools by the organisation; in the Q-RES Standard it defines a CSR management system based on a ISO-like model that can be certified by independent third party.

(f)   All frameworks acknowledge the value of internal as well as external assurance, although in the case of AA1000/SIGMA this is implicit, and for Q-RES and VMS explicit.

Beyond these aspects, a crucial difference does exist between the AA1000 and the other frameworks. AA1000 takes the view explicitly that assurance is not the same as audit or verification, and that assurance may or indeed may not include the particular approaches defined as audit and verification. The other frameworks effectively do not make this distinction, and in effect use these terms relatively interchangeably.

9.   Conclusions and Next Steps

One key issue in the debate on how to promote the social responsibility of business is the translation of ethical values and concepts such as *accountability*, *fairness*, and *sustainability* into managerial language made of *business strategy*, *goals, tools* and *processes*.

The partners of this project are the founders of four initiatives that have been developed to addressed this issue in Italy, Germany and the UK: both the **Q-RES Project**, **ValuesManagementSystem**, the **SIGMA Project** and the **AA1000 Series** have conceived and developed their own frameworks with the purpose of enabling organisations to improve their social, ethical and environmental performance.

The Q-RES Guidelines (1999) and Q-RES Standard (2003), VMS Principles and Constituents for Sustainable Development (2000), AA1000 Framework (1999), AA1000 Assurance Standard (20003) and the SIGMA Guidelines (2003) are the existing guidance documents produced by these frameworks, which position themselves in an already very well populated arena of CSR standards.

Looking at the European scenario, the multiplicity of approaches and initiatives in the CSR field is representing both a risk and a opportunity. On the one hand, there is the risk that the wide variety of approaches generates a highly complex environment, with possible confusion and misunderstanding of terms and methodologies, thereby hindering the diffusion of best practices within the business community.

On the other hand, the presence of many initiatives, most of them with a strong national basis, such as Q-RES in Italy and VMS in Germany, generates real opportunities for positively contribute to the adoption of common CSR concepts and practices at the European level. To favour this process, however, it is crucial to understand what are the key 'common elements' of the different CSR management framework, which could be linked together to develop a common European CSR framework, and the 'acceptable differences' of such approaches.

With this project we have tried to address this challenge, by analysing the key elements of our four CSR management frameworks, and suggesting areas of convergence.

In **Part A** of this report we have presented the development of the Q-RES framework, which has being elaborating a definition of CSR closely linked with the concept of Corporate Governance: *CSR is a model of extended corporate governance whereby who runs a firm (entrepreneurs, directors and managers) have responsibilities that range from fulfilment of their fiduciary duties towards the owners to fulfilment of analogous fiduciary duties towards all the firm's stakeholders.*

The Q-RES definition of CSR extends the concept of fiduciary duty from a *mono-stakeholder* setting (where the sole stakeholder relevant for the identification of fiduciary duties is the owner of the firm) to a *multi-stakeholder* one in which the firm owes fiduciary duties to *all* its stakeholders (the owners included).

In **Part B** we have carried out a comparative analysis of the key elements of Q-RES, VMS, SIGMA and AA1000 frameworks with reference to the four elements that we have identified as of the common 'building blocks' of any CSR management system:

1. Values and Principles for CSR;

2. CSR Management Process;

3. CSR Management Tools, and

4. Assurance.

The analysis has been able to identify areas of overlap in each of the above elements, as summarised below.

Common Elements: Values and Principles for CSR

Common elements include:

- **Corporate Values:** *The organisation should define and develop its own values guiding its overall business (and CSR) strategy.* In particular, the following core values are shared by our initiatives: *Sustainability, Mutual advantage, Fairness.*

- **Governance:** *The values and principles for CSR should be understood as the main governance system of the relations between the organisation and all its stakeholders (including owners/shareholders).* In other words, the analysis points out that the definition of CSR as a model of "extended governance" developed by Q-RES expresses a shared vision by all our frameworks – namely that CSR is essentially about strategic management and the governance of the organisation.

- **Multi-stakeholder approach:** *The organisation should take in due consideration the interests and needs of all its stakeholders*

- **Management Integration**: *The organisation should develop its CSR Management System in an integrated way with respect to its core business management systems and decision-making processes.*

- **Accountability**: *The organisation should be accountable towards its stakeholders and respond – whether positively or negatively - to their legitimate claims.*

- **Performance Improvement**: *The ultimate aim of the CSR Management System is to help the organisation improve its social, ethical, economic and environmental performance.*

Common Elements: CSR Management Process

We identified common elements in relation to the traditional Plan-Do-Check-Act model:

Plan

- Define the organisation's Mission, Values and Principles
- Develop code of ethics, policies, procedures
- Identify stakeholders and prioritise CSR issues

Do

- Communicate Values, Strategies and Policies internally
- Train employees
- Monitor compliance

Check

- Measure performance
- Reporting
- Assurance

Act

- Respond to stakeholders
- Review the process
- Learning & Innovation

Common Elements: CSR Management Tools

Again, we mapped CSR Management Tools developed within each framework in relation to the Plan-Do-Check-Act model:

Plan

- *Q-RES Code Of Ethics Development Methodology*
- *SIGMA Business Case Tool*
- *SIGMA Stakeholder Engagement Tool*

Do

- *Q-RES Ethics Training Methodology*
- *VMS Procurement Methodology*

Check

- *AA1000 Framework*
- *SIGMA Environmental Accounting Tool*
- *SIGMA Sustainability Accounting Guide*
- *SIGMA Sustainability scorecard*

Act

- *AA1000 Assurance Standard*

Common Elements: Assurance

Despite diversity in approach, all of the frameworks advocate credible forms of assurance to ensure effective application of the CSR values and principles stated by the organisation.

Next Steps – Towards convergence?

These results are encouraging as they demonstrate a way for possible convergence of the different CSR management systems on the basis of a common framework, at the same time highlighting common elements that are parts of the different standards, as well as recognising areas of strength and specific contributions (Values, processes and tools) developed by the individual initiatives.

We therefore welcome the Commission continued support of research projects aiming at further exploring the concrete convergence among CSR management standards at European level.

In parallel, we believe that the nee next challenge will be to improve our understanding on how these management frameworks can effectively enable organisational change towards CSR and sustainable development. Further research should be devoted to analyse how CSR management systems can effectively enable companies to translate into business innovation a new stakeholder-based governance model and assess how existing CSR standards relate to business performance.

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