

**Part 1: the Context,**

**Why is CSR still no important?**

**Part 2: theoretical ,**

**CSR as a stakeholder model of corporate  
governance and strategy**

**Part 2 : applied ,**

**A CSR management system**

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**Lorenzo Sacconi**

**Dept. of economics, University of Trento  
and**

**EconomEtica**

**E mail: [lorenzo.sacconi@economia.unitn.it](mailto:lorenzo.sacconi@economia.unitn.it)**

**“CSR: Much disorder under the sky, situation is excellent,”**

- **(*The Economist* , January 22<sup>nd</sup> , 2005. p.11)**
- **“Today all companies, but especially the big ones, are enjoined from every side to worry less about profits and to be socially responsible instead. Surprisingly, perhaps, these demands have elicited a willing, not to say avid, response in enlightened boardrooms everywhere: companies at every opportunity now pay elaborate obeisance to the principle of CSR. They have CSR officers, CSR consultants, CSR Departments, and CSR initiatives coming out of their ears.” :**
- **The thesis was è: “CSR is a way to make philanthropy with others’ money (Fiedman ) ”**

**Context**

**“CSR: Much disorder under the sky, situation is excellent,”**

- **(*The Economist*, 19<sup>th</sup> January, 2008)**
- **Done well, though, it is not some separate activity that companies do on the side, a corner of corporate life reserved for virtue. It is just good business**
- **“The more this happens, ironically, the more the days of CSR may start to seem numbered. In time it will simply be the way business is done in the 21<sup>st</sup> century (cit. p. 22).and CSR initiatives coming out of their ears.” :**
- **Now the thesis is “Business as usual”**
- **But at least CSR has been acknowledged as being placed at the center of business activities of companies**

**Context**

contesto

- **A large number of CSR management standards are being developed both at international and national level supported by multi-stakeholder initiatives**
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- **International initiatives:**

- ◆ **Global reporting initiative (GRI)**
- ◆ **SA8000** promoted by SAI (Social Accountability International) on working conditions and employees rights
- ◆ **ISO** at global level has been working since 2004 to develop an **ISO global guideline**

contesto

- **UK: Accountability1000 and Sigma Project**  
**(backed by the UK government)**
- **Germany: Values Management System**  
**(involving some of the most important German companies and Konstanz University)**
- **ISO national bodies in Spain (Aenor) and France (Afnor) have settled national CSR Standards**
- **Italy: the Q-RES project (started in 1999) issued in 2001 the Q-RES guidelines and in 2004 the Q-RES certifiable standard; GBS is a standard for social reporting and accountability**

**contesto**

- **Many initiatives have been encouraged by the EU Green Paper (2001) and Communication (2002) on CSR both issued by the EU Commission**
- **UN, Global Compact**
- **ILO principles and norms are at the basis of the SA8000 certifiable standard on working conditions and employee rights**

## *Globalization and its discontent*

**Some facts  
that asks  
for CSR**

- Global market do not produce by itself a more fair distribution of wealth among countries and within countries
- **The global irresponsibility trap**
  - ◆ Financial capital pushes firms to cut they linkages with territories where companies was born in order to profit for cost cuts
  - ◆ Delocalization and supply chain reduced costs
  - ◆ Absence of legal protections in DC doesn't restrain multinational from exploiting their bargaining power in abusing of work and low environmental protection
- **These are not perfectly competitive markets**
  - ◆ Market power and ex post contracting
  - ◆ No symmetrical enforcement of the law

## *Globalization and its discontents*

**Some facts  
that asks  
for CSR**

- **In case multinationals committed themselves to support developing local welfare systems environmental protection and safeguard of labor rights**
  - ◆ Less rapid devocalizations, no harsh effect
  - ◆ Each delocalization would give an higher contribution to local economies .
  - ◆ No substantial reduction of globalization
  - ◆ But its social impacts would be much better both US and EU and in developing countries
  - ◆ Creation of human and social capital
  - ◆ More welfare on both sides .
- **The point is not with efficiency but incentives to do that .**



## How is it possible that companies support a socially responsible globalisation?

Some facts  
that ask  
for CSR

- Shareholder value incentive to delocalization to exploit cost reduction
- CSR tries to change this calculation
- Opinion movements expressed through consumers and investors preferences change some incentives
- The repulse for iniquity transformed into a threat of reduction of transactions opportunities
- this is an incentive to changing business policies and strategies

## *Financial scandals sand bubbles*

**Some  
facts that  
asks for  
CSR**

- ***The shareholder value dogma is contradicted***
- **Incentives aimed to align manager interests with that of shareholders have perverse effects**
- **The Mechanisms :**
  - ◆ Manager still retain discretion;
  - ◆ They have also informative advantage with respect to investors,
  - ◆ and they collude with auditor and financial analysts).
  - ◆ Stock option and other incentive put values at stake for these manipulatory practices .
  - ◆ Expected rent is an incentive to collude and to malpractices
  - ◆ It is because they may appropriate part of the shareholder value as if they were shareholder them selves that managers become more and more egoist and opportunists

## *Financial scandals .....*

Some facts  
that asks  
for CSR

- **Paradox:** : in literal sense failed and abusive strategies was in favor of shareholder value
- But the problem is that max shareholder value given information asymmetries and the possibility of colluding with supervisors is a self defeating policy,
- When
  - ◆ Information is asymmetrical and concentrated i a few hands ,
  - ◆ collusion is simply ,
  - ◆ Profit may be legally appropriated**the shareholder value doctrine entails an incentive to cheat in order the support apparent shareholder value and then profit of it in the short term**

## *Financial scandals*

- **To give up the dogma of shareholder value and financial accountability and pass to stakeholder accountability**

**Some  
facts that  
asks for  
CSR**

- ◆ More information on all the areas of behavior and results of the firm , from industrial relation, to supplier and claint satisfaction, environmental impacts and community relations would enlarge accountability also to investors,
- ◆ The larger the subjects on which there is accountability, the larger is also the number of watch dogs

## *The current crisis of global finance*

Some  
facts that  
asks for  
CSR

- **Three perverse mechanism have been at work**
  - 1) **Opportunistic seeking of the maximum profit on the part of directors and managers accountable only in terms of share value, allow them to behave as self seeking agents and push them to undertaking excessive risk (perverse incentives)**
  - 2) **Incomplete nature of financial markets**
    - **Financial products (derivatives) were so complex and non transparent to the operator them selves that they are unable to forecast their behavior in unforeseen contingencies**
      - ◆ **Client less infirmed**
      - ◆ **Bounded rationality and knowledge of operator**
    - **Financial market is far from being perfectly competitive**

## *Current crisis .....*

### ■ **3) systemic social irresponsibility**

- Sharp reduction of Social Welfare in the US able of providing for primary needs such as to have a home for lower middle classes
- Illusion that such social needs can be faced by a development of financial markets thank to low cost loans , whose risk is made sustainable by inserting them into financial products like subprime largely negotiated through the financial market worldwide
- Increase on inequality being created by the low dynamics of wages and the much more strong dynamic of profit and financial remunerations (risks of default for middle classes families)
- **Summing up: not all social needs can be faced though market mechanism wherein operate according to the share holder value, WS or non profit organization are needed to provide Health or Housing**

**Some  
facts that  
asks for  
CSR**

## ***PART 2***

### ***AIMS of the presentation***

#### ***Aims***

- **Defining** CSR as a model of **extended corporate governance** (based on the notion of multi-stakeholder fiduciary duties)
- **Showing** that the need for this model **emerges directly** from the economic theory of the firm

# ***Aims of the presentation (normative)***

## ***Aims***

- **Answering** the challenge of a **normative model** able to provide for
  - ◆ a **criterion** for **balancing** multiple stakeholder's interests
  - ◆ An **impartial** justification of the resulting balance among multiple fiduciary duties
  - ◆ A **uniquely defined** corporate **objective-function** corresponding to the CSR model of corporate governance



## ***Aims of the presentation (implementation of the model)***

### ***Aims***

- **Taking** seriously the **distinction** between
  - ◆ normative **justification** and
  - ◆ **effective implementation** of the CSR model , which **needs** incentives and endogenous motivations
- Suggestion: resorting to the **economic model of reputation**
- **But the simple** reputation mechanism **works badly** due to important **limitations**
  - ◆ **Cognitive** fragilities (**cognitive gaps**) in a world of incomplete information
  - ◆ Possible **opportunistic reputations** building by firms

# ***Aims of the presentation (implementation of the model)***

## ■ **Two answers:**

- ◆ The **cognitive** role of a **explicit** CSR ethical **norms** and management **standard**:
  - it works as gap filling device, enabling the reputation mechanism
  
- ◆ The **motivational** role of CSR norms:
  - conformist preferences attached to the adoption of explicit CSR norms reinforce motivations to carry out the model

***Aims***

# Defining CSR in terms of corporate governance models

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

(1)  
CSR  
&  
Corp.  
Gov.

# FIDUCIARY DUTIES

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Gov.

- **Trustor/Trustee** relationship
- The **Trustor** has a **legitimate interest** but is **unable** to make the **relevant decisions** to pursue that interest
- the **trustor delegates** discretion to a **trustee** empowered to choose actions and goals.
- The **trustee** has **genuine authority** over the trustor (chooses and prescribes actions, goals and behaviours to him)

## FIDUCIARY DUTIES (continues):

- For a fiduciary relationship to arise, the trustee's authority must be understood by the trustor as **functional** to some **reason** or **interests** he **already** holds (cf. Raz)
- He has a **claim** over the trustee: he should employ his authority in order to obtain results that **satisfy the trustors' best interest**
- This **claim** (the trustor's *right*) impose **fiduciary duties** on the **trustee**, who is **accountable** for that

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&  
Corp.  
Gov.

# STAKEHOLDERS

## ■ *Stakeholders in the strict sense:*

those individuals/groups who have an **essential interest "at stake"** because they make **specific investments** (human capital, financial capital, social capital or trust, environmental capital, dedicated technologies, etc.)

### ◆ **Specific investments :**

- increase the **surplus** generated within the relation stakeholder-firm,
- but create **idiosyncratic mutual dependence** between the two sides

## ■ *Stakeholders in the broad sense:*

those individuals/groups who *undergo* the '**external effects**' (positive or negative) of the company's transactions

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CSR  
&  
Corp.  
Gov.

# THE SCOPE OF CSR AS AN EXTENDED MODEL OF CORPORATE GOVERNANCE

□ Extends fiduciary duties

- **from** a **mono-stakeholder** view (where the **sole** relevant stakeholder is the **owner** of the firm)

- **to a multi-stakeholder** one in which the firm **owes fiduciary** duties to **all its stakeholders** (the owners included)

(1)  
CSR  
&  
Corp.  
Gov

# The economic rationale for extended fiduciary duties:

(2)  
CSR  
and the  
theory  
of the  
firm

- Why do companies exist?
- Contracts are incomplete,
  - ◆ **unforeseen** contingencies
  - ◆ investments may be **specific**
  - ◆ Behaviors are **opportunistic**: try to **renegotiate** incomplete contracts
- Renegotiation induces the **expectation** that investments **will be expropriated**
  - **it destroys incentives to make efficient investments**



(2)  
CSR  
and the  
theory  
of the  
firm

## .....extending fiduciary duties (continues)

- Governance structures allocate **residual rights of control** to the owners , i.e. **authority** over the **ex ante not contractible** aspects of transactions
  - ◆ Renegotiation will **not threaten** them
  - ◆ **their investments are safeguarded** from the other stakeholders' opportunism

### **BUT.....**

- The firm is **team production**: many stakeholders **cooperate** by means of their specific **investments** (human capital, social capital, trust etc.)

(2)  
CSR  
and the  
theory  
of the  
firm

## There is always a risk of “abuse of authority”

- Those who holds residual control can try to **appropriate** the full surplus by **expropriating** other stakeholders' investments
- If fiduciary duties are **only** attached to ownership
  - ◆ Non-controlling stakeholders **will not be protected,**
  - ◆ while their contracts are nevertheless **incomplete**
- That's why “control structures are always **second best**”: some have the incentive to **over-invest,** others have the incentive to **sub-invest**

(2)  
CSR  
and the  
theory  
of the  
firm

## CSR is the necessary governance complement to ownership structures

- The corporate governance structure works as **mediating hierarchy** (Blair- Stout)
- It must protect each stakeholder from **each others** opportunism
- Thus a **legitimate governance** structure **should** protect:
  - ◆ **Not only** residual rights of control (**ownership**)
  - ◆ **But also** fiduciary duties owed to the non controlling stakeholders,
  - ◆ enabling them to **beneficiate from fair shares of the surplus** generated by the firm as a cooperative venture

## Two kind of open questions to the CSR model of corporate governance

### ■ Normative questions

- ◆ No **unique goal** and objective function
- ◆ Multidimensional maximisation is **not maximisation at all**
- ◆ This would open the route to **managerial slack** (Jensen 2001)

### ■ Questions about implementation and incentive **compatibility**

- ◆ **Why** should managers and entrepreneurs carry out **extended fiduciary duties** even though these are **not** in their self-interest?
- ◆ How can CSR rest on **self-enforcing norms**?

# The need for a normative balancing principle

- “**Stakeholder**” is *descriptive*: there are many classes of individuals holding a stake in the firm

## But...

- Stakeholder claims may also be **conflicting**
- Stakeholder theory needs a **normative principle** in order to say
  - ◆ **how to balance** conflicting claims,
  - ◆ **how to identify** those claims that generate fiduciary duties
- Thus a **business ethics criterion** is needed to find out a balance that
  - ◆ **Can be impartially accepted in advance by all the stakeholders**

(3)  
Social  
contract  
as  
normative  
model

## *The "social contract" of the firm as the criterion for defining the normative content of CSR*

### (3) Social Contract as normative model

- A fair and efficient '*social contract*' amongst all the corporate stakeholders is the **criterion to balance** their different - sometime conflicting - interests, values and claims
- A social contract decides which claims are **legitimate basis** for recognizing rights and generating **fiduciary duties**

(3)  
Social  
Contract  
as  
normative  
model

## ***The Social Contract as an impartial managerial decision procedure to find out mutually acceptable terms of agreement***

- **Force, fraud** and **manipulation** must be set aside.
- Each party comes to the bargaining table with only its capacity to **contribute** and its **utility** of each agreement
- The bargaining ***status quo*** must be set at a level such that each stakeholder results **immune against lock-in**
  - **each stakeholder obtain at least reimbursement of his specific investment**

(3)  
Social  
Contract  
as  
normative  
model

.....*The Social Contract as an impartial decision procedure (continued)*

- The **manager** puts her-self in the **position of all the parties** in turn (**empathy**)
- In the position of each she **accepts or rejects** available alternatives
- solutions acceptable to **some** stakeholders **but not to others** are discarded.
- The terms of the agreement reached are those that each stakeholder **is willing to accept** from **his own point of view**
- The process ends with the **non-empty** intersection of the agreement acceptable **from whichever point of view**



## Does the *Social Contract* correspond to a unique corporate objective function?

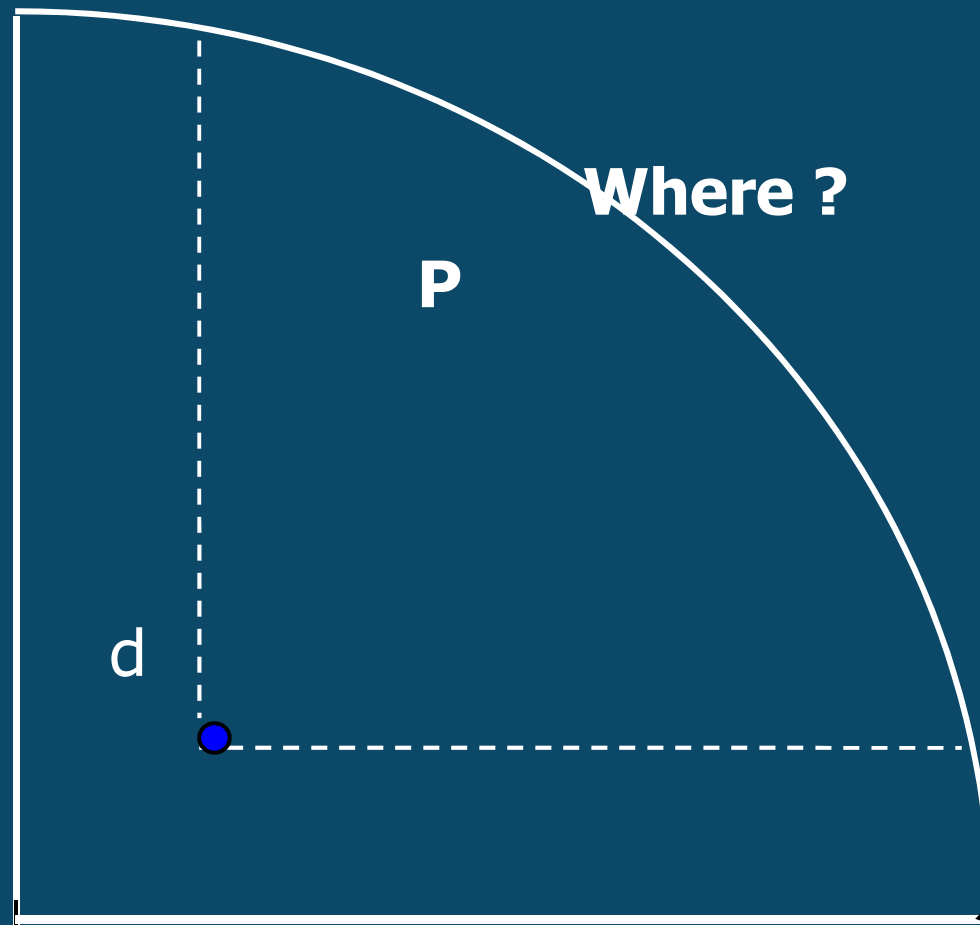
### (4) The Firm's Objective Function

- The social contract sees the firm as **cooperative** venture (a team)
- cooperation produces **surplus**
- This suggest the **cooperative bargaining game analogy**
- The **outcomes space** of a coop. game associates to each **joint strategy** an **allocation** of the cooperative surplus to the players.
- Rational bargaining takes place **within this space**

# A bargaining space within which a solution must be found out

- Nash Bargaining problem

(4)  
The  
firm's  
objective  
function



## How to find a solution to the bargaining game?

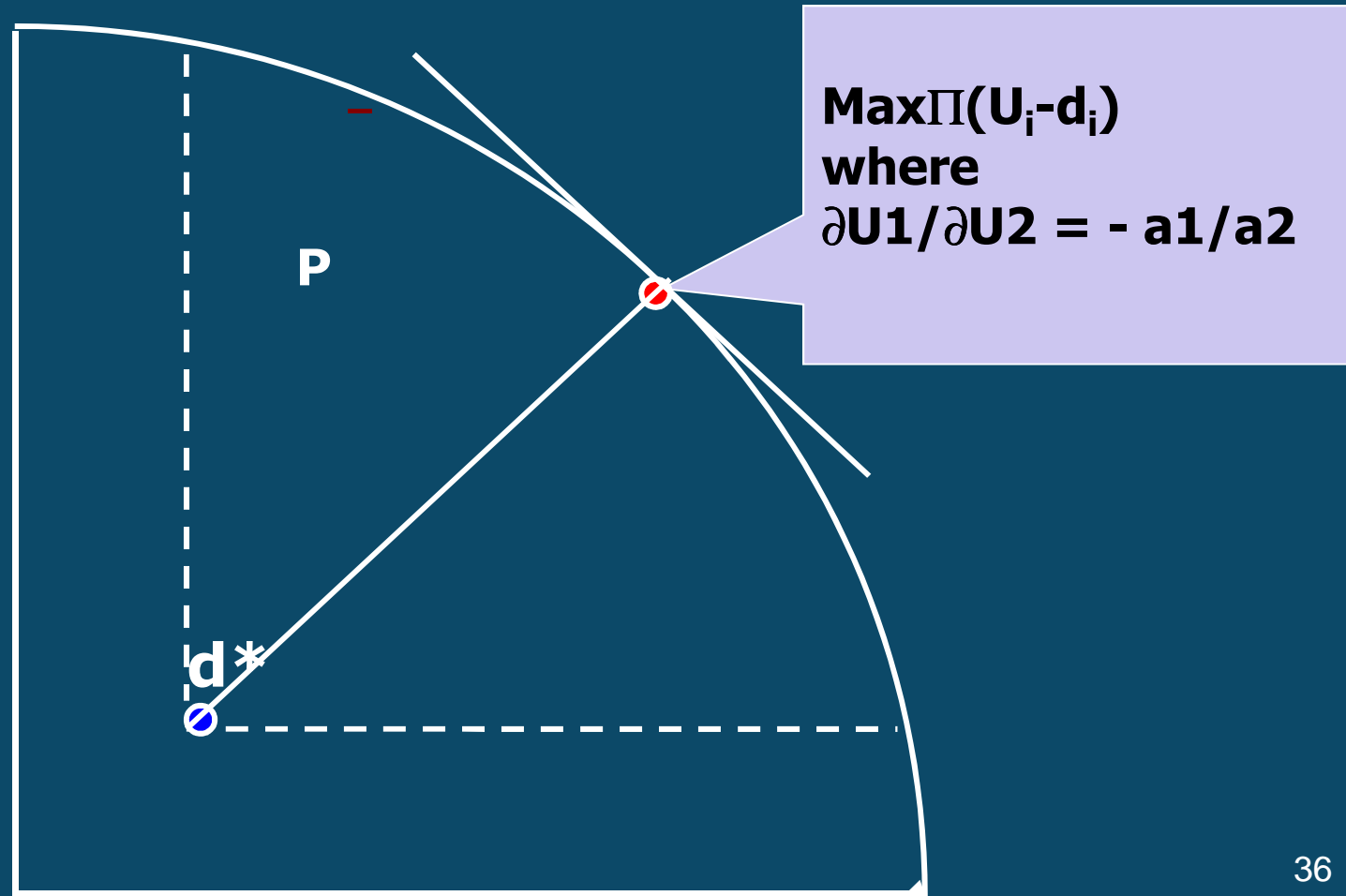
(4)  
The  
Firm's  
Objective  
Function

- Look for a **joint strategy** that can be rationally agreed in order to implement cooperation
  - ◆ The bargaining **Status quo** must coincide with the utility level at which players were before paying the **costs of their specific investment**
  - ◆ The solution must reside on the **efficient** (upper-right) **frontier** of the payoff space
- **Nash Coop Bargaining Solution** identifies the bargaining equilibrium as the point where the **product** (the aggregation) of the players' surpluses is at **maximum**
- This solution is **uniquely** computable

# The *Social Contract* of the firm as a computable bargaining game solution

## ■ Nash Bargaining solution

(4)  
The  
firm's  
objective  
function



(4)  
The  
Firm's  
Objective  
Function

## Meaning of the bargaining solution

- The solution obeys **axioms of individual rationality** in bargaining
- It is **neither less nor more rationalistic** than the maximization of profit hypothesis (VS. Jensen)
- Because it is located on the upper-right frontier of the outcomes space, it fulfils **social efficiency**
- Moreover the solution is consistent with **distributive justice**.
  - ◆ Assuming **interpersonally** calibrated utility units, the solution distributes the surplus **proportionally to 'relative needs'**

(4)  
The  
Firm's  
Objective  
Function

## A redefinition of the firm goals: in the name of which interests should the firm be run?

- A hierarchy of goals (from the broadest to the narrowest):
  - ◆ **minimize** negative **externalities** falling on individuals not participating in transactions
  - ◆ fix (by NBS) the agreements consistent with the **maximization** of the strict sense **stakeholders value**
  - ◆ **within the boundaries** of this admissible sets, **pursue the shareholder value**

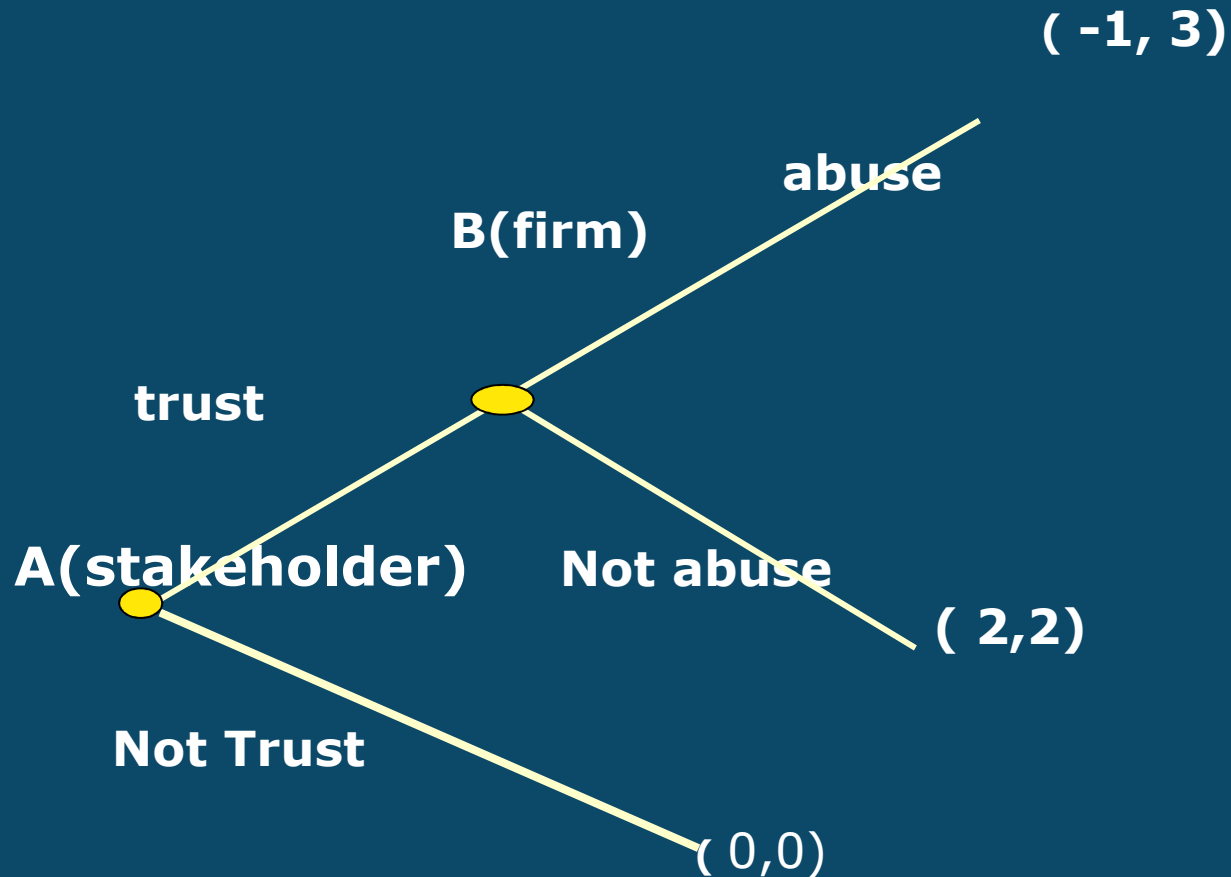
# What endogenous incentive pushes corporation to voluntarily comply with the “social contract”?

## (6) Reputation effects

- **Reputation** as the main motivational drive to comply with CSR fiduciary duties
- **Reputation** and trust are **self-enforcing** mechanisms for **social norms**
  - ◆ *Respecting norms **generates** reputation*
  - ◆ *Reputation **induces** a cooperative response from stakeholders*
  - ◆ *Cooperation is **beneficial** to the firm*
  - ◆ *this benefit **motivates** to respecting social norms **in turn***

# Trust is impossible in a single one-shot transaction

## ■ The trust game



**only one equilibrium = 0,0**

(6)  
Reputation  
effects



# The game of reputation

- Reputation effects are modeled by **repeating the game of trust** infinite times amongst a **long-run firm** a infinite **short-run stakeholders**

(6)  
Reputation  
effects

- ◆ Short-run players **update** their beliefs over the possible "**types**" of the long run player
- ◆ One of the long run player's strategies is **simulating** the "**honest**" type in order to support its reputation
- ◆ From **some point on** the stakeholders **will trust** the firm and hence will **enter**
- ◆ Then the best reply of the firm is to **continue** supporting his reputation by not abusing

## *Under which hypotheses does the result hold?*

### (6) Reputation effects

- The firm must be able to **signal** an “honest” type with at least **positive**, even if very small **probability**
- The firm player must be **farsighted**
- Each stage game must **end** with a couple of actions and payoffs **observable**
- each short-run player must be able to infer whether the firm has acted according a given commitment i.e. whether “**what had to be done has been done**”
- Optimal **mixed strategies** must be put **aside**

## The Cognitive fragility of reputation

- To enable the reputation the firm should announce a **unambiguous pre-commitments** on a specific action in each possible state
- BUT under **incomplete knowledge** and **unforeseen contingencies** concrete commitments are **mute** or even not **defined**
- Under **credence goods** the outcomes are **not observable**
- There is no basis to verify whether “**what had to be done has been done**”
- These **cognitive gaps** give **NO** basis for reputation

(6)  
Reputation  
effects

(7)  
Filling  
the  
cognitive  
gaps

## The solution is given by explicit CSR norms and self-regulatory standards

- CSR standards must be seen as **explicit ethical norms**, **not** merely **discretionary decisions**
- **Agreed by both** firms and stakeholders through different (voluntary) form of **multi-stakeholder social dialog** initiatives
- BUT standards are **self-imposed** by the firms themselves without **external enforcement** (**voluntariness**)
- They must be **monitored** and **verified** by **independent** civil society social bodies

(7)  
Filling  
the  
cognitive  
gaps

## Explicit Norms and standards fill the cognitive gaps

- They allow formation of **stakeholders' expectations** on the firm's behaviour under **unforeseen events**
- Define **standards** of behaviours that are meaningful as a **surrogate** for the lacking information about **concrete** actions
- Allow stakeholders to **fix a parameter** against which the decision of **trusting or not** the corporation **may be taken**
- Notice that all this is **fuzzy** (vague) and based of **default** (approximate) reasoning
- But **ethical reasoning** manages vagueness

## The basic logic of a CSR self-regulatory norm operating as a gap filling device

(7)  
Filling  
the  
cognitive  
gap

- A) General ethical **principles** (vague but meaningful)
- B) **Precautionary protocols** of behaviour /standardised rules of action (working by default)
- C) Stakeholder **dialog** in order to reach a **common understanding** on principles and the **matching** between situations/principles/ and behaviours

(7)  
Filling  
the  
cognitive  
gap

## (A) General Principles: gap filling

- As a whole they define the company's **ethical view** over the social contact that must be acceptable (in principle) by each stakeholder
- Their statements are **universalisable** and **abstract** (focused on characteristics invariant from situations to situations)
- Their application does **not** need an ex ante **detailed description** of any situation, but only depends on the presence of some abstract characteristics (**fuzzy pattern recognition**)
- In **no** situation they are **mute**: they cover any situation, foreseen, unforeseen or not even ex ante conceivable

**(7)  
Filling  
the  
cognitive  
gap**

## **(B) Precautionary rules of behaviour**

- **Protocols** of behaviour (procedures) are activated in situations putting at **risk** the conformity to a principle
- Their activation depends on the level of vagueness (**ethical threshold**)
- They must be **standardised, observable** and externally **verifiable**
- Whenever a principle is at risk, as far as the protocol is implemented, **there is no evidence** that intentional infringement of a principle has occurred



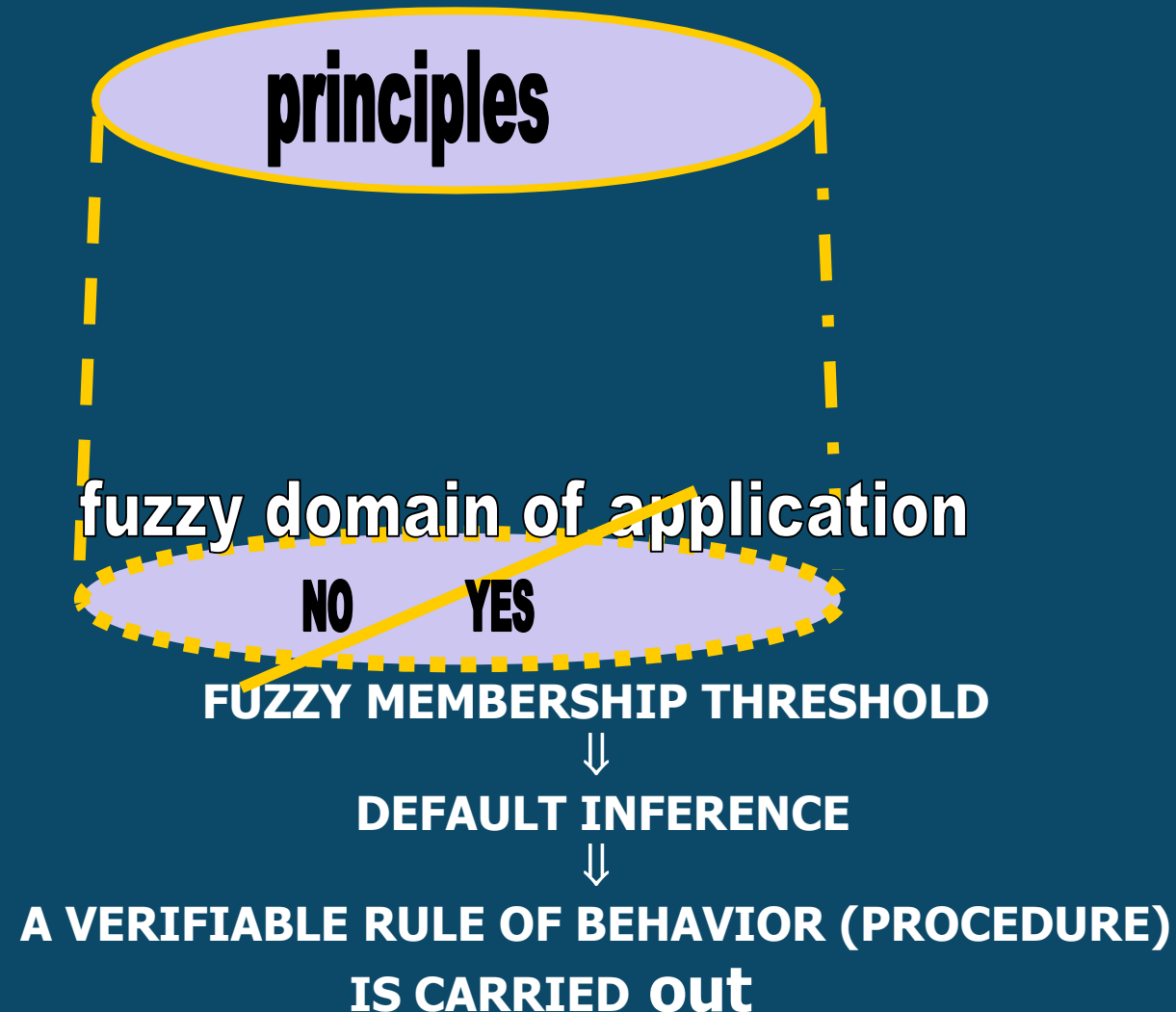
**(7)  
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## **(C) Communication and dialog**

- Principle/protocols and performance must be **communicated** as they are the relevant information on which reputation depends
- Stakeholders base their reputation assessment on the **matching** between *events / ante announced principles and protocols / actual behaviour and outcomes*
- The firm and stakeholders must share a “**common understanding**” of situations asking for implementation of certain ethical precautionary decisions
- **Committees for multistakeholder dialog** helps the firm to take the point of view of an impartial stakeholder

# A graphic representation of the logic of a CSR self-regulatory standard of governance and strategic management

(7)  
Filling  
the  
cognitive  
gap



## *The possibility of sophisticated abuse*

- By resorting to a **mixed strategy** a firm is able to gain a reputation of **partial abuser**, hence
  - It complies with fiduciary duties just up to the **minimum** level compatible with the stakeholders not being induced to exit
  - the stakeholder **gives in** (if partial compliance allows him expected utility **not lower** than the option to stay out)
- This is what happen when we observe **codes of ethics or social report just used as window dressing**

(8)  
Conformist  
Preferences  
as  
motivation  
support to  
CSR

(8)  
Conformist  
Preferences  
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CSR

## ***Motivational complexity is the answer***

- Many results from behavioral and experimental economics
- Stakeholders hold **multiple** reasons to act:
  - ✓ **selfish**
  - ✓ but also based on **deontological conformity** with a principle of value
- If companies **announce** ethical principles, and the **appropriate expectations** are developed, then ideal preferences are **activated**
- Stakeholder **attach importance (value)** to the very fact that the company **complies** with its own norms

## ***Real world evidence of stakeholders' conformist preferences***

### **□ Stakeholders activism is a growing component of market behaviors**

- ◆ Responsible Consumerism
- ◆ Socially responsible finance and investment
- ◆ Advocacy of human right and brands boycotts
- ◆ Intrinsic motivations behind employment choices of the most talented employees
- ◆ Financial markets: collapses of companies due to ethical scandals (Arthur Andersen)

**(8)  
Conformist  
Preferences  
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CSR**

# Two kinds of stakeholders' preferences

- **Consequentialist preferences**: attached to outcomes
- **Conformist preferences**: attached to states of affairs described in terms of **consistency** of sets of acts with a **given abstract principle** of justice
  - **Fairness principles derived from the firm-stakeholder social contract**
  - **A state of affairs is perfectly deontological if it is fully consistent with the agreed principle**
  - **fix this as the ideal**
  - **Other states are ranked according to their deviation from the ideal**

(8)  
**Conformist  
Preferences  
as  
motivation  
support to  
CSR**

# ***Conformist preferences and reciprocity***

**(8)  
Conformist  
Preferences  
as  
motivation  
support to  
CSR**

- Consistency with the ideal works through two conformity index of the individual's **reciprocal contribution** to the ideal attainment
  - ✓ **(a) conditional conformity** : how much an individual contributes to the ideal given what he **believes** about what other individuals will do
  - ✓ **(b) reciprocity of conformity**: how much one individual **believes** that another will **reciprocally** contribute to the ideal given what the second **believes** about the first.

# *How conformist preferences prevent refined abuse*

- Assume a sophisticated abuser faced by conformist stakeholders,
  - the firm **adopts** a code of ethics
  - the stakeholder takes it as the **basis or reciprocity**
  - she **believes** that the company will do its part in carrying out the principle
  - **Then she associates high ideal utility to reciprocal compliance with the principle**
- On the contrary if she expects that the company will deviate, this will negatively affect **not only** his material payoff **but** also **his conformist preferences**

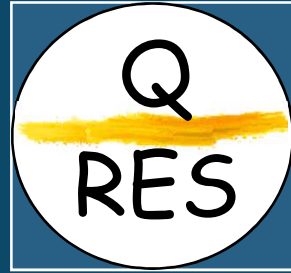
(8)  
Conformist  
Preferences  
as  
motivation  
support to  
CSR



## Summing up

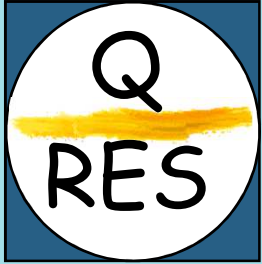
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Conformist  
preferences  
as  
motivation  
support to  
CSR

- ❑ stakeholders have preferences not purely self-interested or valuing only material advantages (consequences)
- ❑ They also place importance on the firm's **reciprocity in complying company's duties**, especially if agreed upon in a public announced code.
- ❑ any deviation from the CSR standard (commitment), is **punished more intensely than how much would be the case if simple material interest were at stake.**



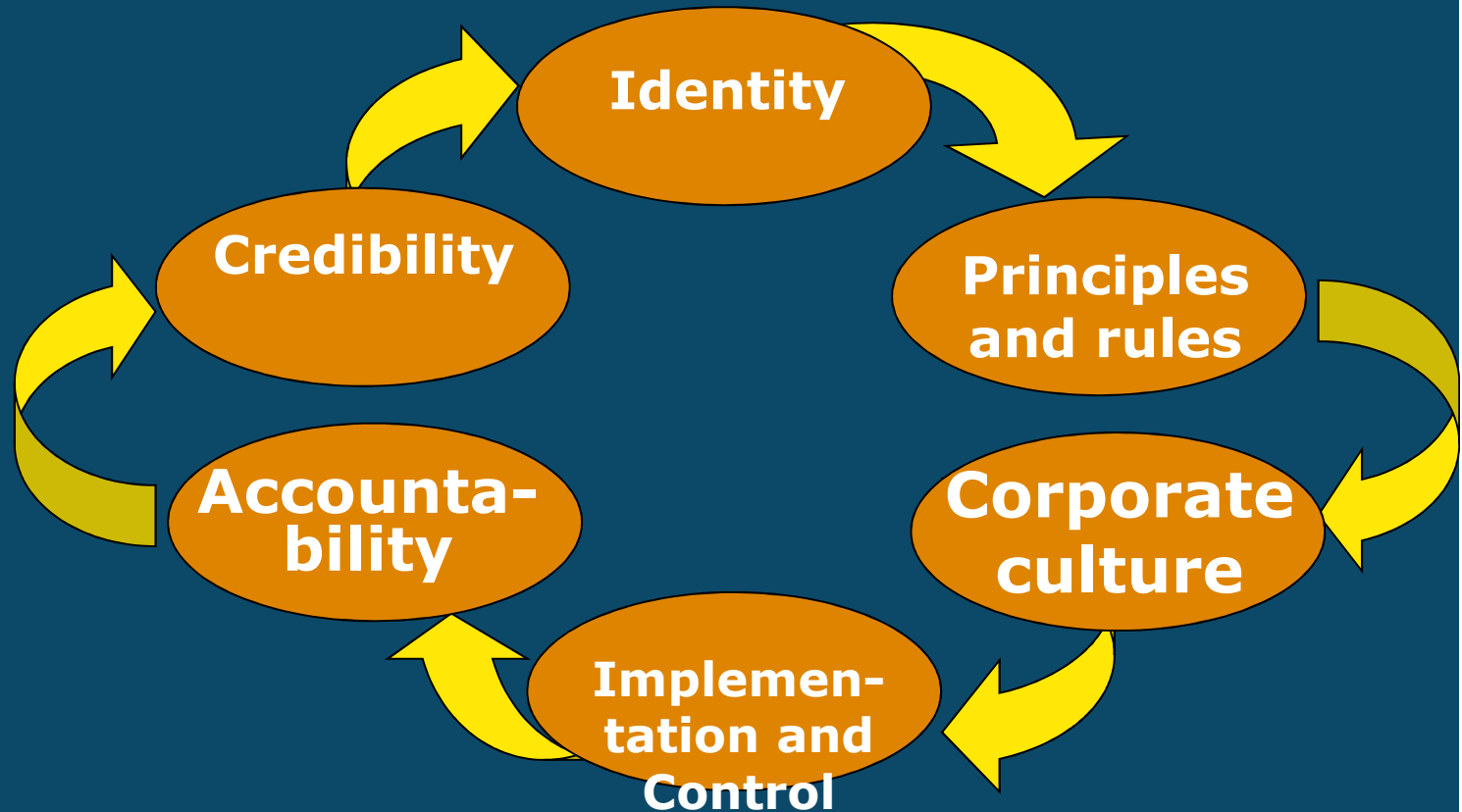
**Developing the standard:  
The Q-RES guidelines for  
management systems of CSR**

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## *The six steps in the management process of CSR*

**steps**



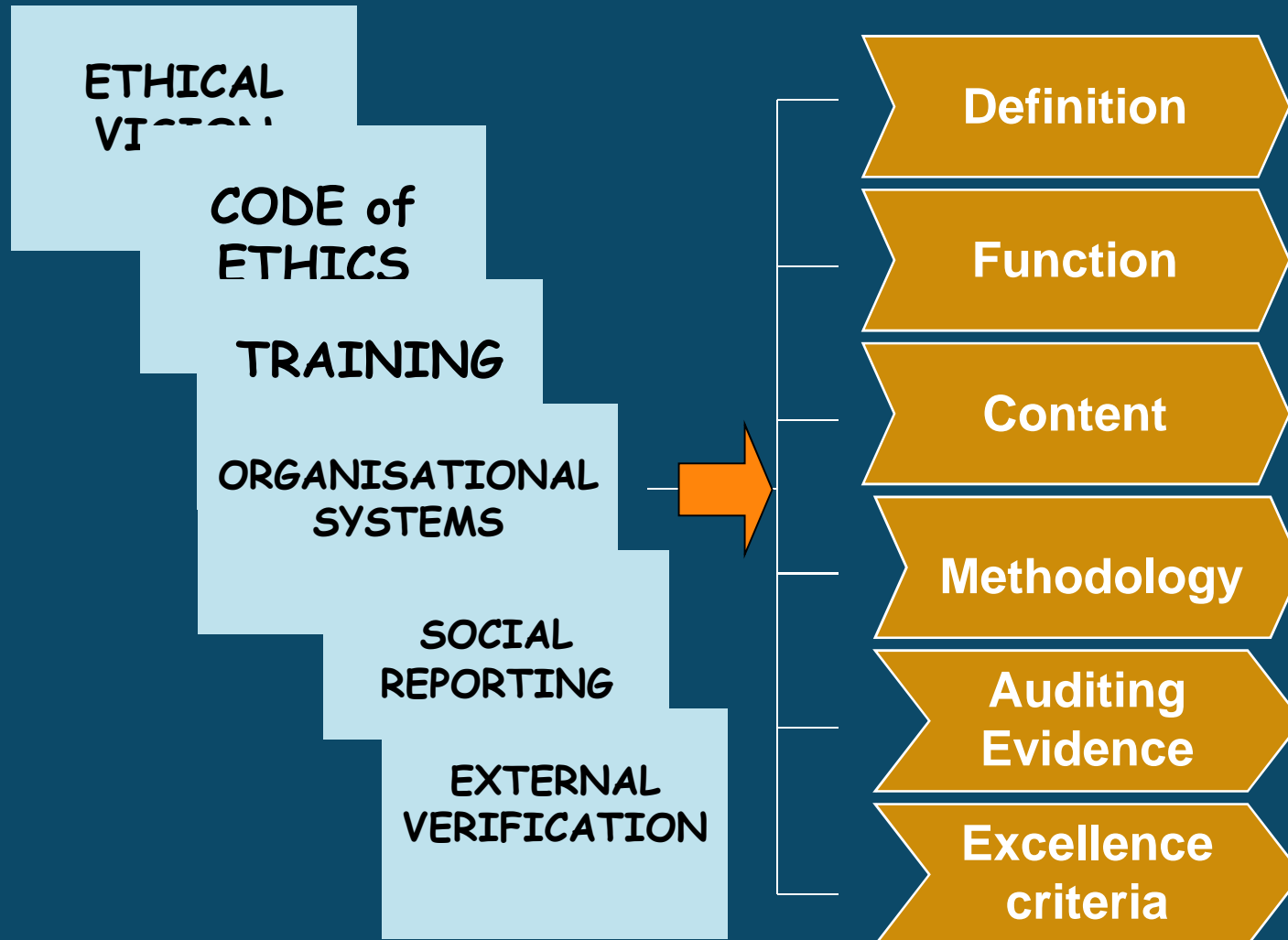


## *The six Q-RES tools for CSR*

**The six  
Q-RES  
Tools**



# The Q-RES Guidelines



**The Guidelines provide a methodology for the implementation and verification of each Q-RES tool**



**Q-RES  
tools  
1/6**

## ETHICAL VISION

### DEFINITION:

- Not just a Mission (*teleological*), but the Vision (*deontological*) of how the firm intends balancing multiple stakeholders interests and claims in order to elicit cooperation. It proposes the firms' idea of the social contract to all the stakeholders

### FUNCTION:

- *Defines the corporate identity*
- *Establishes a fair criterion for balancing stakeholders' claims, in order to induce efficient cooperation*



**Q-RES  
tools  
2/6**

**CODE OF  
ETHICS**

**DEFINITION:**

- Articulates the vision by more specific rights and obligations. It addresses each stakeholder by general principles and announces rules of behavior and procedures concerning each risky situation. Typical forms of opportunism are forbidden, precautionary rules of behaviors are positively recommended

**FUNCTION:**

- *Each stakeholder becomes subject of rights by the statement of general principles*
- *Commitments on rules are undertaken concerning any risky situation*
- *Reputation has a basis even in the presence of unforeseen events*
- *Endogenous incentives to compliance are induced to safeguard reputation*



**Q-RES  
tools  
3/6**

## ETHICAL TRAINING

### DEFINITION:

- Provides ethical, economic and organisational concepts to understand ethical dilemmas and the logic of opportunism and trust. Develops the ability of referring concrete situations to their relevant principles. The approach is participative, non paternalistic; real conflict are addressed in the light of shared principles and rules that can be construed out of an ethical agreement. Practical rules and tools are also taught

### FUNCTION:

- *Develops ethical awareness*
- *Provides ethical pattern recognition abilities with respect to unforeseen situations*
- *Fosters corporate culture*
- *Supports ethical decision-making*
- *Shares principles, rules and the Q-RES tools throughout the organisation*





**Q-RES  
tools  
4/6**

**ORGANISATIONAL  
SYSTEMS OF  
IMPLEMENTATION  
& CONTROL**

**DEFINITION:**

- Top-down processes assure compliance by auditing, monitoring and control
- Bottom-up processes by organizational dialog integrate business goals ethical values and procedures within a unitary view of the individual performance that can be rewarded both by material and immaterial compensation

**FUNCTION:**

- *Compliance with given principles and norms*
- *Integrates principles and values in day by day decision making*
- *Creates material and immaterial incentives by rewarding appropriately ethical business performance*



**Q-RES  
tools  
5/6**

**SOCIAL &  
ETHICAL  
REPORTING**

DEFINITION:

- Agreed indicators are used to recollect, report and discuss clear, verifiable, significant information about how the company performs toward all the stakeholders and to give an overall picture of how they fare with respect to the principles and the commitments of the firm

FUNCTION:

- *Integrates governance with accountability to all the stakeholder*
- *Makes possible a global judgment over performance with respect to commitments*
- *Involves stakeholders in dialog*



**Q-RES  
tools  
6/6**

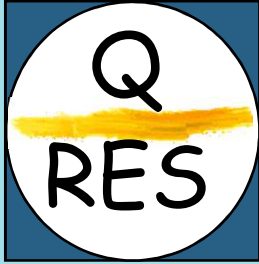
**EXTERNAL  
VERIFICATION**

**DEFINITION:**

- Auditing activity carried out by a third independent party in order to assure stakeholders concerning conformity of the corporate ethical and social responsibility tools implemented by the company to the quality standard (external auditor are accredited professionals)

**FUNCTION:**

- *Gives credibility by attributing a quality label (Q-RES)*
- *Supports the reputation building process*
- *Stimulates continuous improvement*

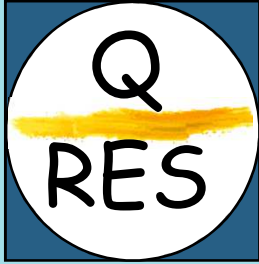


## Q-RES STANDARD

# *From the Q-RES Guidelines to a Q-RES Standard*

- The Q-RES management model described in the Guidelines takes into account the issue of its verifiability by external bodies and it proposes the definition of a Q-RES Standard on which the external verification and certification of CSR of an organisation may be based.
- ***Q-RES Standard: Norm and Guidelines for the improvement of ethical and social performance of the organisation*** was published in May 2003.
- It was developed as a standard consisting of two part:
  - Part A: The Q-RES model and tools
  - Part B: The management system for ethical and social responsibility

# Q-RES Standard

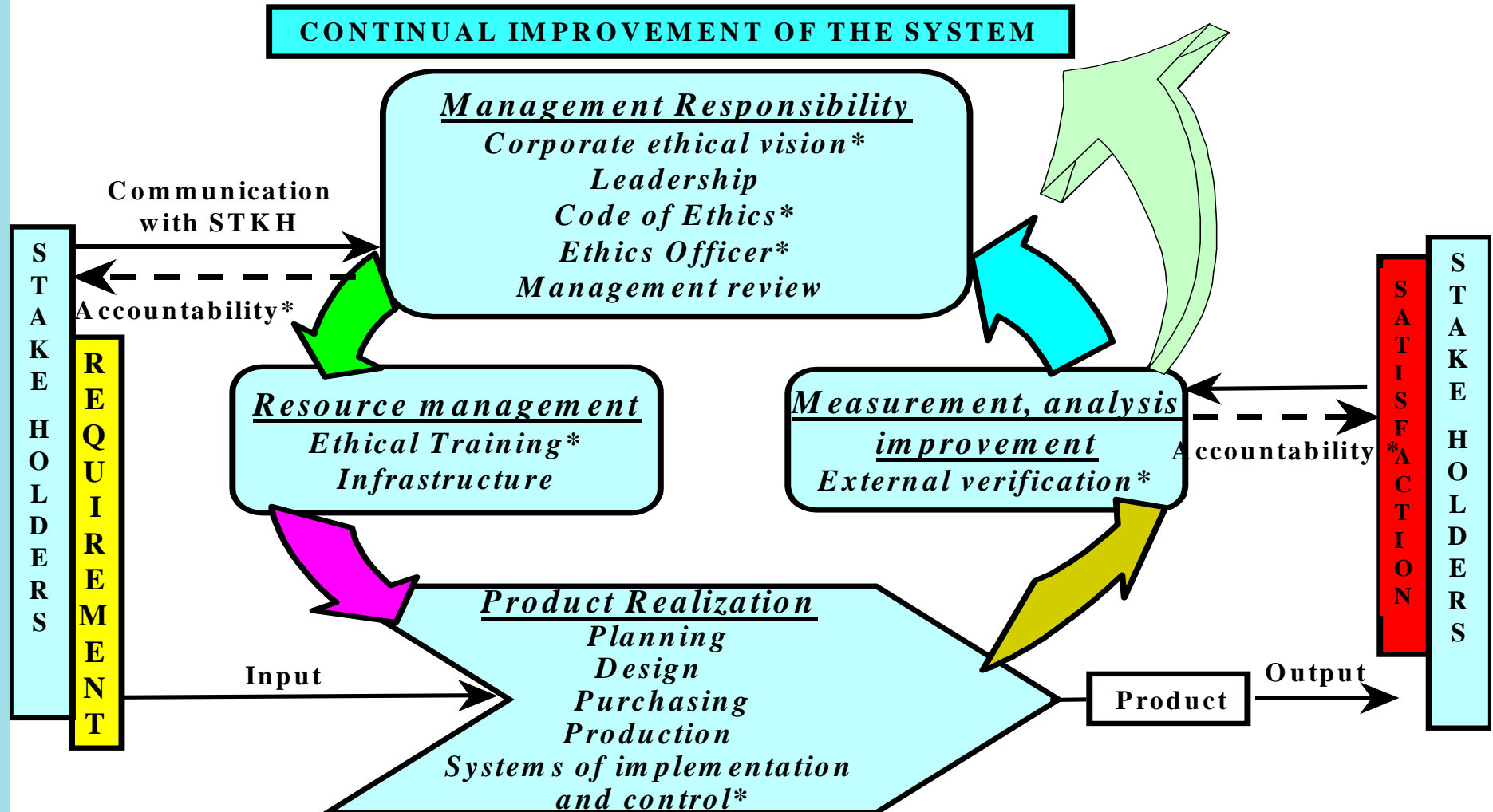


## Q-RES STANDARD

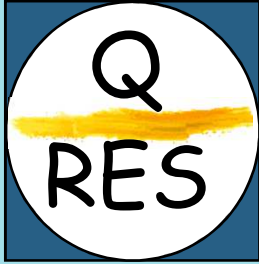
- **Part A: The Q-RES model and tools for the management of ethical and social responsibility** introduces and explains:
  - ◆ the Q-RES model and tools
  - ◆ its relationship with other management system and with ISO 9000
  - ◆ its purpose and field of application
  - ◆ the standards of reference and e glossary of terms and definitions
  
- **Part B: The management system for ethical and social responsibility** describes the management system of an organisation with respect ethical and social responsibility in which all the Q-RES tools can be found; it's structured like the ISO 9000 system and is formed by 5 chapters:
  - ◆ **MANAGEMENT SYSTEM**
  - ◆ **MANAGEMENT RESPONSIBILITIES**
  - ◆ **RESOURCE MANAGEMENT**
  - ◆ **PRODUCT REALIZATION**
  - ◆ **MEASUREMENT, ANALISYS AND REPORT**



# Model of a process-based Q-RES management system



# A variety of theoretical approaches to CSR management standards at European level :



**Benchmarking European CSR management Standards (UE Project 2003 e 2004 )**



**Social Contract Theory and Reputation**

**Accountability**

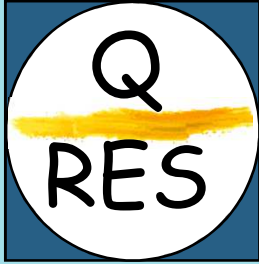


**Corporate Ethics and Compliance**

**Values principles, processes and tools for CSR**

**Sustainable Development**





**Benchmarking  
European CSR  
management  
Standards  
(UE Project  
2003 e 2004**

## ***Four key elements of a CSR Management System***

### **Values and Principles for CSR**

- the guiding principles shaping an organization's overall approach to CSR and orientating its decisions making processes

### **CSR Management Process**

- an overall organization process linking together values and principles for CSR, CSR Management Tools and the organization's core strategy, policies and procedures

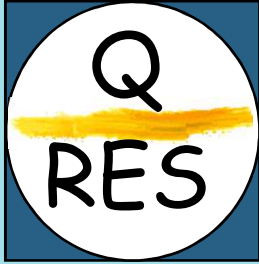
### **CSR Management Tools**

- a number of management tools helping the organization to address specific issues linked with CSR performance, e.g. stakeholder engagement, reporting...

### **Assurance**

- procedures of internal audit (self-governed by the organization) and external verification (provided by independent third part) aimed to raise the credibility of the system





**Benchmarking  
European CSR  
management  
Standards  
(UE Project  
2003 e 2004 )**

## **Values and Principles for CSR**

## ***Common elements***

### **■ CORPORATE VALUES:**

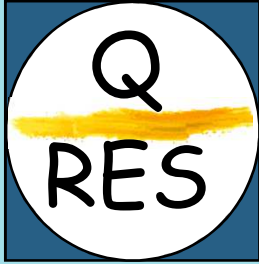
■ **Mutual advantage:** the rationale for stakeholder cooperation - clearly given in the social contract approach (Q-RES), but also embedded in the idea of cooperation among the 5 different capitals (SIGMA);

■ **Fairness:** the guiding value for balancing the different stakeholder interests and legitimate rights towards the company;

■ **Sustainability :** the view for integrating concerns for economic efficiency, environmental and social impacts in the long-run, and also a concern for inter-generational fairness

### **■ GOVERNANCE:**

the values and principles for CSR should be understood as the main governance system of the relations between the organization and all its STK (including owners/shareholders



## Values and Principles for CSR

## *Common elements*

### • **MULTISTAKEHOLDER APPROACH:**

the organization should take in due consideration the interests and needs of all its stakeholders

### • **MANAGEMENT INTEGRATION:**

the organization should develop its CSR Management System in an integrated way with respect to its core business management systems and decision-making processes

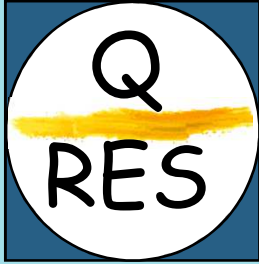
### • **ACCOUNTABILITY:**

the organization should be accountable towards its STK and respond – whether positively or negatively - to their legitimate claims

### • **PERFORMANCE IMPROVEMENT:**

the ultimate aim of the CSR Management System is to help the organization to improve its social, ethical, economic and environmental performance.

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Standards  
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## CSR Management Process

## *Common elements*

### Phase and Key Activities:

#### PLAN

- **Defining the organisation's Mission, Values and Principles**
- **Develop code of ethics, policies, procedures**
- **Identify stakeholders and prioritise CSR issues**

#### DO

- **Communicate Values, Strategies and Policies internally**
- **Train employees**
- **Monitor compliance**

#### CHECK

- **Measure performance**
- **Reporting**
- **Assurance**

#### ACT

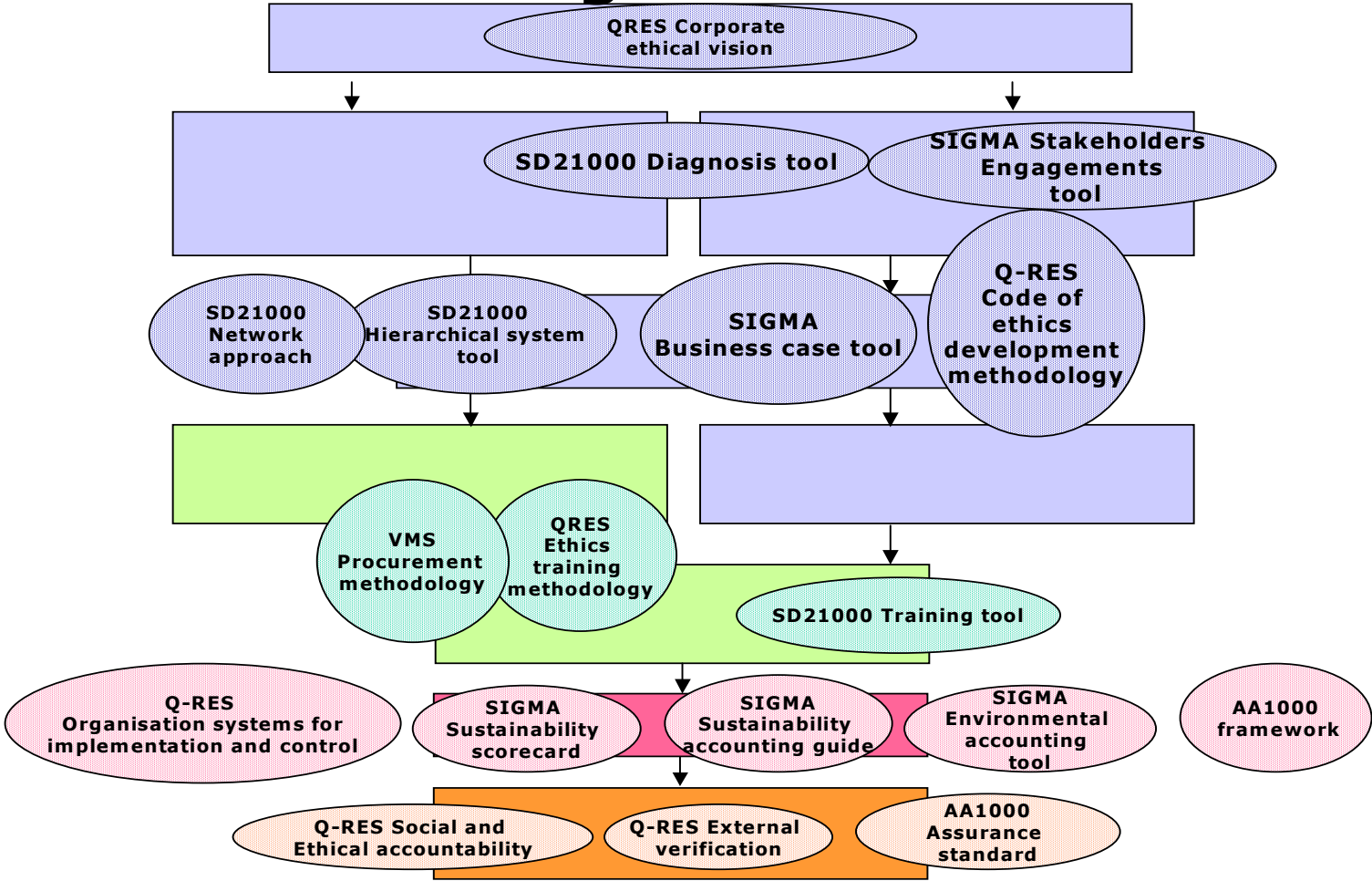
- **Respond to stakeholders**
- **Review the process**
- **Learning & Innovation**

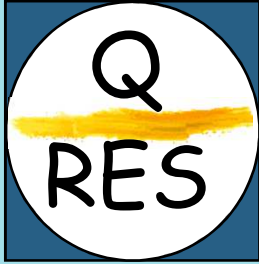
# Common platform for CSR Management Tools



## CSR Management Tools

### CSR management tool



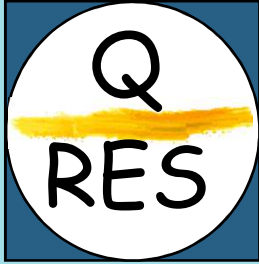


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Standards  
(UE Project  
2003 e 2004 )**

## Assurance

## *Common elements*

- **The AA1000** "assurance standard": includes key assurance principles:
  - ◆ Materiality,
  - ◆ Completeness
  - ◆ Responsiveness,
  - ◆ AA1000 also includes specific requirements concerning the independence, impartiality and competencies of the assurance providers.
- **SIGMA**'s approach to assurance is in many ways similar to the AA1000
- **SD21000** does not really deal in detail with this subject, indeed it is based on self assessment and does not give guidance on how to perform it

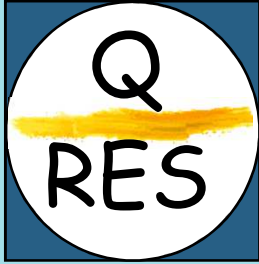


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Standards  
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## Assurance

## *Common elements*

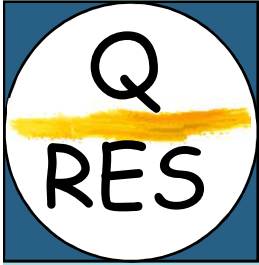
- **VMS** 's approach to assurance is based on self-governance
  - ◆ emphasizes the key role plaid by the organizations who voluntary adopt a self-binding CSR management standard
  - ◆ Nevertheless the existence and effectiveness of VMS within an organization can be verified by an external auditor an a voluntary basis
- **The Q-RES** approach to assurance is twofold:
  - ◆ In the Q-RES guidelines the framework defines "excellence criteria" and "auditing evidence" for the external verification concerning the adoption of Q-RES management tools.
  - ◆ In the Q-RES standard it defines a CSR management system based on a ISO-like model that can be certified by independent third party.



**(4)  
social  
dialog**

## **Multi-stakeholder dialog at societal level**

- The next stage in CSR: the emergence of civil society intermediate bodies able to promote social dialogue such that:
  - creates broad consensus on CSR standards,
  - promotes independent verification of compliance with those standards by means of appropriate monitoring and certification methods,
  - Activates lower level watch dogs

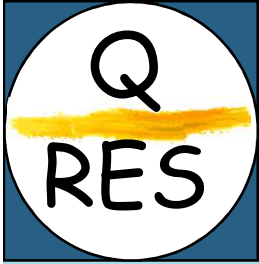


**(4)  
social  
dialog**

## **Why a need for multi-stakeholder bodies of the civil society**

- **Public statements of standards** are needed to define a common benchmark against which different companies may be compared
- Stakeholders may **not possess the relevant information or the relevant** reference criteria and knowledge to judge the firm's behaviour and communications
- There is an obvious **risk of collusion** between audit agencies and the firms that this same agency should subject to its scrutiny,
- social institutions should be designed in such a way to provide incentives **against collusion and conflicts of interest**





(4)  
social  
dialog

## Two basic feature for a collusion-proof design of the multi-stakeholder bodies

### ■ *Multi-stakeholdership:*

- ❑ need to ensure that parochial interests **do not take over** the social dialog institutions - i.e. that they are not **captured** by vested interests
- ❑ Appropriate design in the **distribution of decision rights and weights** hold by every category of participants, can help preventing collusion.
- ❑ The idea is simply resorting to the well known constitutional mechanism of '**checks and balances**' among contrasting interests,
- ❑ so that parochial interests are **reciprocally eroded**, freeing the institution from their control



**(4)  
social  
dialog**

## Two basic feature for a collusion proof design of the multi-stakeholder bodies (2)

### ■ *Independence.*

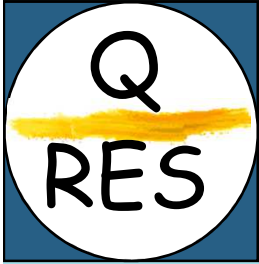
- ❑ Multi-stakeholdership in itself will not suffice
- ❑ institutions for social dialog risk to be turned into arenas of constant negotiation where those with the greatest bargaining power prevail or symmetric veto powers are able to drive them in dead-locks
- ❑ Is required adequate autonomy and independence of an ethical/scientific infrastructure, able to ensure independent assessments which satisfy requirements of impartiality and competence.



(4)  
social  
dialog

## Civil society bodies with these features could perform many functions:

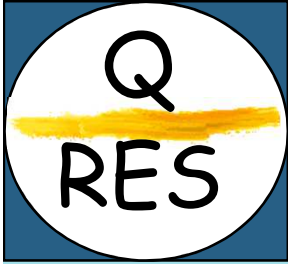
- **setting** CSR standards and the methodology for their implementation
- promoting the progressive **acceptance** of CSR standards among the commonly accepted self-regulatory norms internationally recognised
- encouraging firms to adopt standards, and aiding them in performing **pilot projects** functional to fine tuning of the standards;
- **disseminating** information and promoting in-company training
- agreeing with the **accreditation bodies** on the criteria that will be applied by auditors in carrying out **inspections**



**(4)  
social  
dialog**

## Functions (continues) :

- maintaining close **surveillance** over the operations of the institutes of inspection that issue certificates of compliance
- giving **appropriate salience** to the trend towards the adoption of ethical-social management systems
- **monitoring**, by recollecting any source of information, the CSR profile of firms
- furnishing the public with the **information** that it needs to form their judgements with objectivity
- **Activating watch dogs**: ethical finance, responsible consumers, unions



**(4)  
social  
dialog**

## The organisational form of multi-stakeholder bodies

- non-profit organizations,
- a broad base including business associations representing each type of enterprise (for-profit, cooperatives, non-profit)
- the representative of principal stakeholders:
  - trade unions,
  - consumers,
  - environmentalist associations,
  - professional associations,
  - non-profit associations advocating human right and social welfare, local authorities
- supported by a network of rigorously independent research centres (Universities).



**(4)  
social  
dialog**

## Summing up

- multi-stakeholder dialogue on CSR can be facilitated by the creation of **civil society institutions** endowed with
  - competence,
  - moral authority and independence,
  - considered widely representative of the interests at stake
- This would also lead to strengthening those intermediate social bodies that underpin a modern **economic democracy** and a democratic society in general