

ECS2000

Ethics Compliance Management System Standard (ECS2000 v1.2)

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o. Introduction

o.1 The world economy has entered an age of globalization. With this, the actions of organizations will require greater integrity and transparency than in the past. This requires that organizations establish internal structures to ensure the propriety of these actions. It is through these actions, and by establishing the structures for their realization, that organizations gain the trust and recognition of the market, and are able to contribute to the further, sound growth of the global market.

o.2 Mr. Kofi Annan, secretary general of the United Nations, speaking to leaders of global corporations at the 1999 World Economic Forum in Davos, Switzerland, called for corporations to implement ethical systems covering a comprehensive range of issues including human rights, labor and the environment. This statement comes as yet another indication of the growing demand throughout international society for the establishment by corporations of systems of ethics, thoroughgoing legal compliance, and social accountability.

o.3 In addition to developments in the market and international society, individuals working in corporations and other organizations are seeking jobs of which they can be proud. Most people do not want to work while being involved in wrongful activ-

ities. They will question and seek the reform of any illegal dealings and business practices in their own workplaces that violate their sense of good conscience. In principle the workplace should be a place of *self-realization* and not one where individuals must suffer from the emotional conflict of acting against their own consciences.

o.4 Predicated upon the above, this international standard represents a structured management system designed from the perspective of ethics with the aim of improving the work environment of the individuals who constitute organizations, complying with the demands of international society, and ensuring that corporations and other organizations are able to attain the trust and recognition of the market.

o.5 The aim of this standard is to enable organizations to identify in advance and take pre-emptive action against dubious dealings, illegal and unfair business practices of their own volition — with the full cooperation of their internal members — without reliance upon external whistle blowing by their own members, legal prosecution, or the boycotts and criticisms of third parties. In order to achieve this it is necessary to:

a) establish and administer a system of legal compliance, and

b) create the internal systems necessary for collecting the opinions and ideas of members and external stakeholders and realizing the particular ethical norms and philosophy ideal to the organization.

These two systems will be referred to in this standard as:

a) the *mechanism of compliance* and

b) the *mechanism of enhancement*.

o.6 The basic framework of this international standard is illustrated in Exhibit One. In the first stage the policy of ethics to be pursued by each organization is clarified and the code of ethics (or compliance manual), planning and internal regulations required to realize this policy are developed.

Following this, in the second stage, an individual or administration to bear the prime responsibility in ethical-legal compliance is identified, and training and communication initiatives are carried out under their direction.

Third, the organization undertakes independent audits to ensure that the organization's members correctly understand the ethics policy and code of ethics, and that the office of ethical-legal compliance and the reporting/consulting system are functioning in an appropriate manner.

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Fourthly, based upon the results of this audit, potential reforms are identified and implemented. This would include, for example, revisions of the code of ethics, improvement of education programs and reporting/ consulting systems.

The efficacy of such an ethical- legal compliance management system is dependent upon all departments and levels within the organization complying with and implementing the organization's ethics policy and code of ethics, and in the initiative taken by all members to jointly resolve the organization's problems. A factor of particular importance is the commitment of executive management.

o.7 This international standard outlines a general framework for an ideal management system, however, its purpose is to promote the performance of ethical-legal compliance — this being the creation of an organization with effective compliance and enhancement mechanisms. It is therefore important to avoid constructing a complex system, which ignores the actual level of integrity.

o.8 The main goal of this international standard is to promote and assist organizations in implementing ethical legal compliance systems in accord with the principles and ideals of *human rights and freedoms*, and *co-prosperity* within the market econ-

omy. Human rights and freedoms are the basic preconditions of democracy, without which a market economy is impossible. However, the pursuit of human rights and freedoms alone will not automatically lead to the realization of a fair society. It is important that the ideals of human rights and freedoms be augmented with a clear understanding that an individual can not enjoy a rich standard of living without the cooperation of others. The way of thinking derived from an awareness of being interdependent is referred to here as co-prosperity. Co-prosperity is the principle whereby organizations respect the interests of themselves and of other parties in their decision making and actions, and whereby organizations strive to promote the welfare of third parties. At the same time this requires the organization to take positive measures to limit the unnecessarily detrimental effects of its actions in the market and society.

o.9 This international standard requires that organizations, taking these two principles as fundamental principles, abide by their own ethical standards and comply with all relevant laws, regulations and other rules which may be applicable. The legal compliance component of the ethics policy should be based upon laws and regulations which are of particular importance to the organi-

zation in light of its respective scale, industry, and condition.

o.10 This international standard is not meant to compel organizations to make social contributions or sacrifices. However, organizations which formulate their own ethical ideals or standards should strive to create organizational climates which promote the free discussion of implementation methods and the development of concrete systems for their actualization. These initiatives are collectively referred to here as the mechanism of enhancement, and they are intended to support the mechanism of compliance.

o.11 It is not obligatory that the ethical legal compliance management system set out in this international standard be established separately from existing management systems. Where the use of existing management systems is deemed appropriate by the organization, the organization may use these systems as they are or modify them in order to suit this international standard.

4.4.7 Emergency preparedness and response

4.5 Monitoring and corrective action

4.5.1 Monitoring and evaluation

4.5.2 Correction and preventative action

4.5.3 Records

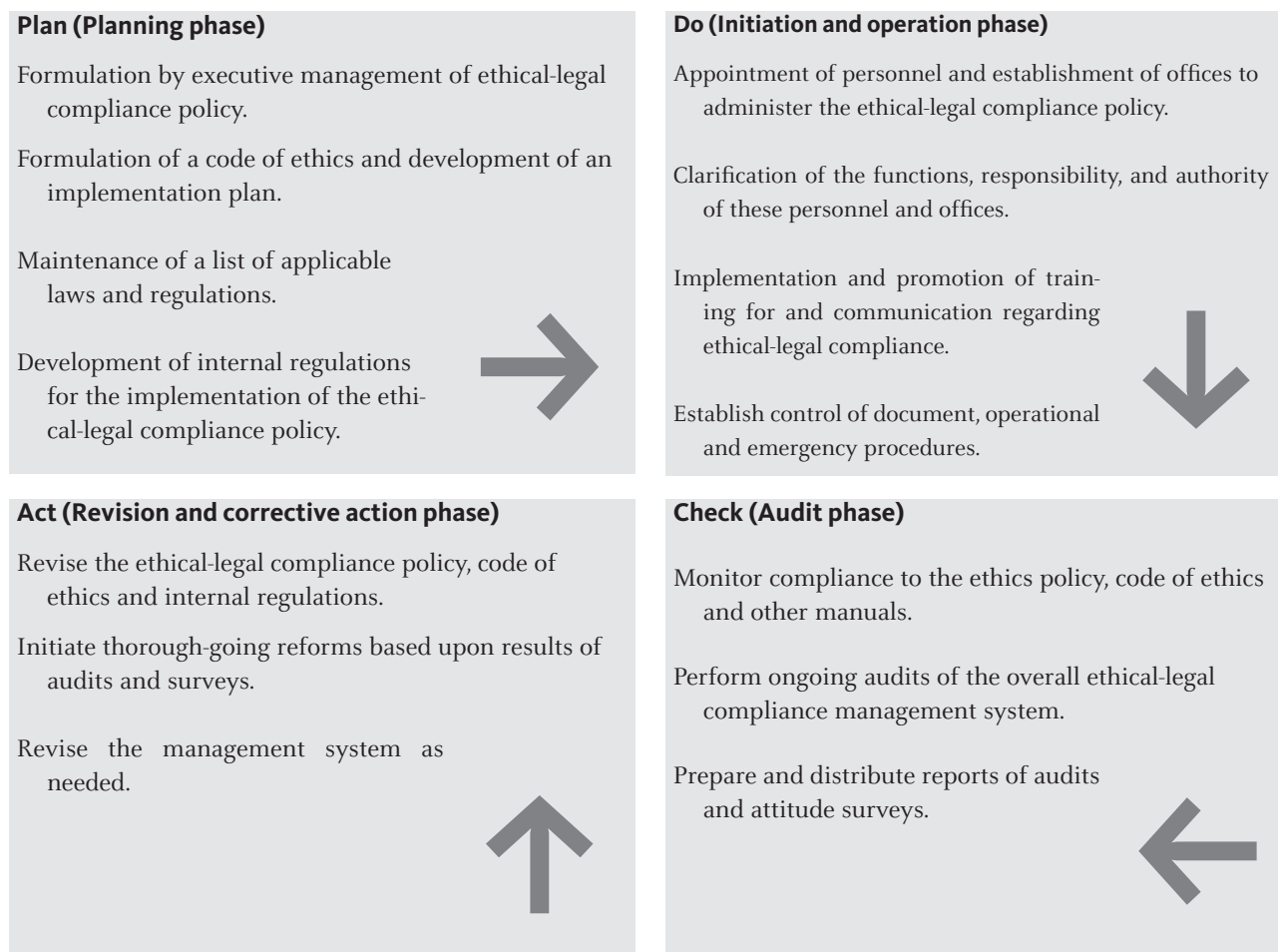
4.5.4 Ethics compliance management system auditing

4.6 Management review

4.7 Drastic system reform following emergency situations

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Exhibit One: Ethical-legal compliance management system framework



o. Introduction

This international standard sets out the requirements for establishing an ethical-legal compliance management system aimed at ensuring compliance with applicable laws and appropriate industrial rules, as well as with the pursuit of the ethical standards and ideals held to be important by the organization.

The requirements of this international standard apply to the following organizations.

a. Organizations which are attempting to undertake their business in a fair and just manner, and are aiming to administer, maintain and improve their own policy of ethics, implementation plan, internal regulations and other procedures.

b. Organizations whose policy of ethics, code of ethics and other ethical-legal compliance management systems are in accordance with the

requirements of this international standard and which are willing to publicly declare this fact.

c. Organizations which, in consideration of the scope of their social influence, are willing to increase their transparency and social accountability.

All the requirements detailed in this international standard are applicable to corporations and any other form of organization

regardless of location, scale or activities.

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2. Normative references

No normative references are set at this time.

3. Definitions

3.1 Business ethics are defined in practice as including all activities carried out within an organization in order to ensure the fair and responsible behavior of that organization. This definition is intended to include all organizations and is not limited exclusively to business corporations. The meaning of this includes the respect of social values and does not end with obligations of legal compliance. Business ethics will hereafter be referred to as ethics.

3.2 Ethical standards (ethical norms, ethical principles, etc.) are defined here as the system of values which an organization pursues under its own volition, and not to the unilateral and external demands of laws and regulations. For example, an expression of values such as *to behave with responsibility in society as a public institution* will be taken as an ethical standard.

3.3 Legal compliance is defined here as all the internal activities of an organization made in order to comply with the laws and regulations applicable to their business and to the goods and services in which they deal.

3.4 Ethical-legal compli-

ance is defined here as the compliance with applicable laws and regulations (including social values) and all internal activities made in order to implement the ethical standards which an organization has established upon its own volition.

3.5 Policy of ethics (ethical-legal compliance policy, etc.) is defined here as the ethical objectives established by an organization in consideration of its work content, scale, and the nature of the materials, goods and services which it handles. Included in this are the organization's own ethical standards, and the laws and regulations which must be observed according to the nature of the organization's activities.

3.6 Code of ethics (code of conduct, conduct guideline, etc.) is defined here as the standards of behavior set by an organization in order to apply the organization's policy of ethics in practice. The contents of this code must be readily understandable by those concerned, and of a realistically applicable nature.

3.7 Other compliance manuals (ethics compliance manuals, etc) are defined here as a more concrete reference based upon the contents of the code of

ethics or conduct guidelines as applied to specific workplaces and occupations. These manuals may be compiled if necessary.

3.8 Implementation plan is defined here as an annual plan for the application of the policy of ethics. For example, this would constitute an overall plan covering such issues as the timing and participants of educational programs, workplaces to receive specific intensive training, reform of the reporting/consulting system, and communications aimed at raising the awareness of ethics, and other plans required for the improvement of ethical-legal compliance activities.

3.9 Internal regulations are defined here as internal operating rules introduced by the organization in order to ensure the appropriate functioning of the ethical-legal compliance management system. This would include a specification of the authority and responsibility of an office for ethical-legal compliance (ethics office, compliance office, etc.).

3.10 Stakeholders are defined here as individuals or groups who are either directly or indirectly influenced by the actions of the organization. Among

others, these would include: consumers, employees, stockholders, creditors, trading partners, related organizations, community members, and government agencies.

3.11 Unless otherwise specified, organizations are defined here as corporations, educational institutions, medical institutions, public bodies, religious organizations, government agencies, political groups and other parties.

3.12 Review by management is defined here essentially as reviews that are initiated and carried out under the leadership of the organization's chief executive officer. However, in cases of emergency when the chief executive officer is unable to carry out this function (for instance in emergency situations), this review by management may be initiated and carried out by an individual or an internal body specifically appointed to the task.

3.13 Cases of emergency are defined here as any situation where management or executive officers are involved in social wrongdoings or improper activities. Because a general ethical-legal compliance management system will not function

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adequately in such a situation, the organization must establish and maintain a procedure for managing

such cases of emergency as may occur.

4. Ethics compliance management system requirements

4.1 General requirements

The organization must establish, apply, maintain and consistently improve an ethical-legal compliance management system. The requirements for this are set out in the whole of Section Four.

4.2 Formulating an ethics compliance basic policy and producing manuals

4.2.1 Formulating an ethics compliance basic policy

Executive management must define, implement and maintain an organization's basic ethical-legal compliance policy which includes the following features.

a. A set of ethical standards which the organization will implement according to its own tradition and management beliefs.

b. A body of rules and regulations of specific relevance and importance to the organization considering its work content, scale, and the materials and services in which it deals.

c. A written statement to the effect that the organization will proactively prevent unethical or illegal behavior, and engage in the establishment and

ongoing improvement of its accountability structures and ethical environment.

4.2.2 Disclosure of ethical-legal compliance policy and producing manuals

The organization must document its policy of ethics, inform its members of this policy, and disclose this document making it available to direct and indirect stakeholders as well as to the general public. As part of making this policy public, documented versions of the policy of ethics and code of ethics - or at least one of them - must be made available.

Furthermore, where the need arises, an ethical-legal compliance manual based upon the content of the code of ethics, in a form appropriate to specific workplaces, should be produced, administered, and maintained.

4.3 Planning

4.3.1 Implementation plan

The organization must develop a process by which to spread the policy of ethics throughout the orga-

nization. This procedure should include the following.

a. A plan for ethical-legal compliance education and training. This should include such tasks as the development of educational materials for use in training.

b. A plan for improving the reporting/consulting procedures.

c. A plan for ethical-legal compliance management system auditing. This should include follow-up audits of responses to problems which have been identified and redressed in the past.

d. Other points including adjustments to changes in the social environment and legal framework, and suggestions for reforms from executive management and related departments.

4.3.2 Legislation and other related regulations and rules

The organization should establish and maintain a procedure to identify and facilitate access to the relevant laws, regulations and other rules as a whole, that are applicable to its activ-

ities, products, or service. This procedure should be maintained along with, but separate from the written code of ethics or compliance manuals.

4.3.3 Internal regulations

The organization must develop and maintain a system of internal regulations in order to ensure ethical-legal compliance. These internal regulations must include the following.

a. Regulations concerning an office to manage problems relating to ethical-legal compliance. Education and training, reporting/consulting, audits, regular correction and document control functions can be centralized on a single office or divided among several separate offices. These offices must be designed to suit the needs of the respective organization and to function in a realistic and effective manner.

b. Regulations outlining and stipulating the relationship between the office responsible for ethical-legal compliance and the organization's highest decision making body or individual.

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c. Regulations concerning the organization's use of third party and independent specialists. This regulation should be designed to suit the situation in each organization and to function in a realistic and effective manner.

d. Regulations concerning the authority and responsibility for each office and level of the organization for ethical-legal compliance.

e. Regulations concerning education and training for ethical-legal compliance. For instance this should indicate the responsible section, the subjects and scheduling of training programs.

f. Regulations concerning ethical-legal compliance and reporting/consulting procedures. For instance this should include: An indication of the responsible section. Regulations to ensure the confidentiality of reporting/consulting activity and the privacy of the individuals involved.

g. Regulations covering ethical-legal compliance management system auditing. This should include regulations regarding the procedure for administering audits and the independence of the office responsible for conducting the audits.

h. Regulations covering penalties for ethical-legal violations.

i. Regulations concerning the procedure to be fol-

lowed in the event of uncovering illegal or unethical activity within the organization.

j. Regulations covering procedures to be followed in regular corrective procedures.

In order to ensure that the ethical-legal compliance management system actually functions in a real and effective manner, the organization must review its internal regulations, aligning them with changes in organizational activities, the demands of society and legal or regulatory reforms.

4.4 Implementation and operation

4.4.1 Structure and responsibility

The organization, in order to establish an effective ethical-legal compliance management system, must set up an internal office (or a number of offices) to deal exclusively with matters relating to ethical-legal compliance. The organization must define the role, responsibility and authority of the office, which must then be documented and communicated to all members of the organization. The general manager of this office must be an executive officer or a person of equivalent or higher rank within the organization.

The office must fulfill the following functions.

a. Management and amendment of the policy of ethics.

b. Administration, and where necessary, revision of the implementation plan.

c. Administration of laws and other applicable regulations.

d. Administration, and where necessary, amendment of internal regulations.

e. Administration of ethics education and training, reporting/consulting duties, and coordination with related offices and departments such as the legal department, finance and accounts, auditors office, personnel management, general affairs, and planning office.

f. Communication among those appointed responsible for ethical-legal compliance within each respective department and level of the organization.

The office will also, where necessary, propose amendments and reforms of these functions to the executive officers of the organization. Such suggestions must be documented and stored.

The organization must provide the office with the resources necessary for the management of ethical-legal compliance. Upon consultation with the responsible officers, several capable individuals must be appointed and del-

egated the authority and responsibility of managing the ethical-legal compliance system. The individuals thereby appointed will constitute the core of the organization's official ethics compliance initiative.

4.4.2 Education and training

In accordance with internal regulations, the organization must undertake the systematic administration of ethical-legal compliance education and training.

The organization must provide education designed for departments with considerable social impact, departments which — by the nature of their function — are at greater risk of unethical practices and behavior than other departments, and for members of the organization who are currently engaged in duties which have been related to problems in the past.

The organization must establish programs to train in - and increase awareness regarding - the following:

a. The meaning and necessity of following the requirements of the ethical-legal compliance management system, policy of ethics and code of ethics.

b. The detrimental influence brought to bear upon the organization as a result of unethical and irresponsible behavior, as well as the nature and extent of



social trust which can accrue as a result of ethical and responsible behavior.

c. The function and responsibility of each individual member of the organization in following the requirements of the ethical-legal compliance management system, policy of ethics and code of ethics.

d. The sanctions which apply to individuals whose actions represent a violation of the code of ethics and a deviation from the relevant ethical-legal compliance manuals.

4.4.3 Communication

In addition to official communications for the purpose of education and training, the organization must establish a system to facilitate internal and external reporting and consultations regarding ethical-legal compliance. This must include the following:

a. The establishment of a reporting/consulting system in order to promote communication regarding ethical-legal compliance.

b. Regular surveys of the opinions of the organization's members in order to augment the function of the reporting/consulting system. This should also contain a requirement for risk assessment and control.

c. The documentation of the results of the survey

and reporting/consulting system.

d. The documentation of, and response to enquiries or requests for information from external stakeholders.

e. Where necessary, to inform the individuals or departments (including external organizations) of the nature of all actions taken in response to their enquiries or requests.

f. To protect the privacy of individuals or departments (including external organizations) submitting reports or enquiries, unless the other party expressly forgoes this right.

4.4.4 Ethics compliance management system documents

The organization must produce and maintain a written record (either physical or electronic) of the main documents constituting the ethical-legal compliance management system and all documents relating to it. This record should indicate the location of all relevant documents. The term *main and related documents* refers to the policy of ethics, code of ethics, compliance manuals, implementation plans, and internal regulations.

4.4.5 Document control

The organization must establish and maintain a document management

procedure to control the main, related and other documents which fulfils the following functions.

a. Ensure that the location of each respective document is known.

b. Ensure that the latest versions of all documents essential for the administration of the ethical-legal compliance management system are available in all departments where they are needed.

c. Ensure that documents which are outdated or have been annulled for any other reason are removed from all departments where they have been produced or are being used. Where they are not to be removed, to ensure that they are not used unintentionally.

d. Ensure that all outdated documents which are stored because of legal obligations or for the purpose of information collection are suitably categorized and filed.

e. Ensure that documents are designed for clarity, that all dates are clearly marked, and that all documents are preserved for the period required.

4.4.6 Operational control

In the event that the organization receives a report or consultation indicating that an action in violation of the code of ethics, or the ethical-legal compli-

ance manual has occurred, it must make every effort to expeditiously consult the related departments, investigate the alleged violation, and take action appropriate to redress the problem.

The problematic action here can be classified into two groups: one which can be handled within the organization, and one which should be reported to a relevant regulatory agency. Procedures to determine which category the problematic action belongs to must be established and maintained.

The processes involved here in investigation and redress must be thoroughly documented and these documents subsequently preserved.

Where claims are made suggesting that the individuals or departments initiating a report have become the subject of retaliation, the situation must be investigated and action to redress this problem must be taken where these claims are proven to be valid.

4.4.7 Emergency preparedness and response

The organization must develop and maintain a procedure for use in the event that an emergency situation arises in which an unethical act involving the executive officers (the organizations highest

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levels) of the organization occurs. In the event that the organization receives information indicating that an emergency situation has arisen, this information must be officially reported to the organization's executive officers and recorded as such.

4.5 Monitoring and corrective action

4.5.1 Monitoring and evaluation

The organization must establish and maintain a standing procedure for the regular monitoring and evaluation of matters pertaining to functions with a potentially high social impact, and matters derived from consultations and reports from members of the organization, as well as the level and extent of compliance within the organization to relevant laws and rules.

4.5.2 Correction and preventative action

Where the organization's actions do not comply with the policy of ethics, code of ethics or the ethical-legal compliance manuals, and where the administration is found to be in conflict with the plans and internal regulations, the organization must initiate an investigation of the conditions leading up to this situation. The organization must then reform the ethical-legal compliance man-

agement system in order to prevent the further occurrence of such problems.

Reforms and preventive measures, taken with the intention of resolving such actual and potential mismatches within the system, must reflect the scope of the gravity of the problems involved.

4.5.3 Records

The organization must develop and maintain a procedure for the production, classification, storage and disposal of records concerning events and achievements which occur in the process of ethical-legal compliance activities including education, reporting/consulting, redress of and response to problems, audit results, opinion surveys, corrections and reforms. Where issues of individual privacy and confidentiality are involved, appropriate recording procedures must be developed and maintained.

4.5.4 Ethics compliance management system auditing

The organization must develop and maintain a procedure for auditing the ethical-legal compliance management system. These internal audits must be carried out with the intention of ensuring that the ethical-legal compliance management system

meets with requirements of this international standard, and that it is appropriately set-up and maintained. Audit reports must be submitted to the executive officers of the organization, the office of ethical-legal compliance, and the sections which have been audited.

In order to ensure that the audit is comprehensive in nature, the audit procedure must clearly outline the scope, frequency and method of audits. The audit procedure must also specify the authority and responsibility involved in conducting the audit and reporting the audit results. The requirements for ethics compliance management system auditing do not preclude the outsourcing of the audit function to external and third parties.

4.6 Management review

In order to ensure that the ethical-legal compliance management system is appropriate and effective, the organization's executive officers must review this system at regular, pre-determined intervals. The organization must collect and manage the information needed by executive officers in their evaluations and reviews of the management system. These managerial reviews must be made upon the basis of data collected in a systematic manner.

From the viewpoint of the

continuous improvement of the system, taking into consideration the results of the ethics compliance management systems audit and changes in conditions, the executive officers should, if necessary, modify the policy of ethics, code of ethics, internal regulations, education programs, and reporting/consulting system.

4.7 Drastic system reform following emergency situations

In the event of an emergency situation wherein executive officers of the organization are involved in unethical behavior, upon conclusion of the emergency the organization must submit to consultations and review by an external body and initiate a through-going reform of the organization.

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About the ECS2000

The Ethics Compliance Management System Standard (ECS2000) presented here is freely made available as a guideline for corporations and other organizations which are endeavoring to conduct business in an equitable and responsible manner. The ECS2000 standard has been made publicly available by the Reitaku University Business Ethics & Compliance Research Center for the following two reasons:

To aid and support the establishment of ethical compliance management systems in corporations and other organizations in order to promote equitable and responsible business.

To pursue, by the establishment and promotion of the ECS2000, the development of a fair and equitable business environment in which ethical behavior is the key to added value and competitiveness.

Further Information

For further information relating to this document and the ECS2000 in general, please contact:

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