

The Q-RES Project:

The Quality of the Social and Ethical Responsibility of Corporations

Guidelines for Management

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Part A The Q-RES Project: An Introduction

1. Introduction to the Q-RES Project

The present Guidelines are the results of the first year of research of the "***Q-RES Project: Towards a Quality standard for the Social and Ethical Responsibility (RES) of corporations***".

The Q-RES Project was conceived in September 1999 by CELE-Centre for Ethics, Law & Economics at the University of Castellanza (Varese, Italy) and carried out with the collaboration of a group of companies, professional associations, consulting companies and non profit organisations, all firmly convinced of the need and utility of business ethics.

Together we built the Q-RES Table, a working group committed to the definition of a complete consistent and excellent set of management tools to foster corporate social and ethical responsibility within business.

The Q-RES working Table is made up of representatives of CELE, responsible for research and project management, **Participating Organisations** (companies interested in improving their social and ethical responsibility), **Project Partners** (professional associations, NGOs and other organisations committed to improving the social and ethical responsibility of business) and **Sponsors** (auditing companies providing financial support and contributing to the research with their auditing expertise).

The following figure illustrates the members of the Q-RES Table.



We would like to thank all the Table-participants for their contributions and suggestions.

The structure and content of this document reflects the work done by the Q-RES Table in defining concepts and tools for managing corporate social and ethical responsibility.

Responsibility for the final version of the Q-RES Guidelines remains with the Q-RES Project Management Team of CELE¹:

Prof. Lorenzo Sacconi – *Project Director*
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1.1 Purposes

The Q-RES project puts forward a management model addressing the social and ethical responsibility of corporations which is inspired by the concept of a social contract between the firm and its stakeholders. The Q-RES model defines an integrated and complete set of tools to introduce ethics into corporations along with defining excellence criteria in the management of social and ethical responsibility. The corporate social and ethical responsibility model, as described in the Q-RES Guidelines, was developed by taking into account two main characteristics: observability and verifiability by external parties.

The project mission is the following: "Fostering a business vision based on a social contract with stakeholders through the definition of a new quality standard, certifiable on an international level, of corporate social and ethical responsibility, able to protect corporate reputation and build trust in the relations with stakeholders".

1.2 Working Plan

The Q-RES Project implies a working plan divided into many phases. During the first year the following initiatives were organised:

- 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 (GBS, SA8000, GRI, AA1000 etc.);
- Q-RES-Table meetings devoted to define 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.

The following activities will take place in 2002-2003:

- Identification of priorities/opportunities to introduce Q-RES tools within participating companies;
- Starting adoption of Q-RES tools (pilot projects);
- Development & Review of the Q-RES Guidelines; and

¹ A special thank is also due to Laura Callegaro for her fruitful assistance in research activities and to Paola Schejola for her invaluable organisational and administrative support throughout the Q-RES Project.



- Setting up a working group to define the Q-RES standard.

At the same time the CELE research team will continue the constructive dialogue established with representatives of similar initiatives in Europe (such as The SIGMA Project in the UK and the ValuesManagementSystem initiative in Germany), as well as with the Italian Government and the European Commission, in order to verify the possibility of setting up a working group studying the definition of a European standard.

2. Why is business ethics necessary – and how can it be useful

In a world, where 51 of the 100 most important planet economies – considering corporate profits, and gross national product in single economies – are profit-oriented corporations, thinking over a company's role in society involves increasing consideration not only of its role as business actor, but also as a social institution. Decisions taken by those new global actors – e.g. the de-localisation of production that beyond a direct impact on occupation in relevant countries also affects know-how, technology and managerial skills transfer outside national borders – are more and more relevant to the well-being of local and national communities. This implies that corporate decision-making has to meet much more general criteria than a simple logic of profit maximisation. In fact, increasingly not only governments, but also investors, consumers, media and the public in general demand in advanced societies more and more information on corporate performance, giving significance not only to profit levels, but also to aspects such as quality, image, reliability and reputation of a company in terms of its ethical, social and environmental responsibility. In other words, the stress is not only on economic results, but also on the way those results have been generated.

The inspiring idea for the Q-RES project is that reputation – in other words, being well-known as a socially and ethically responsible corporate respecting human rights and adopting an effective environmental management – is one of the most relevant resources to the company's success. Reputation is an *intangible asset* increasing value and supporting the future company development. Reputation is relevant because it enables the building of trust in the relationships between the company and internal (employees and management) as well as external (suppliers, customers, investors, local communities, public administration, partners, etc.) stakeholders. Corporate reputation is first of all an acknowledgement to the 'licence to operate', without which no company can flourish. It also makes transactions between the company and stakeholders more effective by lowering bargaining and governance costs.

The adoption of social-ethical responsibility tools is a voluntary self-regulatory process, which can therefore lead to a competitive advantage. Recently, the Co-op Bank calculated that in the year 2000 the adoption of social and ethical responsible conducts generated net benefits of £13m, taking into account both costs (eg investments in the community, business turned down for ethical reasons and social reporting costs) and revenues (eg new customers gained thanks to reputation) of its own business ethics program¹.

2.1 The social contract concept

For a company, to have a high level of reputation means that its stakeholders have confidence in it and in the way relations with them are managed. However, the management of such relations is very complicated. The difficulty is due to the fact that, on one hand, stakeholders' interests are sometime conflicting to each other. On the other hand, stakeholders contribute to the company mission fulfilment, so they are supposed to share some of the benefits produced by their contribution. A balancing problem between legitimate claims made by the different stakeholders towards the company has to be solved. It is important to note that the word stakeholder is "descriptive": it is not a normative concept, because it says nothing about how to balance interests and values. A moral - that is, a prescriptive - criterion is needed to define a balancing criterion acceptable to all stakeholders as a basis for the cooperation necessary to achieve the corporate mission. The company, therefore, has to provide itself with a strategic multi-stakeholder approach and with a method that provides a balancing criterion between various interests and values.

¹ See Ethical Performance – September 2001 (www.ethicalperformance.com).

The problem can be solved through business ethics, i.e. the discipline applying ethical philosophical theories concerning justice, economic contexts and decision-making processes typical of organisations. Business ethics suggests as a balancing criterion the concept of a fair and efficient "social contract" between the company and all stakeholders. The social contract is not a real contract, but an ideal one, it is a touchstone. It grounds on a concept of justice, which sees as fair what people rationally and consensually accept unanimously. To reach a fair agreement some conditions must be satisfied:

- Interests of all must be taken into consideration;
- All must be informed and not deceived;
- None must have suffered or suffer power or constraint; and
- Agreement must be reached voluntarily through rationality.

Managing a company by a fair and efficient contract with its stakeholders can generate various benefits. First of all, it provides an opportunity to counter-act opportunistic conduct harming the legitimate expectations of well-being on the part of stakeholders. Opportunistic behaviour is particularly detrimental for economic organisations as it can persuade investors, employees, customers and consumers to reduce their investments – of work, knowledge or capital – in the company. A second type of benefit are the reduced governance and monitoring costs of the company's transactions when relations based on mutual trust are established. Finally, managing the company according to social contract is not only a 'minimum' guarantee of compliance with the law in every circumstance in which the company operates, but it also helps the management to identify possible negative social effects of corporate activities by recognising legitimate stakeholders' interests sometimes forgotten or not sufficiently acknowledged and to orientate the corporate strategy towards social and environmental sustainability.

2.2 Corporate Ethics and Reputation

The social contract model provides a theoretical ground to introduce business ethics within corporations.

But what are the rational motivations – i.e. motivations set by an interest consistent with the profit maximisation logic and not by mere moral and altruistic concerns – which can persuade a company to respect the social contract with stakeholders and to apply ethical and social responsibility criteria in everyday business decisions?

Motivations persuading to act in compliance with the corporate social contract appeal to *reputation effects* that economists analyse and describe using game theory models.

In particular, the theory of repeated games explains how reputation arises from a very well individuated mechanism implying three separate phases: a) presence of a repeated interaction between stakeholders and the company; b) observation of the company conduct by stakeholders and c) updating of stakeholders' beliefs about future corporate behaviour. Only if a company's reputation reaches a satisfying level in the stakeholders' view, the latter will have a cooperative attitude towards the company, because they will reasonably expect conduct according to what was observed in the past. The reputation mechanism begins with a company commitment towards stakeholders which is in some ways verifiable and observable, even with a margin of ambiguity, from stakeholder. The award of such a reputation mechanism lies in enhanced reputation, which is also the factor making commitment trustworthy. Reputation effects can turn into a competitive advantage factor for companies in the market and in relations with public administrations. One can therefore notice an evolutive imitative mechanism: under-population of companies achieving reputation advantages attracting other population elements not applying the same standards yet.

Reputation is easily generated in simple transactions with immediate exchanges, because a stakeholder can easily verify the quality of goods and services purchased, evaluate corporate behaviours and consequently note a reputation increase or fall. For example, if the goods bought by a seller meet the buyer's quality requirements, the latter will obviously trust the seller also in future business; the seller has, therefore, the possibility of increasing his/her reputation keeping implicit as well as explicit contract terms.

Yet, relations with a company very often are quite complex, uncertain and unpredictable, so they cannot be regulated by simple contracts or by other legal mechanisms. The situation is even more complicated, if transaction is followed by: *unforeseen contingencies*, *incomplete contracts* and *asymmetry of information*. Let's take the case of buying a car. Many quality features of such a good, first of all its reliability, can be learnt and checked by the buyer only after some time of use, so at the moment of purchase one can not be sure that car features are those stated by the seller. In most frequent complex transactions with unforeseen contingencies, where contracts turn out to be incomplete, and with asymmetry of information between parties, checking quality is possible only afterwards ("*experience good*") or even impossible ("*credence good*"). And also determining a reputation increase or fall of corporate reputation is uncertain. The reputation effects mechanism alone is insufficient in such situations. It is necessary for the company to clearly set its commitment towards all stakeholders and clarify what decision-making principles it will follow in the interactions with stakeholders. Moreover, it is necessary to report on actions and decisions taken to demonstrate compliance with commitments.

But how can a company set and communicate its own commitment in a credible way, fostering a process of increasing corporate reputation and at the same time giving stakeholders the possibility of distinguishing between who can be trusted and who can not? Tools at company's disposal to communicate a trustworthy and verifiable commitment include: introduction of an internal code of ethics, implementation activities through internal training and monitoring, periodic reporting and independent verification.

In conclusion, business ethics reduces ambiguity, vagueness and arbitrary discretionary power, when contracts and the law are too rigorous, insufficient or just silent. In this sense ethics is an intangible asset of the company which increases its value. That is the reason why the company has an interest in adopting corporate social and ethical responsibility tools – for instance, a code of ethics – as basis for increasing its reputation, where complexity and ambiguity might hinder mutual trust with the stakeholders. In other words: the more complex the transactions, the more stakeholders fear the risk of abuse; and the more anxious the company is about its own reputation, the more strongly it feels the need for business ethics as a governance element in the interactions with external stakeholders.

2.3 The spread of codes of ethics

The growing interest in corporate social and ethical responsibility was recently emphasised by the publication of the "Green Paper on CSR" by the European Commission. But the stress on CSR is not new. The adoption of Codes of Ethics clearly attests attention to this concept by major corporations and the trend increased constantly in the last two decades. According to research in the US in 1980 only 8% of the Fortune 500 major companies had codes of ethics, in 1985 they had already grown to 77% and to more than 90% in 1990. At the beginning of the 90's the spread of internal codes of ethics in Germany, France and Great Britain was estimated around 40%. In the US the publication of the Federal Sentencing Commission Guidelines in 1991 introduced a strong incentive to the adoption of business codes of ethics. The Sentencing Guidelines imply relevant fine reductions for companies having an "effective ethics program" for preventive purposes. The greater awareness of the 'social' role of corporations in the USA, compared to



Europe, as well as the different concept of private law between the US and Europe can explain this difference in the spread of the code of ethics.

In general, codes of ethics can be interpreted as "charts of fundamental rights and duties" (moral) through which a company makes its ethical and social responsibilities clear to the various internal (shareholders, employees and management) and external (consumers, suppliers, competitors, surrounding social and natural environment and public bodies) stakeholders. Despite differences in style and language, the various approaches to corporate codes of ethics can be traced back to the concept of the "social contract": the code fulfils an 'explicitating' function, that is, it makes explicit the commitments of the company towards all the groups and individuals directly or indirectly interacting with it and holding rights and interests "at stake" in these interactions.

3. The Q-RES Management Model

The Q-RES management model include six tools for managing the social and ethical quality of corporations. The six management tools of the Q-RES model are:

- Corporate Ethical Vision
- Code of Ethics
- Ethical Training
- Organisational Systems of Implementation and Control
- Social and Ethical Accountability
- External Verification

Each tool 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.

In the following six paragraphs we present purpose and rationale for each element of the Q-RES model and analyse the current use of each tool with respect to emerging standards and best practice in the business world.

3.1 Corporate Ethical Vision

Purpose and rationale

The company can be seen as the result of cooperation between different stakeholders who enter in relations governed through various organisational and contractual forms - explicit and implicit. Stakeholders cooperate to reach a common purpose: the corporate Mission. Therefore, the Mission is necessary to identify the purpose of cooperation between stakeholders. Values are cultural features identifying the company as a structured whole of individuals focused on the mission achievement.

The corporate Ethical Vision comprehends and goes beyond both the mission and the values. In fact, as stated before, the cooperation among stakeholders is marked by two relevant factors:

- Stakeholders have partly common and partly conflicting interests;
- Every stakeholder is expecting to benefit from the results of his/her cooperation, in light of his/her investments (of capital, work, know-how, etc.).

As there are legitimate and sometimes conflicting expectations, these must be acknowledged (partly or completely) through a definition of rights and responsibilities that the company sets towards its stakeholders. It is necessary to define a fair criterion for balancing stakeholders' claims, so that everyone can think to be treated fairly, receiving the right reward considering her specific investment in the cooperation.

The corporate ethical vision defines and makes explicit the concept of justice of the company, from which arises the criterion to balance stakeholders' claims. On that concept of justice is founded the responsible behaviour that the company has to set and follow in the relations with stakeholders.

The ethical vision expresses the concept of a social contract between the company and its stakeholders and sets a balance point impartially acceptable to everyone, through which each stakeholder can freely decide to contribute or at least not to hinder the mission achievement.

State of the art, best practices and/or reference models

Reference models relating to corporate ethical vision can be found in Codes of Ethics drawn up by companies and groups.

For instance, the introduction of the Code of Ethics of GlaxoWellcome Italy - a multinational pharmaceutical company - contains an explication of the company's Mission and Ethical Vision - GlaxoWellcome: a *Just Enterprise* (see the publication: "GlaxoWellcome: un'impresa giusta", Verona, Italy, 1998).

3.2 Codes of Ethics

Purpose and rationale

Corporate Codes of Ethics are the main tool to implement social and ethical responsibility in the context of a business organisation. Their function goes beyond the role of the legal system, which guarantees the company hierarchical structure and defines its limits through legal protection of ownership and civil and economic rights.

The Code of Ethics can help addressing the following problems:

Discretionary power: abuse of formal authority and/or unloyalty in proxy relations

Flexibility and discretionary power in business and management decisions is necessary for efficient management. Though, a power abuse can occur due to the management's or owner's discretionary power. Furthermore, discretionary power is spread in organisations and contracts through relations of proxy, by which a party delegated to perform a task can abuse of the power received from the delegating party.

The abuse of discretionary power can be overcome, at least in part. The Code of Ethics sets parameters to measure and evaluate abuse of power and arbitrary use of discretionary power. Such parameters can also generate a system of mutual expectations, so that each individual can reasonably be confident that the defined limits of power and discretionary power will not be violated.

Corporate governance

The Code of Ethics is a self-regulation tool extending the scope of corporate governance. The code extends the governance rules that apply to the relations with shareholders and investors to the wider relations of the company with all its stakeholders. Therefore, with the code of ethics the company defines the fiduciary duties it undertakes to respect with all stakeholders.

Reputation

The Code of Ethics, through some general, yet not empty, criteria, makes clear to the organisation participants the parameters to acknowledge the non-abusive exercise of discretionary power.

The Code of Ethics through its constituents, principles and rules, provides stakeholders with a basis for their judgements on the company reputation, therefore building trust in the relations between the company and its stakeholders.

State of the art, best practices and/or existing reference models

A study conducted by OECD in the year 2000 on a sample of 236 international codes underlines that the most discussed matters are: work conditions (work environment, discrimination and harassment, wages, child labour, freedom of association, training, human rights), relations with

suppliers and consumers, environment, corruption, competition, transparency of information and taxation.

The European Commission's Green Paper on corporate social responsibility (July 2001) highlighted the relevance of codes of ethics and the need for a proper planning and implementation of such voluntary standards to integrate minimal claims set by law.

The best structured codes clearly reflect the concept of corporate responsibility towards a wide range of stakeholders and are usually articulated in specifications defining duties towards customers, employees, suppliers, tax authorities, competitors, surrounding community, political representatives, etc.

See as reference:

- the framework Code of Ethics for 'Confindustria' (Italian confederation of Employers) published on *Filosofia e questioni pubbliche*, 1986, n.2b;
- the framework Code of Ethics for Lega Coop (Italian Cooperative association) approved in January 1995, which was the model for the Code of Ethics of Coop Adriatica, approved in May 1996;
- the Code of Ethics of GlaxoWellcome Italia.

3.3 Ethical Training

Purpose and rationale

Ethical training in a company is directed to the company employees and aims to enable each organisation member to apply moral reasoning tools to discuss and tackle ethical questions connected with corporate activities and make the best use of the Q-RES tools.

Ethical training within organisations has to deal with the possible conflicts between individual autonomy (which is a basic moral value in democratic societies with market economy) and organisational point of view (for instance, when individual are asked to share the rules of a corporate code of ethics).

The potential conflict is solved if the corporate ethical vision is seen from the very beginning as the result of a rational and mutually beneficial agreement between all the company members, that is, as the balance point between interests and moral concepts, which can differ from each other.

In this respect, ethical training can help the organisation to:

- Build understanding around the reason why certain organisational principles and rules can be shared as the result of a fair agreement;
- Provide an opportunity for a real dialog between the company and its employees, in order to reach an agreement supporting compliance with principles, values and rules of conduct.

The purpose of ethical training is to enable employee to identify and deal with ethical problems, developing their moral intuitions, which are implicit in choices and actions.

Ethical training help each member of the organisation to judge the moral legitimacy of her/his decisions, enabling them to apply moral principles and values in business decision-making.

At the same time ethical training fosters the employees' agreement and compliance with the ethical vision drawn up and suggested by the company management as a mutually acceptable balance between different stakeholders. It follows that doing ethical training means not only to inform employees about choices made by the company, but also to put each corporate member into a position to understand, interiorise and contribute to the corporate mission achievement through a conscious orientation of their own choices and everyday behaviour.

Ethical training attains not only to a single phase of the Q-RES model, as it supports the introduction of each ethical and social responsibility tool of the model (namely Ethical Vision, Code of Ethics, Social and ethical accountability, Monitoring Systems and External Verification), but helps internal and external stakeholders to understand and share the motivations behind their adoption and, once introduced, to facilitate the implementation of rules and procedures.

State of the art, best practices and/or existing reference models

Corporate ethical training can be linked to the development in teaching Business Ethics.

The interest in teaching Business Ethics appears in the US between 1977 and 1980, when a committee started by Norman Bowie defined guidelines to teach business ethics and business ethics courses began to spread in American universities.

In 1979 the first major texts on business ethics were published. They collected in a systematic way theoretical works and existing case-studies. The Society for Business Ethics was then founded and other centres promoted courses and seminars (such as the Center for Business Ethics, Bentley College; Centre of Studies of Value, Delaware University). In the same period also in the United Kingdom the major Business Schools (London Business School, Manchester Business School) introduced courses on Business Ethics, appointed professors and started research in this field. Modules on business ethics are nowadays part of training courses accredited by the Institute for Social and Ethical Accountability in order to issue professional accreditation for 'social auditor' (Manchester, Warwick Business School). In the other European countries the development went more slowly. The European Association on Business Ethics (EBEN – *European Business Ethics Network*) started up in 1987. Since 1988 EBEN promoted annual conferences in various European countries on subjects concerning Business Ethics. In Italy, in 1987 the review *Etica degli Affari* then *Etica degli Affari e delle professioni* was published. In 1991 the first book on those subjects was published by Lorenzo Sacconi ("*Etica degli Affari*", ed. Il Saggiatore). Teaching business ethics in Italy is limited to post-graduated courses. More precisely, business ethics courses in the Masters programme on "Decision Theory" at the University C. Cattaneo of Castellanza (Varese); modules in the doctorate program for Business Economy at the University of Trieste and Venice; MBA-courses at the Bocconi University, courses at the Scuola Superiore Enrico Mattei.

Ethical training references are the following:

- "*How to implement Values-Driven Management*", a training model by W. Michael Hoffman and Dawn-Marie Driscoll in their book "*Ethics Matter*", Center for Business Ethics, 2000. Hoffman and Driscoll retain that the training process aims to clarify the corporate ethical values, increase the ethical awareness among employees of ethical issues in business, discuss ethical decision-making criteria, analyse and enrich strategies, resources, policies and objectives, build up an ethical environment directing the company's activity;
- "*Managing Ethics in Organisations*", a one-week, full-time course organised by the Centre for Business Ethics at the Bentley College, in cooperation with the Ethics Officers Association. The course is structured as follows: analysis of the company's organisation; introduction to the main ethical theories; development of managing skills in critical situations; procedures and methods to initiate an Ethical Program in the company; corporate governance; information about the management of an Ethics Office; analysis of tools and procedures to solve relational problems; close examination of ethical problems arising from cultural differences, which is a relevant topic in multinational companies;
- "*Who are we ethically speaking? Is it worth our while to be ethical?*", a one-day training module organised by Professor Lorenzo Sacconi of CELE - University Cattaneo di Castellanza for about 250 senior managers of GlaxoWellcome Italy.

3.4 Organisational Systems of Implementation and Control

Purpose and rationale

Organisational Systems of Implementation and Monitoring are the *ethical infrastructure* which is needed to support an effective implementation of corporate social and ethical responsibility. The implementation of corporate social and ethical responsibility is a difficult process. Its success depends on the ability of the organisation to answer the following questions:

- How to solve the problem of integrating ethical principles and rules into decision-making processes?
- How to help employees in day-to-day business decisions by giving them proper support to solve ethical dilemma?
- How is it possible to monitor the compliance of organisational processes and individual behaviours with ethical principles and rules?
- How is it possible to adjust individual motivations to compliance purpose?

The company needs, therefore, organisational resources and monitoring systems to support ethics implementation, monitor compliance and improve ethical performance.

So, it is a matter of introducing *a priori* organisational structures supporting ethics implementation and, at the same time, enrich business strategies, policies and objectives in light of the ethical vision and the ethical principles stated in the corporate Code of Ethics. *A posteriori*, instead, it is a matter of evaluating the achievement of business targets, first of all the company performance on targets enriched in a social and ethical responsible sense, and monitoring the level of compliance with procedures, behaviours and processes, receiving reports on possible violations, initiating investigations and, if necessary, suggesting adequate corrective actions.

State of the art, best practices and/or reference models

There are two different organisational processes to support ethics implementation and monitoring compliance purposes: the first is a bottom-up process, and the second is a top-down process.

- *Bottom-up process:* The measurement of social and ethical performance through the Balanced Score Card (BSC). The BSC approach was introduced by Kaplan and Norton in 1992. It focuses on four areas of organisational performance: finance, customers, internal processes, learning and development. The BSC can be used to measure the corporate social and ethical (or sustainability) performance by adopting also in this respect the identification and correlation system between strategies, policies and objectives. So adjusted, the BSC can become a management tool to improve the corporate social and ethical performance thanks to the possibility to constantly measure the achievement of strategic objectives aligned with the definition of the corporate social and ethical responsibility
- *Top-down process:* The evaluation and improvement of monitoring processes concerning ethical risks through the activity of *internal ethical auditing*. Among top-down processes the traditional role of internal auditing is defined as follows: independent and objective activity of assurance and support, which aims to improve the organisation effectiveness and efficacy. It helps the organisation achieve its purposes through a systematic approach generating added value, because it aims to evaluate and improve processes of controlling, risk management and corporate governance. By extending the role of internal auditing to the social and ethical area, it provides a support to risk management and to monitor compliance with corporate principles and standards.

3.5 Social and ethical accountability

Purpose and rationale

The process of social and ethical accountability aims to enlarge the perspective of corporate social communications from relations between the company and shareholders to relations between the company and all its stakeholders, in the social contract perspective.

As traditional corporate reporting informs shareholders on financial value, social and ethical accountability informs all stakeholders on the social and ethical performance of the company, i.e. assessing the results of corporate activity in the perspective of meeting the legitimate expectations of all the corporate stakeholders.

Stakeholders who do not directly participate in the company's management have an incomplete knowledge about actions, decision-making processes and results of corporate activity and its impact on their well-being. Social and ethical accountability enable these stakeholders to reach an opinion and make valid decisions towards the company, so building up the basis to set trustworthy relations.

By a systematic collection of information on social and ethical performance and the dialog with stakeholders during the accountability process the management can understand and anticipate stakeholders' opinions, expectations and reactions, and improve corporate strategies by considering the positive effects that an ethical and social responsible management may have on the corporate reputation.

Briefly, the process of social and ethical accountability has a twofold function as it help the company to:

- Support governance and strategic management;
- Communicate and engage in dialog with stakeholders.

State of the art, best practices and/or reference models

- The civil society demands increasing transparency and rapid dissemination of information, so that it is possible to evaluate how business activities are meeting the different stakeholders' expectations. There is an increasing evidence of this widespread interests. Consumers' decisions (eg. guides on responsible shopping), investors' choices (eg. social responsible funds), actions of non governmental organisations (protest, boycotting) and recent legislation (eg. OECD-guidelines on corruption, UK Pension Law Reform, July 2000, and the Italian Decree n. 231 08/06/2001 regulating the responsibility of administrators) represent a strong incentive for companies to improve their social and ethical management.
- Greater social and ethical accountability is also increasing because of the growing development of social responsible investment (SRI) funds, such as the Dow Jones Sustainability Index, FTSE4Good and the Domini Social Index. The screening criteria applied by this rating agencies refer to data and information that only a proper social and ethical accountability can deliver.
- There are many different reporting models and approaches worldwide. Though usually separate, there is a spread of Triple Bottom Line (TBL) reporting, i.e. the integration of economic, social and environmental reporting in a single document. There are emerging reporting models and standards: The Global Reporting Initiative, the World Business

Council for Sustainable Development, AccountAbility, the London Benchmarking Group, Business Impact, Business in the Community, the Corporate Social Responsibility Matrix (Database on ethical, social and environmental performances of many European and multinational companies). In Italy, the “Working Group on Social Balance” (GBS) elaborated a social accounting model integrating economic and social information based on the Value Added model. Some of these models can be considered a reference point for some aspects: AA1000 because of its process focus, the GBS because of its focus on the content of the social communication, the GRI because of its environmental focus.

- The Green Paper on CSR by the European Commission underlines the relevance of different existing social and ethical accountability tools and prompts for their integration.

3.6 External Verification

Purpose and rationale

Verification by a third party provides trustworthiness to the company's declarations concerning its commitments on social and ethical responsibility.

The opinion of an external auditor increases the stakeholders' trust towards the company and improves corporate reputation by giving evidence of the effective implementation of the company's commitments.

An useful support to external verification is the internal ethical auditing activity.

External verification is based on the evaluation of the company's compliance with the Q-RES Guidelines, with reference to the social and ethical responsibility tools indicated by the Guidelines.

For each Q-RES tool adopted by the company the Guidelines define excellence criteria indicating the basic features such criteria must have to be effective. It is up to the auditor to find evidence of the presence of such criteria and to give an autonomous, independent and objective opinion on their satisfaction.

State of the art, best practices and/or reference models

Reference models for the activity of external verification are those used in existing quality certifications and management standards: ISO 9000 for process and product quality, ISO 14000 and EMAS for environmental management, SA8000 for suppliers' integrity, AA1000 for social and ethical accountability. The most relevant to the Q-RES model are SA8000 and AA1000, therefore we provide a brief overview of their requirements.

■ SA8000

The SA8000 certification system requires:

- policy, management re-examination, management representative
- planning and implementation of auditing work
- suppliers' screening and monitoring
- identification of non-compliances and relevant corrective actions
- external communication, auditing of corrective actions implementation, records.

The objectivity of the auditing process must be guaranteed, so that the same auditing performed several times by different auditors gives reasonably equal results (repeatability of auditing). To guarantee such objectivity auditors should have a minimum professional "background" warranted. CEPAA, the US body owning the SA8000 standard, issued in a paper (SA 8000 Auditor Certification Program) the requirements concerning certification for Auditors of Social Responsibility Systems.

■ *AA1000*

AA1000 sets certain quality principles and guidelines concerning the auditing of a social and ethical accountability auditing process:

The AA1000 quality principles are:

- integrity (fairness and honesty),
- objectivity and independence (avoiding conflicts of interest, self-reference, partiality, over-confidence or over-informality, threats)
- professional expertise (according with ISEA principles)
- professional behaviour (rigour, judgement ability, clarity in communication)
- confidentiality (respect for received information)
- respect for stakeholders.

Guidelines suggested for the auditing process are:

- agreement on the engagement terms (methodology and working plan, pays, etc.)
- understanding organisation activity and values
- audit planning (timing, etc.)
- collection of relevant evidence (inspection of documents, focus groups interviews, etc.)
- preparing the report (where the auditor clearly states her/his opinion).

3.7 Linkages between the Q-RES tools

The Q-RES tools are designed to manage corporate social and ethical responsibility and support the reputation mechanism. To be effective, the linkages among the various elements of the Q-RES management model must be clearly understood.

The rationale behind the reputation mechanism is the following:

- 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;
- Commitments are further precisely 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;
- 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;
- Organisational systems to support implementation and monitor compliance with the stated ethical principles are introduced;
- Internal ethical auditing is undertaken as a way to identify and investigate areas of ethical risks within the business, with a related sanctions systems;
- A social and ethical accountability process is introduced to assess the corporate social and ethical performance and communicate to stakeholders the results achieved;



- 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;
- The external verification of the Q-RES-tools adopted by the company enhance the reliability of corporate communication to stakeholders, thereby supporting the credibility of the company's commitments.

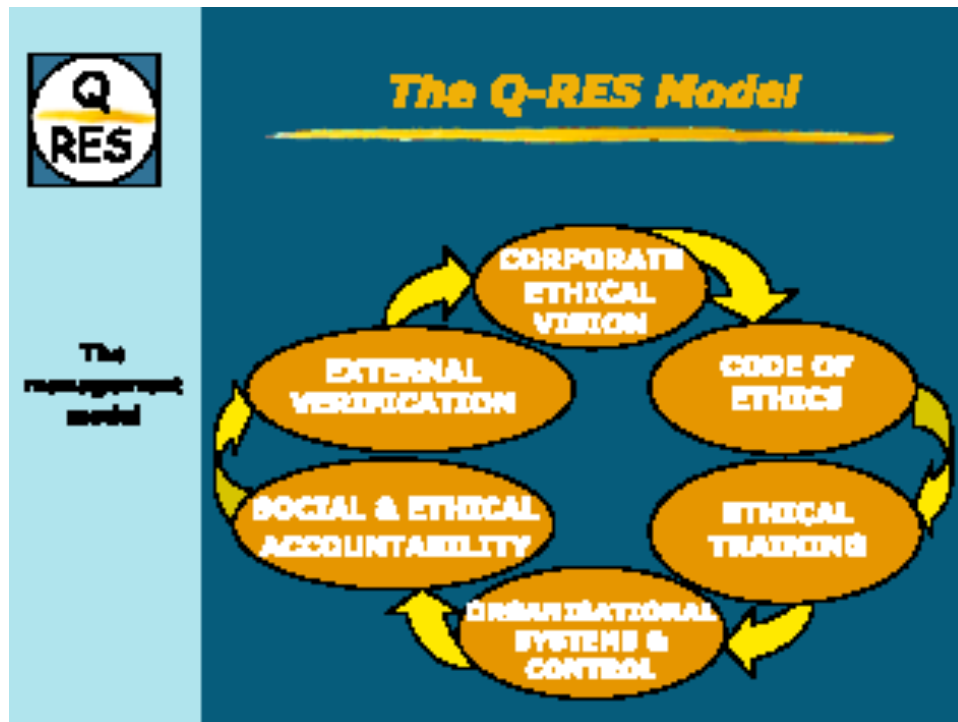


Part B Q-RES Guidelines

Introduction

These Guidelines are directed to the management of business organisations willing to undertake an improvement process to implement and manage social and ethical responsibility.

The Guidelines define a management model for corporate social and ethical responsibility, articulated in six social and ethical management tools: Corporate Ethical Vision, Code of Ethics, Ethical Training, Organisational Systems of Implementation and Control, Social and Ethical Accountability and External Verification (see figure below).



For each tool of the Q-RES management model the Guidelines discuss:

- (1) **Definition:** giving a brief description of the tool;
- (2) **Function:** discussing a rationale for adoption and the key issues addressed by the tool;
- (3) **Content:** specifying the key content elements of the tool;
- (4) **Development methodology:** describing the process for introducing the tool within the organisation: steps, competencies and management responsibilities;
- (5) **Auditing evidence:** defining a framework of observable and empirically verifiable elements, enabling an external auditor to assess quality in the adoption of the tool; and
- (6) **Excellence criteria:** summarising quality principles identifying excellence in adoption of the tool.

1. Corporate Ethical Vision

1.1 Definition

The corporate Mission sets basic aims and purposes the company wants to pursue and outcomes it wants to produce through its activity. It represents the *raison d'être* of the organisation.

The values express the corporate culture and tradition and guide the corporate behaviour as well as the behaviour of all the people working in and for the company. In particular, ethical values define duties and responsibilities in the relations between the company and its stakeholders.

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.

1.2 Function

- To clarify the organisation aims and purposes and contribute to define corporate strategy;
- To set a basis for cooperative relationships with stakeholders, by making explicit the company's responsibilities towards them;
- To facilitate understanding of corporate principles and values;
- To make explicit the relationship between economic advantage and ethical motivations;
- To communicate the principles at the basis of the corporate culture;
- To encourage values sharing and support compliance.

The making explicit of values, mission and corporate ethical vision is a necessary prerequisite to develop each Q-RES tool, as the vision contains aims, rationale and motivations for the company activity.

1.3 Content

The statement of a corporate ethical vision contains:

- Definition of the corporate identity, that is, description of: sector, size, activity, legal structure, property structure and governance structure of the company;
- Mission statement, that is, expressing aims and common purpose of cooperation between individuals or groups working together in the organisation and interacting with external parties investing in the company according to their own interests and expectations;
- Statement of shared values, that is, of principles and ethical values shared in the corporate culture inspiring and guiding the corporate decisions and activities;
- Definition of the ethical criterion for balancing stakeholders' legitimate expectations, which sets duties and responsibilities on which the company bases and regulates its relationships with the stakeholders.

1.4 Development methodology

The corporate ethical vision is the basis for corporate decisions and actions, yet, it is not always clearly and unequivocally expressed. It is necessary to formulate and communicate explicitly the ethical vision through:

- 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).

Competences and Responsibilities

The company's top management commitment and involvement is essential in the process of identification, spread and communication of the corporate mission, values and ethical vision. Responsibility for the final formulation and official version of the corporate mission, values and ethical vision remains with the Board of Directors. A senior manager (for instance, the Human Resources Director) supported by an external expert needs to take care of the coordination of the process, to facilitate agreement among different positions in order to reach a unitary and shared formulation of the corporate ethical vision.

1.5 Auditing evidence

- Internal and official documents;
- Public management declarations;
- Website, folders and advertising;
- Corporate events (meetings, newsletters, training);
- Written and verbal communication from management to stakeholders, with emphasis on those addressed to employees; and
- Public documents containing the mission statement or charts of values (if any).

1.6 Excellence criteria

■ *Content*

Formulation of the corporate identity, mission, shared values, ethical criterion for balancing the stakeholders' legitimate expectations.

■ *Methodology*

Orientation to involvement, discussion and engagement with stakeholders;
Integration between ethical vision and business objectives.

■ *Competences and responsibilities*

Commitment and involvement of the company's top management and Board of Directors;
Identification of a senior manager responsible for the whole process and of an external ethical consultant.

■ *Addressees*

All corporate stakeholders.

2. Code of ethics

2.1 Definition

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 is a document officially approved by the Board of Directors committing the top management and all the company employees. Finally, the code of ethics is voluntarily adopted by the company.

2.2 Function

- *Moral legitimisation function*: The corporate rights and responsibilities towards stakeholders, as expressed in the Code of Ethics, set the terms by which all stakeholders can recognise that their legitimate expectations and interests are fairly handled by the company. The balancing criterion of such expectations becomes the basis for an agreement and a mutually advantageous cooperation;
- *Cognitive function*: By formulating abstract and general principles and precautionary conduct rules the Code of Ethics gives the possibility to recognise unethical (opportunistic) behaviour and to clarify the appropriate (not arbitrary) exercise of discretionary authority, proxy and decision making autonomy of each organisational member and stakeholder. This is particularly important when facing unforeseen events and asymmetry of information and power, that are not - and could not be - regulated by law, contracts or any other detail regulations; and
- *Incentive function*: The Code of Ethics introduces incentives in order to comply with its own principles and rules, since the building of corporate reputation and the establishment of mutually advantageous relations of trust between the company and its stakeholders depends on compliance. The reputation of each single organisation participant and the confidence the company has in her/him depends on the observance of the Code of Ethics principles and rules. Therefore, it should become an essential part of the internal rewards and sanctions system.

2.3 Content

The Code of Ethics contains the following parts:

Preamble

It defines the scope and general purpose of the Code of Ethics and includes:

- The ethical vision, that identifies a balancing ethical criterion between many different rights and claims of various stakeholders (see Chapter 1);

- A complete list of the company's stakeholders.

Ethical principles

Ethical principles define which expectations of the different stakeholders towards the company have a moral legitimacy as well as their *fair* level of satisfaction (not full, because full satisfaction might be incompatible with fair satisfaction of all other potentially conflicting expectations). Ethical principles define what fair satisfaction level (also qualitatively) of expectations is a right of stakeholders, and accordingly identify the responsibility that the company is willing to assume in handling the expectations of each stakeholder group.

Principles are abstract and general in order to be applied to many different events, including the ones that cannot be foreseen.

Principles require *compliance and reciprocity*. The compliance requirement is essential because the company's reputation depends on it. Only through observance of ethical principles the company can enhance its own reputation and the stakeholders' trust towards it.

All parties contributing to the mission accomplishment are required to comply with the Code of Ethics concerning them. Compliance concerns all the corporate employees and managers, it concerns both Italy and foreign countries, improves internal communication, creates reputation.

The observance duty is a reciprocity duty to respect commitments.

Rules and standards of conduct

Rules and standards of conduct have to be formulated only after having carefully identified and analysed "critical areas" in the relationships with stakeholders, in other words, questions and situations, where opportunism² matters or cases of unethical conduct may come up.

It is necessary to identify the abstract cases of opportunism or unethical conduct "typical" of the corporate activity.

Rules of conduct can be twofold:

- *prohibitions*: in risk areas a negative rule (prohibition) lies in a recommendation to avoid materialisation of any form of opportunistic conduct. Those rules regulate risk areas in relationship with each stakeholder, for instance: purchasing, staff recruitment and promotion, gifts and benefits, quality control, contract enforcement, environmental impact, etc.;
- *preventive conduct standards*: precautionary rules and procedures prescribing a positive conduct through which the company or its employees can prevent opportunism, so in ethical risk situations it is possible to check that, if there is compliance with such a procedure, the conduct don't wander from the observance of relevant principles.

As to Code areas related to anticorruption and employees' rights in suppliers reference is made to the OECD-Convention rules, recently assimilated also in the Italian legal system about preventive actions and effectiveness of organisational models, and to the SA8000 standard.

Implementation and control procedures

These procedures contain an analytical description of processes and organisational structures set up by the company in order to implement, audit and encourage compliance with the Code of Ethics.

² Opportunism is a behaviour depriving one or more stakeholders of fair satisfaction of a legitimate expectation, when another stakeholder pursues an egoistic interest using "trickery". It can take on many forms: abuse of organising authority and discretionary power; new negotiation of implicit or explicit agreements, after the other party's commitment, because of leaks in the contract; asymmetry of information (moral hazard) etc.

Implementation and control structures

- Corporate Ethics Committee (See Chapter 4);
- Ethics Officer (See Chapter 4).

Implementation and control processes

- Ethical training programs tailored according to employees' function and responsibility (See Chapter 3);
- Code of Ethics communication activity to internal and external stakeholders;
- Stakeholders' reports on violations (See Chapter 4);
- Analysis of violations by an internal, independent, ethics committee (See Chapter 4);
- Reward and sanctions system (See Chapter 4);
- Internal Ethical Auditing System (See Chapter 4);
- Social reporting: Social and Ethical Accountability (See Chapter 5);
- External verification (See Chapter 6).

It is essential to communicate inside and outside the company, because that enable the Code of Ethics to be effective in corporate decisions and conduct, which means to become an integral part of corporate culture. For this purpose it is necessary to inform and train the whole personnel (managers, employees and new recruits) on the Code meaning and application to business activity. The employee knowledge of the Code of Ethics is essential also to enable an effective reporting process on suspected violations of the code. The Code of Ethics has to be communicated also to other relevant stakeholders, so they can evaluate the corporate conduct on that basis and assess compliance.

Revision of corporate policies and procedures according to conduct principles and standards

The framework of organisational rules and ethical recommendations has to be consistent. Nevertheless, not everything can be explained by (*ex ante*) rules of conduct and procedures. For this reason general ethical principles and standards are essential to:

- evaluate 'ex ante' decisions to be taken from time to time through the exercise of a "wise" ethical managerial judgement;
- evaluate conduct 'ex post'.

2.4 Development methodology

The procedure of developing a Code of Ethics requires first of all the creation of a working group representing the different corporate division and functions.

The Code of Ethics development implies:

- Management and stakeholders' dialogue: extensive interviews, questionnaires to the top management and relevant stakeholders on subjects such as mission, ethical vision, ethical principles, stakeholders' rights and corporate duties;
- Engagement with managers responsible for setting internal rules and procedures;
- Analysis of risk areas for opportunistic behaviour and unethical conduct. To analyse cases of opportunism within the company, it is necessary to start 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; and
 - 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.

Competences and Responsibilities

In the development phase of the Code of Ethics competences and responsibilities are as follows:

- “political-strategic” role of the Top management and Board of Directors: without their explicit commitment the Code would unlikely be considered by the employees as binding to direct their own decisions and conduct. On the company's top management commitment depends the Code of Ethics internal and external credibility;
- "operational" role of the working group drafting the Code of Ethics content. It is up to a working group of managers (having different functions in the company) and to a coordinator, both supported by senior management and the Board commitment and having the possibility to contact them directly. So the work can be carried out in accordance with the top level commitments.

To develop the Code of Ethics, it is advisable to make use of external competences, persons or authorities, which can grant for independence and impartiality of judgement on the one hand and business ethics knowledge on the other.

In the *implementation phase* of the Code of Ethics competences and responsibilities are mainly the concern of organisational structures and processes such as: Ethics Committee, Ethics Officer, Ethical Auditing. The company's top management has the responsibility for sanctions to be issued as a result of breaches reported by internal bodies or external stakeholders. The Board of Directors is responsible for the approval of the Code of Ethics and for overseeing organisational compliance.

Improving process

The Code of Ethics is a document, which needs continuous revision and improvement. Continuous improvement is the adjustment and updating process of the Code and its contents according to needs identified by implementation and monitoring processes.

Revision has to take place mainly as a result of important changes concerning the company (for instance, mergers/takeovers, ownership changes, etc.), which require to verify:

- the extent of ethical vision sharing among new managers and whether that vision is appropriate for the newly created organisation;
- there are significant changes in the company's stakeholders;
- new ethical risk areas are to be considered.

Connection with other tools

The Code of Ethics is the basis of the reputation mechanism the Q-RES model is based on and also justifies the other tools of the Q-RES management model.

Training is actually necessary to understand and apply the ethical principles and standards of conduct of the code (See Chapter 3); reporting aims to evaluate the social and ethical performance and to communicate results in fulfilling the ethical commitments (See Chapter 5). The organisational systems of implementation and control integrate business objectives and strategies with ethical principles (See Chapter 4).

2.5 Auditing evidence

- Compliance of Code of Ethics contents and structure with Q-RES guidelines;
- Analysis and interpretation of content, structure and meaning;
- Internal documentation concerning the methodology followed in the development and implementation process;
- Evidence of organisational changes following the code of ethics introduction, comparing documents about policies and examining the Ethics Committee resolutions;
- Statements and opinions of managers and employees (and if possible of other stakeholders) and documentation on corporate events concerning the Code of Ethics communication and implementation.

2.6 Excellence criteria

■ *Content*

Preamble: statement of the corporate ethical vision and complete list of stakeholders;

Corporate ethical principles: general justice and fairness principles in dealing with stakeholders;

Rules and standards of conduct: prohibitions and preventive conduct standards;

Implementation and control procedures: internal bodies and devices.

■ *Methodology*

Extensive interviews with managers and stakeholders in the initial phase of the drawing up process.

Creation of focus groups on certain subjects in the middle of the process.

Participatory approach.

Development of the following subjects:

- corporate mission and ethical vision;
- ethical risk areas (decision context, opportunistic behaviour, relevant ethical principles);
- general ethical principles;
- Rules and standards of conduct;
- implementation procedures and control bodies and systems;
- revision mechanisms for corporate policies and procedures.

Timing concern; process consequentiality.
Communication to all the employees through information and training meetings.
Publicity among all other stakeholders.

■ *Competences and Responsibilities*

Top management and Board of Directors commitment.
Creation of a working group representing all corporate areas and functions.
Presence of implementation and control bodies checking compliance with the Code of Ethics.

■ *Document type*

Officially recognised document.
Strategy and governance tool.
Reference parameter for the corporate good reputation.

■ *Periodic document revision and continuous improvement.*

3. Ethical Training

3.1 Definition

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.

3.2 Function

The purposes of corporate ethics training concern both individual actions and decisions and the organisation as a whole.

At individual level, ethics training has the following specific objectives:

- Ethical awareness: every member of the organisation should be able to identify the ethical dimension of business decisions and to recognise dilemmas;
- Dilemma analysis: when facing a dilemma, it is necessary to analyse it properly, considering all the stakeholders involved, identifying their legitimate rights, evaluating the different outcomes and implications of possible alternative choices;
- Ethical reasoning: enabling to compare individual moral intuitions with ethical principles and values of different ethical theories (such as contractualism, utilitarianism, theories of rights etc.) that provide a rational justification for them;
- Values sharing: ethics training should enable all the members of the organisation to recognise the corporate values and ethical principles - as defined in the corporate code of ethics - as a valid guide in their own ethical judgements;
- Training decision-makers: enable participants to use ethical reasoning to solve ethical dilemmas in day-to-day business decisions by practicing real dilemmas in training sessions.

At corporate level, ethics training aims to:

- Foster and strengthen the corporate culture and support understanding and alignment with the corporate ethical vision from managers, employees and new recruits;
- Spread the knowledge of the Code of Ethics principles, rules, regulations and procedures to be followed;
- Communicate the "moral agreement", in the social contract perspective, at the basis of the Code of Ethics vision, principles and rules;
- Develop and continuously support employee skills in identifying "critical areas" in the relationships with the different stakeholders;
- Train the staff responsible for the implementation of the Q-RES tools (Ethics Officer, Ethics Committee, Ethics Auditor, etc.).

3.3 Content

A variety of disciplines, from business ethics to sociology, law and economic theory of the organisation are needed in ethical training. The following themes are the fundamental elements of a learning process leading to the achievement of the above objectives:

- Social contract theory and its application to the firm: the ideal social contract as a criterion of justice to balance conflicting stakeholder needs;
- Organisation and hierarchies: sources of opportunistic behaviour and incentives to foster ethical behaviour (e.g. code of ethics development and implementation);
- Meaning and role of corporate code of ethics;
- Design and implementation of a corporate ethics programme;

A business ethics training programme should provide an answer to the following questions:

- *What is ethics?* – Discussing different ethical theories: teleological, deontological, consequential theories, etc.;
- *Who are the company's stakeholder?* Stakeholder theory: definition of stakeholder and identification of the key stakeholder groups for the company;
- *Who is morally responsible in the firm?* – Corporate moral responsibility and managers' professional ethics;
- *What is the moral justification of the firm?* – The links between ethics and economic theory, the social contract, moral justifications for different corporate forms, corporate governance and fiduciary duties towards stakeholders;
- *What is the advantage of being ethical?* – Discussing the “business case” for business ethics; individual and general reasons for ethical conduct: reputation, interiorisation, incentives and sanctions;
- *Who are we, ethically speaking?* – Corporate ethical vision and Code of Ethics, reputation advantages, mission, Code principles and rules;
- *How to use a code of ethics?* – Practical cases of code of ethics implementation; and
- *How to comply with rules? How to be ethical?* – Organisational tools for implementation and monitoring of ethics within the company (Ethics Officer, Ethics Committee, Audit, Code of Ethics, etc.).

3.4 Methodology

Training implies a process enabling corporate members to understand and apply the Q-RES management model and ethical and social responsibility tools (mission, values and ethical vision; Code of Ethics; social and ethical accountability, etc.). 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: ethics training has to follow a certain timing in order to be an effective support to the adoption and implementation of ethical and social responsibility tools. It is reasonable to start training programs during the creation of a corporate Code of Ethics; it is also necessary to plan at regular intervals training sessions aiming to communicate the corporate mission and ethical vision, especially in companies with a high turnover;
- Setting up a permanent training program assuring the inclusion off all employees (including new recruits), their active involvement and participation, as well as the support to the management in new situations concerning organisational structure changes (mergers, acquisitions, etc.) or external environment modifications for the company (globalisation, multiculturalism, etc.);
- Continuous involvement in discussions on critical areas and development and adjustment of teaching tools;
- Periodic revision of the training program to adapt and improve it, for instance according to information emerging from the internal ethical auditing report – see Chapter 4.

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 (eg 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.

Competences and Responsibilities

Business ethics trainers must demonstrate:

- Interdisciplinary competences ranging from business ethics to economics, philosophy, law, sociology and decision theory; and
- Independence and objectivity.

The use of external trainers does not imply less corporate responsibility and involvement in the training activity;

- The top management commitment and involvement is essential to make every ethical programme credible; and
- The presence of an Ethics Officer or a corporate ethic trainer makes the training more effective, as the external trainer can discuss and agree the training programme with a competent corporate member who, moreover, can provide the necessary contextualisation during training activities thank to her knowledge of corporate history and culture.

3.5 Auditing evidence

- Top management statements supporting training programmes;
- Documents on planning and scheduling training initiatives;
- Data on economic resources invested into training;
- Data on time devoted to training (number, duration, frequency of meetings, etc.);
- Training courses programmes;
- Trainers' experience and know-how (curriculum vitae);
- Meetings and presences on training days (number of participants, corporate functions involved, etc.);
- Information on the participation of the Ethics Officer, and/or responsible for corporate ethical matters in specific courses; and
- Teachers' statements and participants' opinions on contents, methods, techniques, teaching tools and equipment used in training activity.

3.6 Excellence criteria

■ *Content*

Corporate ethical vision considering ethics theories (business ethics); business case for business ethics; development of skills concerning the Q-RES tools; analysis of case-studies concerning situations at high ethical risk and relative solutions.

■ *Methodology*

Non-paternalistic approach;

Designing courses and teaching tools to address and balance possible conflicts between individual and organisational point of view;

Orientation to the development of moral reasoning, to support organisational change, to facilitate participation and engagement and to foster values-sharing;

Development of ethical decision-making skills.

■ *Competences and Responsibilities*

Trainers: interdisciplinary skills; independence; objectivity;

Top management: commitment to support the ethics training programmes;

Presence of an organisational 'champion' (eg the Ethics Officer).

■ *Addressees*

Management, employees, workers, new recruits, Ethics Officers, internal ethical auditors - with different training processes according to their function.

4. Organisational Systems of Implementation and Control

4.1 Definition

Organisational systems of implementation and control forms the ‘ethical infrastructure’ of a company that enables ethical performance improvement and monitoring. The ethical infrastructure includes processes and activities to support the implementation of social and ethical responsibility within the company, by aligning corporate strategies, policies and business objectives to the shared ethical values and principles of the company, and auditing and monitoring activities concerning compliance of processes and individual behaviour with organisational rules.

4.2 Function

- Ethical performance improvement, that is, integration within corporate decision making processes – at strategic and operational level - of the social and ethical criteria, stated in the code of ethics, expressing the fiduciary duties of the company towards its stakeholders, and enrichment of the company’s business objectives, policies and procedures in light of the code’s principles;
- Audit and compliance, that is, monitoring compliance of processes, actions and conduct with the rules of conduct and ethical principles stated in the Code of Ethics;
- Support to ethics implementation, that is, setting up organisational tools supporting the implementation of ethical values, principles and rules of conduct - by introducing, for instance, incentives and sanctions in the rewarding systems linked with the individual or departmental fulfilment of the Code of Ethics principles.

4.3 Content

The organisational ethical infrastructure includes the following elements:

Implementation and control systems

- *Ethics Committee*: a corporate body made up of representatives of the different functions and external members - usually experts in business ethics or independent "sages", appointed by the Board of Directors or by the CEO, who can bring a neutral and impartial point of view;
- *Ethics Officer*: responsible for corporate ethical matters (development and implementation of the Code of Ethics; development of ethical training programmes; reply to employees’ ethical questions, etc.);
- *Internal Ethical Auditing*: is an independent and objective assurance and support activity, which aims to improve the organisation effectiveness and efficiency. It helps the organisation pursue its objectives through a systematic approach generating added value, as it aims to evaluate and improve control, risk management and corporate governance processes. The internal ethical auditing activity is an extension of the traditional activities of *financial* and *operational* audit. Moreover, every manager is directly responsible for monitoring compliance with the corporate ethics in the activities under its direction.

Internal reporting systems

Internal systems enabling employees to ask questions (eg through an *Ethics Helpline*), to notice and to bring to the notice of responsible bodies, usually the *Ethics Officer*, potential breaches of

the code of ethics or risky conduct, and enabling external stakeholders to ‘voice’ their concerns regarding unethical conduct by company representatives (eg via an *Ethics Hotline*).

Incentives and sanctions system

A rewards and sanctions mechanism to foster the implementation of social and ethical policies and procedures by all company employees, for example, by introducing in performance appraisals the assessment of compliance with the organisational rules of conduct and individual fulfilment of the Code of Ethics values and principles.

4.4 Development methodology

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*.

- a) *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.

- b) *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 (eg 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 consequence³.

Competences and Responsibilities

Ethics Committee

The Ethics Committee is responsible for giving binding opinions on ethical problems that may arise in relation to corporate strategic decisions. It reports its activity to the Board of Directors.

The Ethics Committee's duties include:

- Defining initiatives to spread the code of ethics knowledge and understanding and to clarify the code of ethics meaning and application providing advisory opinions;
- Coordinating and supervising the drawing up of corporate policies implementing the code of ethics directions;
- Coordinating the periodic revision of the code of ethics and implementation mechanisms;
- Giving opinions on reports from the ethics officer or directly from employees and other stakeholders on potential code of ethics breaches and protecting employees against possible retaliation they might suffer after reporting unethical conduct;
- Orienting and approving the communication and ethical training plan;
- Coordinating and evaluating the internal ethical auditing report; and
- Coordinating the social accountability process and approving the social report.

Ethics Officer

The Ethics Officer is responsible for the implementation of the overall corporate ethics programme. She/he plans the activity of the Ethics Committee, implements its decisions and communicates its activities. The Ethics Officer reports to the Managing Director and the Board of Directors. The Ethics Officer duties include:

- Preparing and supporting the Ethics Committee activities;
- Defining criteria and plan, in agreement with the Human Resources Direction, periodic ethical training activities and internal communications;

³ An example of bottom-up process: the ethical-social performance evaluation through the Balanced ScoreCard (BSC). The BSC provides for a logical pattern joining business objectives with the necessary activities to attain such objectives and with indicators to evaluate the performance.

The BSC is based on the identification of a 'balanced' system of strategies, objectives, activities and indicators, which has to be managed and integrated in order to improve the company performance.

As to ethical-social performance, namely solid results reached by the company in the implementation of ethical-social responsibility commitments in relation to the code of ethics, it is possible to develop an 'enriched' BSC version by integrating measurements based on certain ethical-social quality indicators, which are relevant, noticeable and measurable. In this regard it is necessary to analyse the BSC objectives and indicators to audit their consistency and relevance in relation to the code of ethics principles and rules. For instance, the BSC analysis will audit in every functional area, if: *the BSC objective is relevant to the implementation of the code ethical principles, there is an implementation policy or procedure, there are any indicators to measure the objective's achievement, there are/might be unexpected, in some ways critical, events as regards ethical principle application, there are any proactive actions to solve such critical events*. After those modifications BSC represents a company management tool based on audit, bottom-up, results through relevant measurements on the company ethical performance.

- Answering questions of different stakeholders about the Code of Ethics meaning in specific situations;
- Heeding warnings and investigating to identify unethical conduct, and proposing appropriate sanctions;
- Defending against possible retaliation people reporting unethical behaviour;
- Planning the periodic revision of the Code of Ethics and implementation policies; and
- Writing, together with the Audit function, the internal ethical auditing report and presenting it to the Ethics Committee, which verifies its suitability with respect to defined objectives, transmits the report to the Board of Directors for final approval.

Internal Ethical Auditing

The process of Internal Ethical Auditing implies the following activities:

- Identifying and analysing organisational ethical risks (risk map): such risk assessment aims to define priorities for the periodic audit plan;
- Checking the reliability and integrity of information on the corporate ethical behaviour;
- Analysing operational systems to ensure compliance with the code of ethics principles, company policies, procedures, rules of conduct and standards;
- Auditing activities and projects to control if they are following plans and assessing results to control if they are consistent with ethical principles, objectives and targets;
- Producing with the Ethics Officer's cooperation the Ethical Auditing report; and
- Supporting external verification.

4.5 Auditing evidence

As to the different elements constituting the tool (top-down and bottom-up processes), auditing evidence for Organisational Systems of Implementation and Control can be represented by the following table.

ELEMENTS	EVIDENCE
<ul style="list-style-type: none"> ■ Top-down processes 	<ul style="list-style-type: none"> • Ethics Committee annual report • Records concerning violations and sanctions by Ethics Committee or other functions • Top management statements • Documents produced by ethical auditing activity (enquiries, reports, etc.)
<ul style="list-style-type: none"> ■ Bottom-up processes 	<ul style="list-style-type: none"> • Ethics Committee and Ethics Officer records on frequent questions and answers from individuals or corporate functions • Reports on relevant results concerning social performance (for example, Social Report) • Questionnaires from Internal Auditor to different functions on solution procedures for ethical questions • Policy revision • Integration of business objectives with social

	and ethical responsibility objectives
<ul style="list-style-type: none"> ■ Reporting systems ■ Bonuses and sanctions mechanisms 	<ul style="list-style-type: none"> • Procedures for questions and reports (eg Ethics Helpline, Ethics Hotline). • Performance evaluation systems integrated with social and ethical responsibility objectives.
<ul style="list-style-type: none"> ■ Ethics Committee 	<ul style="list-style-type: none"> • Meetings frequency, participation, minutes • Ethics Committee deliberations
<ul style="list-style-type: none"> ■ Ethics Officer 	<ul style="list-style-type: none"> • Documents concerning the adopted ethical activities • Reports to the top management • Documentation on specialisation courses • Ethics Officer's statements
<ul style="list-style-type: none"> ■ Ethical Auditing 	<ul style="list-style-type: none"> • Periodic audit plan and risks map (risk assessment analysis) • Reports on ethical auditing activity (brief report, informative report for the top management and analytical report for process owners) • Documents on control procedures

4.6 Excellence criteria

■ Methodology

Development of top-down processes supporting implementation and compliance control.
Development of bottom-up processes integrating social and ethical responsibility criteria with management activities and assessment of results achieved (KPIs).

■ Content

Implementation and control systems

Ethics Committee: wide representation of corporate functions, top management commitment and presence of relevant stakeholders; presence of independent third parties (business ethics experts);

Ethics Officer: appointment of an Ethics Officer - responsible for ethical matters – of a top manager with great experience in the company;

Internal Ethical Auditing: independence, objectivity and systematic approach in the activity.

Reporting systems

Definition of clear procedures to signal inconsistent conduct.

Incentives and sanctions systems

Introduction of incentive and sanction mechanisms linked with compliance with the Code of Ethics.

■ Competences and Responsibilities

Ethics Committee: decisions concerning incentives and sanctions; ethics promotion in the company.



Ethics Officer: implementation of the corporate ethical programme; adequate knowledge of business ethics; continuous knowledge updating through participation in meetings organised by international Business Ethics associations.

Internal Ethical Auditing: risk assessment (ethical risks map); periodic ethical auditing; periodic audit report.

5. Social and ethical accountability

5.1 Definition

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 from 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 document summarizing this process is called the Social Report.

5.2 Function

A social and ethical accountability process helps the organisation in many ways:

- Enriching its corporate governance structure;
- Increasing corporate accountability to all stakeholders, communicating and discussing with them the objectives and results of corporate activity;
- Solving the problem of incomplete information characterising most relations between the company and its stakeholders; and
- Improving the company's strategy and policy development through dialogue with stakeholders that enables the management to understand and anticipate stakeholders' interests, expectations and reactions.

The Social and ethical accountability process represents for the company both a strategic management tool and a communication tool going beyond traditional (financial) reporting, enabling the company to engage in effective dialogue with stakeholders.

5.3 Content

The Social Report contains information on:

- Corporate identity: values, mission, business activity and governance structure;
- Identification and description of stakeholders;
- Definitions of strategies, policies and objectives in relations with the different stakeholder groups;
- Performance measurements (by stakeholder group), including different kinds of quantitative and qualitative data (book-keeping, organisational, economic, environmental, legal, social, etc.); and
- Linkages between objectives set and results achieved.

To reach a good quality in social and ethical accounting and reporting the following conditions are to be met:

- *Structure consistency*: the Social Report structure must enable the reader to recognise the consistency of the process linking the company's ethical vision to its social and ethical

performance. This includes: stating the corporate ethical vision and commitments towards stakeholders, presenting relevant corporate policies, presenting objectives and KPIs to measure performance and assess alignment between objectives set and results actually achieved;

- *Information integration*: information has to be organised in a way enabling each stakeholder group to be represented by a summary conveying relevant social and ethical performance results; data have to convey a comprehensive picture by integrating book-keeping data (eg the repartition of Added Value model) with quantitative as well as qualitative economic, environmental, legal and social data⁴. They have to be summarised in KPIs able to express the satisfaction level of the legitimate stakeholders' expectations;
- *Information quality*: data have to be true, verifiable, comparable, meaningful, clear and understandable; and
- *Stakeholders map completeness*: a Social Report has usually to disclose information on company impacts on the following fundamental stakeholder groups: shareholders, employees, customers, suppliers, local communities, Public Administration, environment and the society as a whole. Every omission has to be justified. The choice of indicators needs to be agreed with the stakeholders and must be motivated. The indicators adopted must be objective and fair.

5.4 Development methodology

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 information⁵; and
- External verification by a social auditor.

⁴ See the indicators introduced in the GBS – *Gruppo Bilancio Sociale*, "Social Report Working Group".

⁵ Accessibility, and so transparency, can be considerably increased, for example, by putting the document online.

Competences and Responsibilities

The working group. Since social and ethical accountability refers to the corporate activity as a whole, the social and ethical accountability process proves to be more effective when the involvement of different corporate functions is strong. For this reason it is desirable to build up a working group made up of a coordinator and representatives coming from the most relevant corporate areas, such as: Human Resources, Finance, Internal Audit, Marketing, Communication, Legal Affairs, etc.

The coordinator. He is responsible for coordinating the whole process and for writing the final document. This task can be assigned to the Ethics Officer or to a dedicated manager reporting to the Board. The coordinator should be aware of the main social and ethical accountability standards to enable the company choose the most appropriate model.

If the company does not have the internal competences necessary to direct the working group, it is advisable to rely on an external consultant. However, it is desirable to develop within the company the know-how necessary to the management of the social and ethical accountability process.

Continuous Improvement

Elements subject to a continuous improvement process over the years are:

- *Stakeholder map completeness:* Over the years the company should try to cover all relevant stakeholders, whereas in the first cycles time and resources constraints might not enable this complete map (omissions needs to be motivated);
- *Stakeholder engagement:* The process aims to link corporate performance results with stakeholders' evaluations and expectations through a two-way dialogue with them;
- *Indicators refinement:* Developing effective KPIs to measure social and ethical performance is a continuous learning process; initially indicators can be adopted by looking at national and international standards and over the years the company might develop additional indicators enabling to account for specific dimensions of corporate activities and specific issues that matter in the relationship between the company and its stakeholders;
- *Methodology refinement* through determination of weak points in the process; and
- *Integration in management processes:* social and ethical accountability can highlight weak points in management (e.g. governance) processes, helping the management to orientate strategic decision making.

5.5 Auditing evidence

- Internal documents (for example, meeting convocations; minutes) showing the existence, composition and activities of the working group;
- Documentation on stakeholder engagement processes adopted (for instance: interviews minutes; customer satisfaction surveys; employee surveys etc); and
- Access to internal documents and/or interviews with management through which it is possible to verify the reliability of information contained in the Social Report.

5.6 Excellence criteria

■ *Content*

Reporting on consistency between results actually achieved and objectives and policies settled beforehand;
Complete map of stakeholders and performance measurements concerning them;
Organisation of indicators for each stakeholder group through a comprehensive and integrated picture of economic, social and ethical data; and
Clarity, relevance, verifiability and comparability of information.

■ *Methodology*

Exact definition of reporting objectives and improvement targets;
Updating and improving performance indicators;
Stakeholder engagement;
Communication plan; and
External verification

■ *Competences and Responsibilities*

Drawing up of the social report by an internal group made up of representatives of the main corporate functions and business and of the coordinator responsible for the process.

■ *Periodic⁶ drawing up of Social Report*

■ *Continuous improvement*

⁶ An online version can also allow a more frequent and quicker information updating.

6. External Verification

6.1 Definition

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 certification⁷.

6.2 Function

Generally, auditing implies:

- Checking, according to excellence criteria defined by the Q-RES model, the level of quality and effectiveness of adopted social and ethical responsibility tools;
- Identifying and informing the organisation on possible weak points in the development, implementation and management of the Q-RES tools.

Auditing carried out by an independent third party has the following functions:

- Substantiate company's statements and commitment on social and ethical responsibility;
- Making the corporate commitment trustworthy by providing assurance which is recognised and recognizable by all stakeholders;
- Increasing the corporate reputation and reliability and fostering the stakeholders' trust, thereby improving also its image.

Auditing carried out periodically and systematically can play an important role to enable continuous improvement of the corporate performance.

6.3 Content

To enable an effective external verification it is essential to:

- Define excellence criteria for each management tool of the Q-RES model;
- Identify auditing evidence enabling in practice to collect and assess corporate social and ethical performance;
- Apply methodologies for evidence collection and analysis enabling to identify gaps between the actual implementation of the Q-RES tools within the company and the excellence criteria defined by the Q-RES model.

⁷ The mechanism to issue the Q-RES certification will be discussed by the working Table during the year 2002. Particular focus will be dedicated to the establishment of an association owning the Q-RES standard, the accreditation process for third party certifiers and the quality certification and auditing methodology.

6.4 Development methodology

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.

To issue the Q-RES certification it is necessary to define:

- Norms assimilating the Q-RES Guidelines;
- Auditing evidence identifying excellence criteria and quality standards;
- The Association owning the Q-RES certificate;
- Accreditation procedures for organisations providing external verification.

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 and organisation 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.

Competences and Responsibilities

The primary responsibility of every external auditor is to be impartial, honest and independent in his/her judgement.

The auditor of the Q-RES tools follows a specific ethical training aimed to support and improve:

- Knowledge of corporate social and ethical responsibility theories and methodology based on a better understanding of relevant disciplines (see Chapter 3);
- Knowledge of the social and ethical responsibility management tools, CSR standards and relevant "best practices", first of all the Q-RES Guidelines; and
- Experience of managing decisions processes in corporate critical and ethical risk areas, that is, a training based on simulation of real decision cases.

The company's top management is responsible for supporting and promoting the process of collecting information and data required by auditors.

6.5 Auditing evidence

To verify the level of implementation of each Q-RES tool the external auditors can refer to the auditing evidence defined in these Guidelines in Chapters 1-5.

6.6 Excellence criteria

■ *Content*

Clear excellence criteria for each single Q-RES tool.

Relevance of "evidence".

Performance measurement according to Q-RES excellence criteria.

■ *Methodology*

Applying procedures and methodologies to audit the right information for each Q-RES tool.

Using different types of evidence.

Influence of the external verification process on the continuous improvement in managing the social and ethical responsibility of the company

■ *Competences and Responsibilities*

External Auditor: deep knowledge and continuous updating on the subject of corporate social and ethical responsibility; knowledge of the Q-RES guidelines; independence, impartiality, fairness and objectivity of judgement.

Top management commitment.

■ *Certification issued by accredited third parties*