



## Case study

Ethicis | EDP's Corporate Ethical Performance Index



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### Ethicis | EDP's Corporate Ethical Performance Index

In 2013, EDP decided to extend the scope of monitoring of its ethical performance, to align with what was defined in the Group's Code of Ethics Regulations: an evaluation that included the way it managed the process of recording and processing ethical complaints and the perception of stakeholders including, necessarily, employees, suppliers and customers.

Taking as its starting point this need/obligation, the challenge the Office of the Ethics Ombudsman decided to tackle was the creation of a tool for assessing ethical performance that would become a management tool, not only for this office, but for the Company as a whole.

Thus Ethicis, the Corporate Ethical Performance Index, was created.

This document presents the reasoning behind its creation, its structure, aspects taken into account in defining each dimension, the axes of analysis and indicators, and the planning of internal and external communication.

**Key words:** Assessment of Ethical Performance; Indicators, Business Ethics.

**Note:** The preparation and dissemination of this case study is part of a context of sharing knowledge and good practices that has been followed by EDP. Its aim is to contribute to the development of business ethics.



## Starting point

How do you assess the ethical performance of a company?

EDP has always taken a holistic, axiological view of ethics that goes beyond compliance. Examples are its own ethical performance management objectives defined within the Group:

- to ensure a high degree of ethical awareness and demand at personal level;
- to minimise the risk of unethical practices occurring;
- to maintain a corporate culture consistent with the values adopted, generating transparency, trust in relationships and responsibility for the consequences of the decisions made and the action carried out.

This approach has existed in the planned evaluation since 2012, in the EDP Code of Ethics Regulations (the Regulation), in which a number of indicators are set out:

Number of alleged violations reported;  
Complaint acceptance rate;  
Complaint resolution rate;  
Recurrence of violations of the Code of Ethics;  
Perception of employees as to the consistency of management practices with the values and commitments stated in the Code of Ethics;  
Perception of other stakeholders<sup>1</sup> (e.g. customers, suppliers and relevant institutional partners) of the consistency of management practices with the values and commitments stated in the Code of Ethics.

But these indicators had been established *a priori*, before any assessment system had been defined or tested and, above all, in a context that did not allow any kind of benchmarking - none of the companies with which EDP is usually compared in terms of ethics, namely those companies that are part of the list published annually by the Ethisphere Institute, disclosed the existence of an ethical performance index or, if it did, did not disclose its contents or the way it had been prepared.

It was a complex issue. Several studies pointed to the difficulty of defining criteria and metrics<sup>2</sup> and to the fact that even quantitative and seemingly objective indicators such as the greater or lesser number of complaints/allegations<sup>3</sup>, could have different interpretations<sup>4</sup>: there could have been more complaints due to an increase in malpractice or simply because people felt more confident in reporting them.

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<sup>1</sup> EDP gives preference to the use of the term stakeholders

<sup>2</sup> Integrity Survey 2008/2009, KMPG.

<sup>3</sup> In EDP, the expression complaint is used instead of whistle-blowing because it is thought that actually, in practice, in flagging up misconduct, the person who does so is complaining about something that does not comply with the Code of Ethics.

<sup>4</sup> The impact of codes of conduct on corporate culture - Measuring the immeasurable, LRN, 2006



To assess whether the indicators set out in the Regulation would be appropriate for using in an index and, if so, whether they should be the only ones to be used, questionnaires used in different studies and surveys related to business ethics, including the Ethical Resource Center and the Ethisphere Institute were analyzed, and cross-referenced with standards such as ISO 10002 on the management of complaints. In addition, it was analyzed the part concerning the integrity and ethics of international indices, such as the Dow Jones Sustainability Index and FTSE4Good<sup>5</sup>.

From an operational point of view, the main concerns underlying the creation of this index were, on the one hand, using information already collected regularly by the Company's various organizational units, consolidated into a coherent system of indicators, so that it did not represent an additional strain from a point of view of data collection and financial investment, and secondly, adding aspects that were still not being managed.

This information would, in principle, have a vast potential for use: indicators that would be made available to the general public, through the Ombudsman's Report (Report); indicators for use by the company management; and indicators to be used only by the office of the Ombudsman (GPE).

The intention was to have an easy to read, intuitive index that would not require the creation of new information and would allow aspects that can be managed to be detected and improved.

The possibility of not starting from scratch was also important, and trying as much as possible to ensure some continuity, including questions which had been answered in previous years<sup>6</sup>.

A definition was also sought early in the project, for the scope of EDP's Corporate Ethical Performance Index (the Index). EDP already had a number of instruments for measuring and monitoring non-financial management results.

What type of instrument would make sense for the GPE to promote?

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<sup>5</sup> The Dow Jones Sustainability Index and FTSE4Good Index Series are tradeable ESG indices (environmental, social and governance) sought by social responsible investors (SRI). The companies listed in these indices are classified as the most capable of creating value for shareholders in the long run, through the management and monitoring of risks associated with both economic and environmental and social factors.

<sup>6</sup> In 2009, before the first training on the Code of Ethics had been carried out, a survey of employees was conducted which included aspects relating to knowledge and confidence in the process.



## 1. The construction of the Index

Based on these approaches, the provisions of the Regulation and the benchmarking performed, four categories of questions were defined to which the indicators should enable a response:

**a) Commitments**

What do we undertake to do under the Regulation?  
How are we perceived by our stakeholders?

**b) Benchmarking**

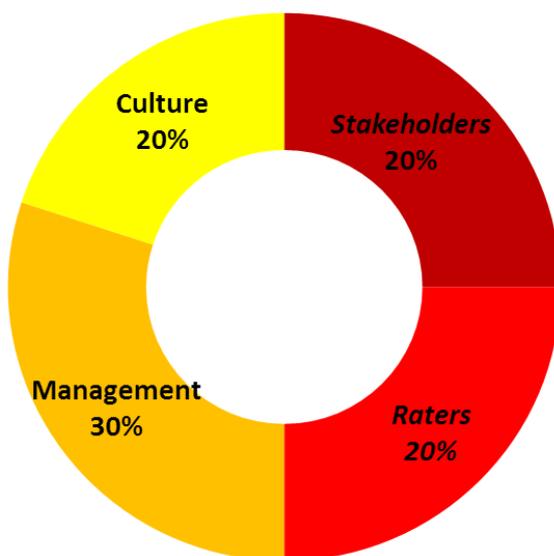
How do we position ourselves in relation to other companies?  
How are we evaluated externally?  
What concerns the raters?

**c) Management**

How is the quality of management of the process of registering and dealing with ethical complaints assessed?  
How is the performance of the Ethics Committee and the Ethics Ombudsman assessed?  
How is ethical risk recognized and managed within the Company?  
What must be ensured in terms of communication and awareness of ethics?

**d) Culture**

How is ethics experienced internally?  
Do people participate in initiatives related to ethics?  
How does ethics contribute to the image of EDP?



The dimensions that should be part of the indicator system (Stakeholders, Raters, Management and Culture) were defined, with the [perception of] Stakeholders and Management dimensions including the aspects contained in the Regulation.

It was then possible to get to work on each dimension, creating specific indicators. It was also decided that the Stakeholders and Raters dimensions would have the same weight and the Management dimension would have a slightly higher weight than Culture, since this was somehow also reflected in the perception of Stakeholders (Figure 1).

Figure 1 | Dimensions of Ethicis | EDP's Corporate Ethical Performance Index



## 2. The four dimensions of the Index

### 2.1 Dimension | Perception of Stakeholders

The Regulation refers to three stakeholders - employees, customers and suppliers - all with similar weight<sup>7</sup>. Albeit with lesser weight, a share was reserved for Other Stakeholders<sup>8</sup>, its composition varying according to the circumstances.

A key aspect in the definition of this dimension was identifying what questions to ask to assess what was required by the Regulation - the perception of "the consistency of management practices with the values and commitments stated in the Code of Ethics" - and if the same questions should be asked of all stakeholders.

Following the principle of trying to use what already exists, an analysis of the surveys already carried out by EDP was made, involving customers, suppliers and other stakeholders, and it was found that two questions appeared consistently:

- EDP is a trustworthy company
- EDP is transparent / tells the truth

These two indicators were included in the Index and the questions were added to the questionnaires in which they had not yet been included.

At the same time, and for each of the stakeholders, specific questions were identified for their profile. For example, in the case of suppliers, and taking into account the commitments set out in the Code for this stakeholder, the following question was included: "EDP publishes impartial and pre-determined supplier selection criteria."

### 2.2 Dimension | Perception of Raters

This dimension takes into account the assessment of those who can influence the perception of investors, a strategic segment of stakeholders for EDP. For this purpose, the Dow Jones Sustainability Index (DJSI) and EIRIS/FTSE4Good stock exchange indices were chosen, as they are two of the main international raters in the area of sustainability, and in which EDP is included.

The indices were not taken into account in their entirety, only the specific issues associated with ethics: "Codes of Conduct/Compliance/Corruption & Bribery" (DJSI) and "Countering Bribery" and "Corporate Governance" (FTSE4Good). The overall results of the Ethisphere Institute's Corporate Ethics Quotient were also used, albeit with less weight, as it is the reference on the subject of business ethics.

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<sup>7</sup> The weighting for Employees is slightly higher. Note that the perception of employees is also included in other dimensions of the index, such as Management of the process and Culture.

<sup>8</sup> Other Stakeholders is the only element that is measured solely with data from Portugal; all the others are measured in all the geographies in which EDP operates.



## 2.3 Dimension | Management

In this dimension, three areas are considered that must be taken into account and evaluated:

- Management of the process of complaints/allegations that are submitted to the Ombudsman;
- Management of the risk of unethical practices;
- Management of communication and the awareness-raising/training of employees and suppliers in the field of ethics.

### 2.3.1 Management of the Process

For the design of the indicators for the "Management of the process of ethical complaints" (Figure 2) it was agreed that aspects related to the performance of the Ethics Ombudsman and the Ethics Committee should be evaluated, as well as aspects relating to knowledge of the complaint process and the satisfaction of complainants. A total of 14 indicators were selected.

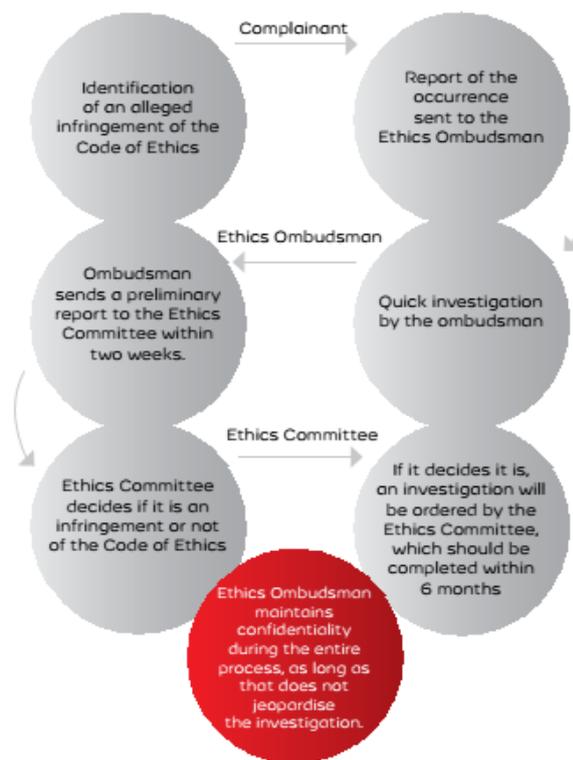


Figure 2 | Ethical complaints management process

To feed these indicators, with regard to knowledge of the process and the satisfaction of the complainants, it was necessary to develop specific questionnaires that, in the case of the complainants, had to be sent and managed by the Ethics Ombudsman himself, thus continuing to safeguard the anonymity of people who have made complaints.

Example of claimant satisfaction indicators:

- Courtesy of treatment;
- Response time to the first contact with the Ethics Ombudsman;
- Time elapsed until notification of the Opinion of the Ethics Committee;
- Opinion of the Ethics Committee and respective reasoning.

### 2.3.2 Management of the Ethical Risk

The indicators relating to risk management can be considered, on the one hand, as indicators of the maturity and robustness of the ethical performance management system and, on the other, of the internal awareness - extended to suppliers - of the themes of ethical risk in all business units.



From the point of view of assessing the maturity, indicators were developed relating to the number of processes concerning the Internal Financial Reporting Control System (SCIRF) and the registration and management of ethical complaints, documented and audited by third party entities, as well as the rate of resolved non-conformities.

From an awareness-raising point of view, the indicators include training in ethical risk of senior managers, employees and suppliers, as well as the conduct of assessments of ethical risk by business units.

### **2.3.3 Communication and Awareness-raising**

The third and final element in the Management dimension refers to the ethics training of employees and, in addition to the evaluation of satisfaction with the training received, includes rates of achievement/participation in different types of training: induction; specific for new leaders; corporate training (three-year) in ethics; and training planned for the period.

## **2.4. Dimension | Culture**

The Culture dimension has two elements - Experience and Notoriety – the first having a substantially greater weighting (80%) than the latter.

### **2.4.1 Experience**

The part relating to Experience covers employees and suppliers and the 10 indicators are mostly taken from the work climate study, in the case of employees, and the survey conducted by the Stakeholders Management Department in the case of suppliers.

In the case of employees, the questions selected as indicators refer to what is happening in the workplace, particularly with regard to aspects such as leadership style, the climate for discussing concerns and the working environment (e.g. "I consider that the behaviour of my colleagues, managers and senior managers is generally in line with the values and commitments stated in EDP's Code of Ethics").

For suppliers, the selected indicators are intended to measure the degree to which they ensure the transposition into their own supply chain of the commitments made by EDP, in terms of sustainability.

### **2.4.2 Notoriety**

Notoriety includes the proactive work conducted by EDP to disseminate and communicate its ethical performance management system.



The indicators relate to the number of case studies conducted, participation in seminars and conferences on ethics and BrandScore's "Corporate Image - Acting ethically within the sector"<sup>9</sup>.

In short, the aim of this element is to monitor EDP's efforts to raise awareness, particularly in universities, of its role in the management of ethical performance and also the perception of the wider community on EDP's activities within the market.

Figure 3 depicts the four dimensions and the twelve elements, along with their respective weighting.

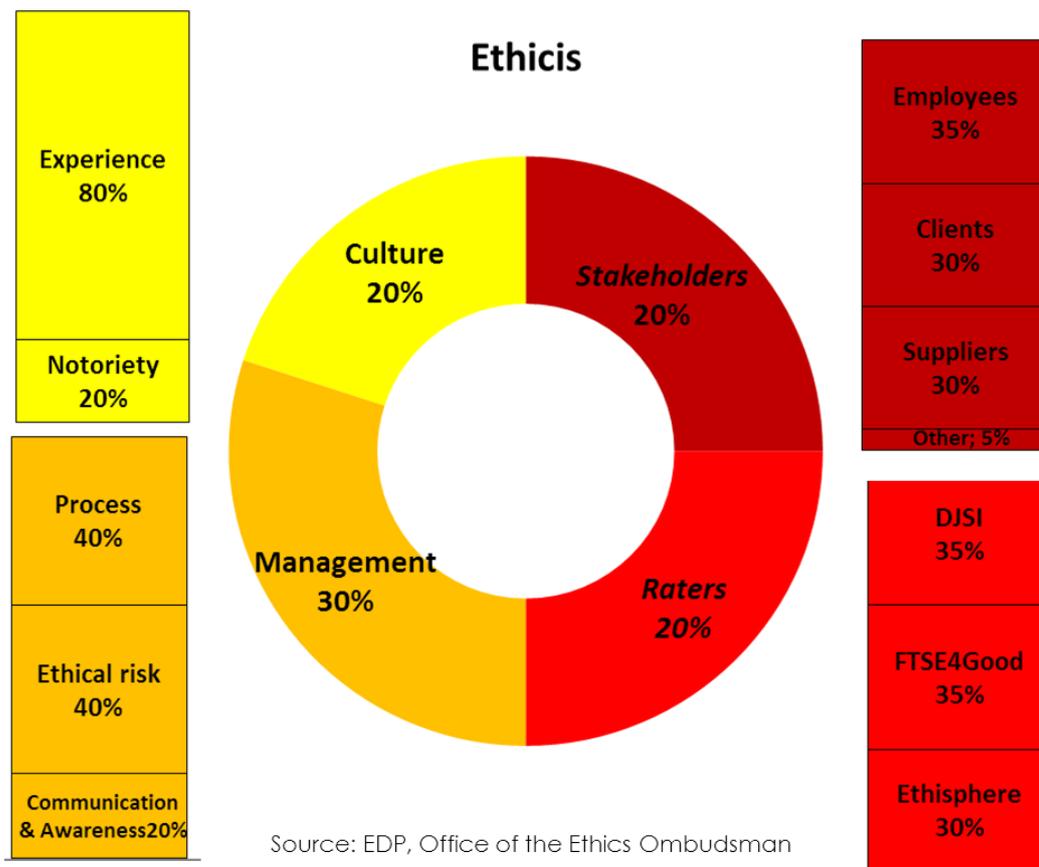


Figura 2 | Structure of Ethicis

The index ran as a pilot in its first two years, during which adjustments were made to some indicators, and it is now considered to have reached a stable version.

<sup>9</sup> BrandScore is a market study, begun in 2014, that aims to assess the impact of communication (advertising, by sponsorship or institutional) on the image of the brand in the context of mainland Portugal.



### 3. Communication of the Index

Only what we can name exists. It was therefore necessary to create a name for the index, a short name that people could remember, and not just a technical name, but also something aesthetic and meaningful.

Suggestions were requested from employees in different departments. Since EDP is a multinational company (present in 12 countries), one of the selection criteria for the name was that it had to be a meaningful name in different languages. It could be English, or a name that went back to the roots, like Latin or Greek.

The choice fell on the Latin word Ethicis, meaning "on ethics".

It was also decided to publish the existence of the Index through the Intranet, the internet and in the actual training of all employees, as well as the results achieved and the goals to which EDP is committed, reinforcing the message that ethical performance is monitored and evaluated in the Company and the results reported, as was already done in the Annual Report of the Ombudsman.

Figure 4 is an example of one such means of communication.

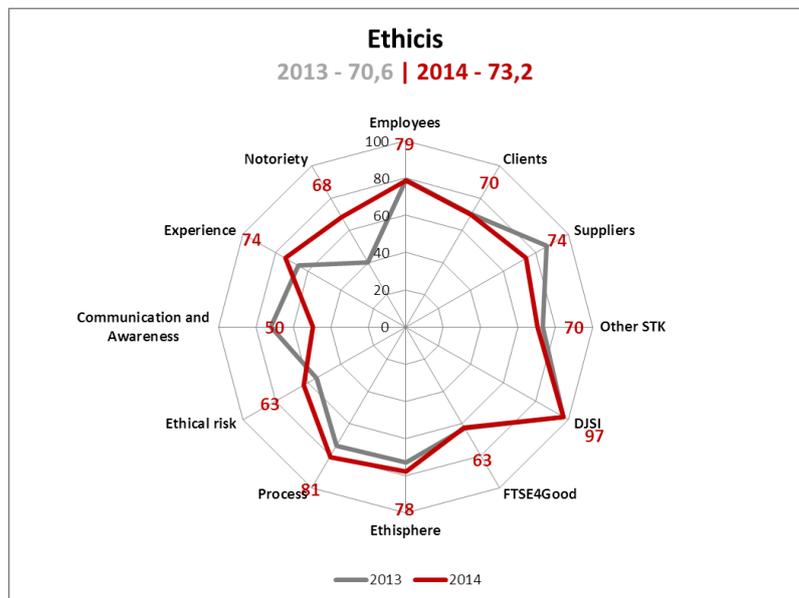


Figure 4 | Overall value of Ethicis in the first two years and variation of its elements

### 4. A management instrument

Since the publication of its first corporate code of ethics in 2005, the EDP Group has progressively and consistently developed the constituent parts of its formal ethical performance management system.

In doing so, it has been coping, in terms of maturity and innovation, with the needs resulting from the deep changes that have occurred in the markets in which it operates, the new risks involved and the increasing demands and expectations of its stakeholders, particularly with regard to reputation and conduct.



The Ethicis index is one of those elements. As indicated in this case study, the intention of this "on ethics" index was to give quantitative expression to a significant number of results - the direct or indirect perceptions of the various stakeholders on the Group's ethical performance, the indicators of the effectiveness of relevant processes and the degree of achievement of the initiatives planned in this area - which, properly weighted and consolidated, would enable not just a "balanced" view of the performance achieved, but also the setting of objectives and goals for the future.

It was, in short, about applying, through an appropriate system of metrics, to a field as intangible and controversial as the evaluation of the ethical performance of an organization, the aphorism "What gets measured gets managed"<sup>10</sup>.

The continued use of Ethicis will enable us to conclude whether, in fact, it will be established as a management tool, useful not only for the GPE but for the whole Group, in the periodic assessment of the extent to which the objectives set for the ethical performance of EDP have been achieved and in the detection of opportunities for improvement in this area.

## **5. The relevance of measuring the ethical performance of an organization: an external perspective**

*The creation of tools such as this index has the merit of measuring the ethical dimension of organizational life and making it more explicit and manageable. Talking about ethics is easy. Measuring it and putting it under the scrutiny of the organization is not. This index is therefore an explicit, open commitment to one of the most critical dimensions of organizational life: the moral dimension.*

*The existence of this index does not generate ethics per se, but the knowledge of the different dimensions of its composition and the indicators derived from the company's life, enables a number of aspects and dimensions of ethical culture to be given internal and external visibility, helping to manage it and even generate it.*

*Ethical behavior is something that is built on a day-to-day basis, through interaction, leadership and reflection. When supported by explicit institutional factors, the probability of ethics becoming the natural attitude will be stronger than ever.*

Miguel Pina e Cunha, Nova School of Business & Economics

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<sup>10</sup> "What gets measured gets managed", a phrase attributed by some to Lord Kelvin (by others, to Peter Drucker)