Ethics Audit: A Management Tool for Assessing of Corporate Social Responsibility and Preventing Ethical Risks

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Declaration:
Hereby I declare that this doctoral thesis, my original investigation and achievement, submitted for the doctoral degree at Tallinn University of Technology has not been submitted for any academic degree.

/Merle Rihma/

Eetikaaudit kui ettevõtete sotsiaalse vastutustundlikkuse hindamise ja eetiliste riskide ennetamise vahend

MERLE RIHMA

CONTENTS

List of Publications

This doctoral dissertation is based on the following three consecutive scientific articles.

Rihma, M. (2012). Ethics Auditing Model for Estonian Big and Middle Size Companies. China-USA Business Review, 1146 – 1158

Rihma, M., Meel, M. (2013). The discrepancy between declared values and real ethical behaviour of companies (Estonian case). European Scientific Journal, 9(16), 26 - 42.

Rihma, M., Meel, M., Leppiman, A. (2014). Implementing Ethics Auditing Model: New Approach, Journal of Knowledge Management, Economics and Information Technology (Forthcoming).

The author's contribution to the Publications

Article 1. The author of this thesis was the sole author of the paper, which is mainly based on the literature on ethics audit. The literature survey on article 1 provides the author with theoretical base for developing new ethics audit model.

Article 2. The author of this thesis was the main author and writer of the paper. The author was responsible for the design and implementation of survey with the aim to examine the discrepancy between the real organizational values and declared values. The author had a leading role in analysing of the survey results.

Article 3. This article was written by a group of researchers. The author wrote the paper and had a leading role in designing the survey, carrying out auditing process, risk analyses and interpreting the survey results.

The author of the thesis was responsible for publishing all the above mentioned articles.

INTRODUCTION

Developed economies in the 21st century require a new impetus for corporate social responsibility (hereafter CSR) and transparency. This new era shows that CSR and its external visibility through corporate auditing and reporting is primarily relevant for the purposes of organizational reputation (Melè, 2012). Thus, there is greater demand for companies to take the principles of business ethics and CSR into consideration.

The impact that organizations have on society and the environment has become a critical aspect in evaluating overall effectiveness and success. Stakeholder perceptions and interests in an organization's performance on social responsibility can influence the organization's competitive advantage, reputation, ability to attract and retain employees and customers (Jose and Lee, 2007; Reilly, 2005). Furthermore, it can even influence the maintenance of employee morale, commitment and productivity. Socially responsible businesses help to increase and maintain the trust of investors, owners, sponsors and the financial community, and relationships with companies, governments, media, suppliers, customers and the community in which the organization operates. In the words of Robert Chandler (2007), creating and sustaining the ethical integrity of an organization is essential in order to avoid, mitigate or survive organizational scandals and ethics disasters. Beside the pragmatic considerations, there are moral and cognitive aspects to CSR. Many scholars (Moir, 2001; Boutiliera and Blackb, 2013) draw attention to the legitimacy concept, which assumes that the actions of an entity are desirable, proper or appropriate within social norms, values and beliefs. Therefore, there is a need to examine corporate behaviour within the context of CSR and in particular to look for alternative motivation for seeking and maintaining a social licence to operate.

There are several reasons which motivated the author´s study. *Firstly,* Lissack and Roos (2001) have pointed out the complexity of putting values into words; although one can see them in the actions of a company, it may oftentimes happen that written values and ideology do not coincide with the actual behavioural values. Similarly, such contradictions can also occur between CSR reports and real behaviour. However, the author believes that the problems can be solved and approached via improved ethics audit. *Secondly,* according to the literature review (Mullerat, 2010; Brande, 2010; Solomon and Lewis, 2007; Morimoto 2004; Cerin 2002), one can assume that the content of CSR reports may not correlate in terms of content to what is actually happening in the corporation. There is a tendency that these kinds of reports suffer under a social desirability bias and the reliability of CSR reports could be damaged. This is only confirmed by the scandals seen with large corporations, which have all previously scored high results in CSR reports – companies such as BP, Nestle, Royal Mail, WorldCom and Enron (Cannon, 2012; Chandler, 2007; Zerk 2006). Fortis, the first major European bank to collapse after Lehman Brothers, had

been awarded the best CSR report for the year before it fell (Fassin and Buelens, 2011). According to the author `s personal experience (as the assessor of the RBF Index and researcher of business ethics) one can say that Estonian companies are no exception in this case (Rihma, 2013). Once CSR is seen as a tool for marketing and PR, the credibility of the company will decrease, which in return decreases the credibility of the CSR reports and CSR as a concept. In cases where CSR reports are not reliable one should ask and investigate how to stop such tendency. *Thirdly* the reason that motivated the authors` research is based on Zerk (2006, 274) and Hess (1999), who argue that independent and external monitoring of CSR-related disclosures by companies is obviously essential for the credibility of CSR initiatives. Kolk (2003) found it difficult to determine whether an organization was implementing the strategies and management actions or whether it was merely reporting them to placate its stakeholders. To avoid this kind of thinking, Starbucks managers for example, took additional measures to assure stakeholders that the given information was accurate by engaging an independent third party to verify the content of its CSR reports (Kotler and Lee; 2005, 5). With the help of an ethics audit, managers can evaluate how well a company has fulfilled its economic, legal and ethical obligations, discover or prevent ethical risks and plan CSR activities strategically to satisfy stakeholder interests (Kaptein, 1998; Carmichael, et al., 1998; Rosthorn, 2000; Morimoto et al., 2004; Bennet, Lance, et al., 2006,). Consequently, ethics audit could be used as a management instrument to measure the ethical climate and to evaluate possible ethical risks with the aim of increasing the trustworthiness and reliability of CSR for stakeholders. *Finally*, whilst reviewing the literature, the author found that ethics auditing (Kaptein, 1998; Carmichael, et al.,1998; Rosthorn, 2000) has tended to focus on identifying managerial ethics and patterns of ethical behaviour, but little attention has been paid on ethics risk analyses or risk management. In same time Carmicheal et al. (1998) admitted that the technology of ethical auditing is still in its infancy and need future improvements. Kaptein (2013) recommended for future research studying the effectiveness of ethics measures. Many scholars (Parboteeach et al., 2010; Morimoto et al., 2004; Carmichael, et al., 1998) suggested for future studies considering in developing an auditing system the shortcomings of the 'tick-box' approach to auditing and to find out instruments for developing organizational ethical climates, so that managers can be more comprehensively equipped to manage ethical behaviour in their organizations. According to literature review there are not a great number of research papers on the subject of ethics audit and therefore there is still room for further research. As such the arguments above indicate of *the research gap,* justify the objective of the work and pose a challenge to the author. This dissertation aims to bridge the existing gap by improving ethics audit model with risk assessment module which helps managers to prevent ethical risks and avoid discrepancy between real action and written statements.

The aim of the current doctoral thesis is to improve existing ethics audit models for the assessment of CSR performance and to prevent ethical risks in the Estonian business organization context. The following figure (Figure 1) thus illustrates the research questions and tasks - in addition to depicting the connections between the aim, research questions and tasks - set to fulfil the purpose of the paper i.e. to supplement ethics auditing model.

RQ1: Why does the evaluation of a company's CSR matter in ensuring the company's credibility amongst its stakeholder?

Task:
3) Identify contradictions and hypocrisies between CSR reports and real behaviour.

The aim of thesis:
Improve ethics audit model for the assessment of CSR performance and to prevent ethical risks.

RQ2: In what ways does the use of an ethics audit contribute to increasing trust among company stakeholders?

RQ3: How does an ethics audit as a new assessment tool work in Estonian companies in the minds of the stakeholders?

Tasks:
1) Analyse the role of CSR according to stakeholders interests.
2) Analyse CSR evaluation instruments.

Tasks:
4) Create an ethics audit model for Estonian companies.
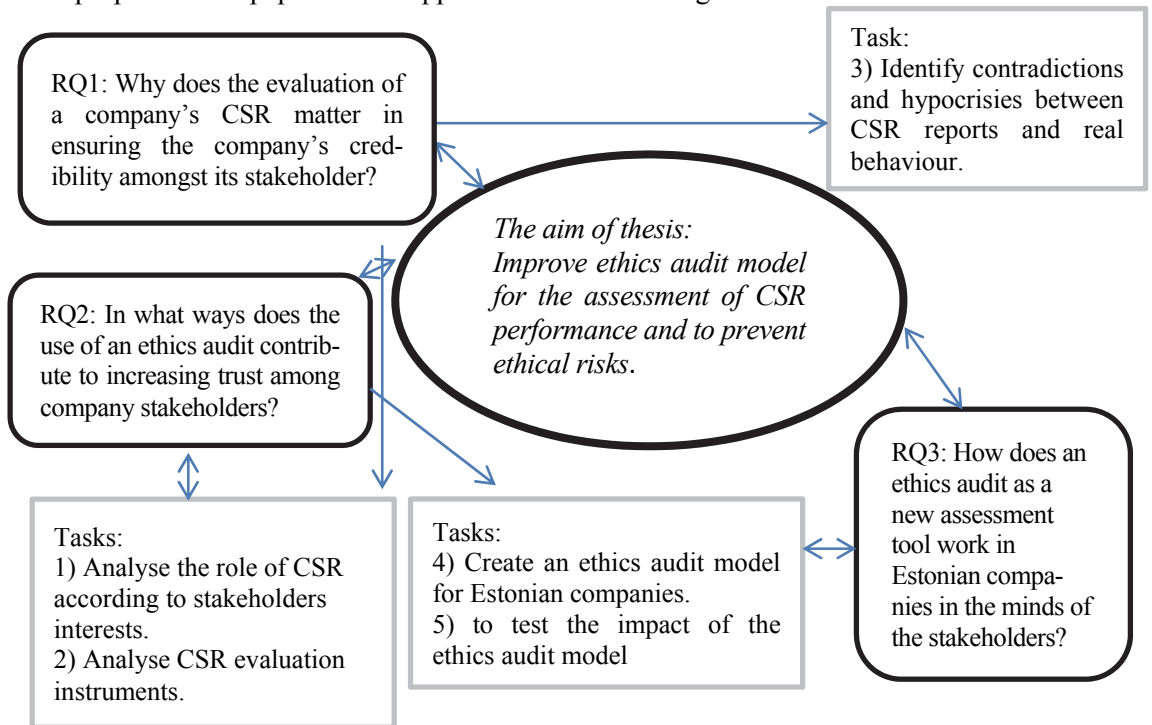5) to test the impact of the ethics audit model

Figure 1 Conceptual Model for Thesis (compiled by the author)

The first step for looking for answers to the above mentioned questions was to analyse the concept and the meaning of CSR and its evaluation instruments. After finding contradictions between the CSR reports and real behaviour, a new approach for auditing model was framed. The previously mentioned included improving the ethics audit model by adding a risk assessment and analysis, followed by testing the model through experimentation and identifying how this new instrument works in an Estonian company.

The main methodological basis for the study design is qualitative research. Triangulation is best used in qualitative studies that follow the post positivist search for generalizations – for laws and truth (Willis, 2007, 219). The author uses mainly multiple theories, methods and data sources.

The concept of an ethics audit is not a very widely researched topic. According to the literature studied here few remarkable scholars can be

highlighted. Professor M. Kaptein, whose doctoral dissertation "Ethics Management: Auditing and Developing the Ethical Content of Organizations" was awarded at Erasmus University Rotterdam in 1998, has so far been the most cited researcher in this area. In his dissertation, he focused on a management tool to help diagnose measure and develop the ethical content of an organization. The author of current dissertation obtained her inspiration and primary knowledge of auditing from his approach.

From the beginning of 21st century, the Estonian Business School has conducted numerous studies in the field of corporate moral development, managerial perceptions of CSR and leadership ethics in Estonia, but an ethics audit has not previously been part of normal practice in Estonian business culture. Thus, the current research is unique in the Estonian business context, because ethics audit had not previously been carried out in Estonian companies.

The research papers connected to this dissertation, focus mainly on three aspects: the first aspect connected to the ethics audit as an assessment instrument of CSR and ethical behaviour. The second aspect is about how to evaluate real behaviour according to the main principles of CSR or CSR reports and the third aspect relates to the trustworthiness of CSR reports. These research papers will be listed below with a brief overview of each article.

1) Ethics auditing model for Estonian large and medium sized companies, *Chinese – USA Business Review 2012, 1146 – 1158.*

The aims of this article (Appendix 1) were to provide a theoretical basis for an ethics auditing model for large and medium sized Estonian companies, and according to the theory, develop an ethics audit model for companies based on Estonian capital. The author created a new framework for an ethics audit model, which took into account indicators from Kaptein's (1998) ethics auditing model and principles of the risk assessment. The paper also offers an overview of CSR reports and ethics auditing. The article provides an answer to research questions 2 and partly 3. The author later decided not to determine ethics audit model by the size of company.

2) The discrepancy between the declared values and real ethical behaviour of companies (Estonian case), *European Scientific Journal, 9(16), 26 – 42, 2013.*

In this article (Appendix 2), the author researched whether Estonian companies that scored high results in CSR reports were in reality violating CSR principles in their actual behaviour. The article offers an overview of the CSR reports used not only in Estonia but worldwide. As the companies that have socially responsible markers may not always behave socially responsibly, the credibility of the reports on company responsibility is being undermined. The research shows that the companies' managerial decision-making processes do not always correlate to the values declared in the CSR reports. That is to say that in reality oftentimes these reported values are not fulfilled and are not a viable basis for setting up the company's decision-making process. The author identified inconsistencies when comparing the company's declared values and its actual behaviour. This indicates that there is a need to conduct audits based

on CSR business principles, declared values to prevent this kind of risks. The article will offer an answer to research question 1.

3) Implementing Ethics an Auditing Model: New Approach, *Journal of Knowledge Management, Economics and Information Technology, (Forthcoming)*

The aim of the third article (Appendix 3) was to test how the ethics audit model and its implementing process would work in an Estonian company. Ethics audit makes it possible to select a specific field or stakeholder group for auditing according the company's everyday activity. The current auditing was carried out according to the company manager's needs, which resulted in conducting the audit in a printing company focusing on the information technology field. The article seeks to investigate through an ethics audit the ethical risks (and hidden ethical risks) that appear in the everyday work and which could harm stakeholder interests. This provides an answer to research question 3, but also contributes to question 2.

The contribution of this doctoral thesis in theoretical, methodological and practical terms is as follows:

1) The main contribution is the development and empirical testing of an ethics audit model with a risk assessment module. The study is unique, as the ethics audit in question does not only evaluate the ethics climate by identifying ethical risks (as existing auditing models does) but it also contributes to ethics risk management. The results of the ethics audit do not merely improve the ethics climate, but risk assessment charts the likelihood and significance of the risks in addition. According to the risk assessment and analyses, suggestions for an action plan for management can later be provided by the auditing committee.

2) With the current dissertation the author draws attention to the vulnerability of the integrity of CSR in relation to hypocrisy (Brande, 2010; Wagner, 2009; Visser, 2007; Scalet and Kelly, 2009; Rihma, 2013). When CSR is only used as a PR instrument, its trustworthiness and purpose will be damaged. At the same time there is growing interest in long-term corporate sustainability and the inevitable need to increase the role of CSR globally (Melè, 2004, 2012; Chandler, 2007; OECD, 2010; Dobres, 2010).

3) The current thesis also contributes in terms of planning CSR strategies through an ethics audit. Up to now the main focus has been on CSR reporting, but no attention has been paid to the purposeful planning of CSR activities.

4) Through a literature study, the author analyses the content of CSR reports and compares it to the main principles of CSR. The findings indicate that there is a kind of dissonance between CSR reports and CSR principles – CSR reports do not chart all the basic principles of CSR.

5) The dissertation contributes to theory by providing a new approach for an assessment of company's` ethical risks which makes ethics audit more effective as recommended by Kaptein (1998). The model of the ethics audit process under the issue is build up on multiple methods.

6) This is the first attempt to introduce an ethics audit as a management tool, which can be used diagnostically in Estonian companies with an aim to increase integrity and transparency in companies and prevent ethical risks. On the other hand, it contributes to improving managers' ability to build up a transparent and reliable strategy of CSR, eliminating potential hypocrisy between real behaviour and declared values.

7) The current research directly supports awareness and provides an evidence-based model for strategic planning CSR activities in SMEs. Business organizations and professional associations may play an essential role in assisting companies, in particular SMEs, in the development of effective internal control, ethics and compliance programmes (OECD 2010). Commenne (2006) has revealed that only 14% of SMEs in the former EU-15 have a CSR strategy. Dobers (2010) and Parboteeach et al. (2010) emphasize that there is a need to develop and implement CSR principles and strategies among small and medium sized (SME) companies, particularly in eastern European and non-developed countries.

8) In writing this thesis, proposals for improvements to the Estonian RBF Index have been submitted. For example, a question about obeying the law has been added.

The current thesis is comprised of a review article, a list of references, abstracts in English and Estonian, and a series of published articles in the appendices; in addition, summary of the results of the questionnaire and data of interviews.

The review article is divided into four main parts plus preceding terms and abbreviations, introduction, acknowledgements and abstracts. In the first chapter, the theoretical background of the study is given. In the literature review, the author's aim is to obtain scientific information for analysing the role of CSR according to stakeholder interests, explore different CSR evaluation instruments and the role of ethics audit. In the second chapter, the author provides an overview of the research methodology used, the study design and a description of the data collection and analyses. The third chapter focuses on a description of the resulting ethics audit model and its implementation process and analysis of data. The fourth chapter concludes and the author stresses the theoretical and practical contributions of the research, discusses the limitations and indicates potential for future research.

Overview of the approval of research results

1. The research results on the discrepancy between the declared values and real ethical behaviour were presented by the author at the Annual Conference of the European Business Ethics Network in Barcelona, 2012

2. The theoretical framework for developing a new ethics audit model was presented by the author at the Annual Conference of the European Business Ethics Network in Trento in September 2010.

Abbreviations and terms

Definitions and meanings of the keywords used in the current thesis are as follows (cited or the author's interpretation):

Business ethics – rules, standards, codes or principles which provide guidelines for morally right behaviour and truthfulness in specific situations (Lewis, 1985).

Compliance – adherence to standards, legal regulation and rules.

CSR – operating with stakeholders' expectations in mind and in a profitable, legal, ethical and philanthropic way according to the best understanding of environmental sustainability.

CSR report – written forms or guidelines for describing corporate social performance.

Declared values – values on announced a company's website, bulletins, code of conduct etc.

Ethical climate – shared perception of what is ethically correct behaviour and how ethical issues should be handled (Victor and Cullen, 1987, 51).

Ethical risks – negative consequences of unethical action that will decrease the firm's sustainability or harm companies' stakeholders.

Ethics audit – process of evaluating and conducting diagnostics concerning the external and internal consistency of an organization's values and compliance with real behaviour.

Real values – values that actual operations and actions are based on.

Stakeholder – an individual or group of individuals who can affect or who are affected by the activity of the company (Freeman, 1984).

Trust – the mutual confidence that no party will exploit another's vulnerabilities.

Abbreviations used in current thesis are as follows:

AA	Accountability
AMA	American Management Association
CSR	Corporate Social Responsibilities
EMAS	European Union Eco-Management and Audit Scheme
FeFC	Family/employees friendly competition
GRI	Global Report Initiative
HRI	Human Resource Institute
ISO	International Organization for Standardization
IT	Information Technology
OECD	The Organisation for Economic Co-operation and Development
RBF	Responsible Business Forum
SA	Social Accountability
S & P	Standard and Poor's
SME	Small and Medium-sized Enterprises
TBL	Triple Bottom Line

1.   THEORETICAL FRAMEWORK

The current chapter will discuss the theoretical framework that guided the author throughout the study. First, the author looks into different concepts and theories about CSR through stakeholder lenses. The findings will clarify the main common principles or ideas of CSR that should be maintained as obligatory content in a CSR report. A more precise description about ethics audits and ethical risks assessments is also given. The current chapter pays no particular attention to business ethics because it is assumed that business ethics is considered a main component of CSR theory.

1.1. The concept of CSR

There are several reasons why managers have to take CSR strategies into consideration. According to many prominent scholars (Melè, 2012; Cannon, 2012; Jose and Lee, 2007; Kotler and Lee, 2005; Reilly, 2005; Barney and Hansen, 1994; Fukuyama, 2001) the most essential motives are brand and corporation image, reduced operating costs and the increased ability to attract investors, employees and customers. Jenny Rayner (2003) indicated in reference to S & P's study that companies with greater transparency and disclosure rankings had a lower market risk and higher stock price. Although this is how pressure from stakeholder groups is primarily perceived, there is a need to see real profitability from a long-term perspective.

The concept of CSR is diversified and has been changing over time. Bowen (1953) Carroll (1991, 1999) Garriga, Melé (2004), Cannon (2012) and Melé (2012) have defined and interpreted CSR according the influence of historical, economic and social developments. There is a common belief that the political situation in the sixties (cold war, war in Vietnam) led to a large budget increase in military and defence expenditure that increased the risk of environmental contamination. These inspired social protests against big business and the military industry and society began to prefer social values. This resulted in companies being forced to take up CSR programmes and develop a business culture to offer social benefits to society. Based on the theory of universal ethical egoism, the behaviour of individuals and economic agents is being driven by self-interest and leads to the understanding that to maximise business interests and profit earning, one has to make compromises and take into consideration the interests of other parties – stakeholders (Pojman 2005). Howard R. Bowen (1953), considered the founder of CSR, stressed that big corporations do not only offer goods for society but directly influence members of society in multiple ways. This assertion was followed by a thorough discussion among researchers of social risk management and CSR. Peter Drucker (1984) highlights that CSR has to be tightly integrated to such business opportunities as resources, human capital and workplaces etc. In contrast to this, Milton Friedman, the Nobel Prize-winning economist, endorses this perspective in his provocative essay "The Social Responsibility of Business Is to Increase Its

Profits" (1970). In the mid-80s, Edward Freeman (1984) integrated a new approach, where CSR is interpreted through all stakeholders` interests. The purpose of stakeholder management was to devise methods to manage groups and relationships, which resulted in a strategic approach (Freeman et al., 2005). Freeman (1984, 2006, 2010) has argued several times that the corporation ought to be managed to create values and benefit its main stakeholders: shareholders, employees, customers, suppliers and the local community. After the 70s and 80s, people began to acknowledge a broader view of the firm's social responsibilities with an emphasis on economic and legal aspects and then on ethical and discretionary levels. The 1990s saw a shift in the way companies related to social commitments; Kotler & Lee (2005, 7 – 9) identified this shift from the traditional approach – fulfilling an obligation ("doing good to look good") as a new strategic approach – supporting corporate objectives ("doing well and doing good"). Porter and Kramer (2011) argued that organizations should adopt a "shared value" approach that encourages the generation of profits that also create social benefits.

The principles of CSR have also been described through the triple bottom line (TBL) approach. The phrase triple bottom line was first mentioned in 1994 by John Elkington, the founder of a British consultancy called SustainAbility. He said that companies should prepare three different bottom lines. One is the traditional measure of corporate profit – the "bottom line" of the profit and loss account. The second is the bottom line of a company's "people account" – a measure of how socially responsible an organization has been throughout its operations. The third is the company's "planet" account – a measure of how environmentally responsible the company has been (Elkington, 2004). TBL went beyond the traditional measures of profits, return on investment and shareholder value to include environmental and social dimensions. Domenec Melè (2012) asserts that these three aspects are not meant as three different levels for decision-making, but they have to be seen as a whole. It is not a number of human, social and environmental issues added to conventional business values, but a harmonious integration of these dimensions. TBL ideas are ingrained in various theoretical frameworks that challenge the notion of unrestricted capitalism. Norman and MacDonald (2003) criticise TBL saying that the measurement process is more like a compliance/ranking mechanism. However, many CSR reports (GRI, RBF Index) and CSR definitions follow TBL principles.

1.2. Overview of the main CSR theories

In this subchapter, the most cited CSR theories will be discussed. Archie B. Carroll (1991) as a main compositor of CSR formulated the most widely known CSR theory, which is the foundation for later doctrines. In addition, his theory is valuable in practice and has been empirically tested and largely supported by the findings of many scholars, such as Aupperle, Carroll and Hatfield (1985), Pinkston and Carroll (1994), Visser and Matten (2007). Carrol's CSR theory is

built up as a pyramid consisting of four levels: economic responsibility in the sense of being profitable; the obligation to obey the law; the responsibility to be ethical with the obligation to do what is right and to avoid harm, and finally, philanthropic responsibilities. Understanding Carroll's pyramid is complicated as it is immediately clear that several semantic issues can rise. The main obligation for companies is to meet the primary needs of the stakeholder: shareholders wish to earn a reasonable return on their investment, employees expect to have a stable and fairly paid job and customers wish to get safe goods at an appropriate price (Crane and Matten, 2010). This means maintaining a high level of operating efficiency, and remaining consistently profitable in order to achieve a successful position on the market. Carroll (1991) stresses that economic responsibility is a prerequisite for all business organizations and it forms the basis for all other responsibilities and obligations. Although earning a profit for shareholders can be easily measured, the measurement of ethical behaviour is rather complicated. Carroll and Buchholtz (2000, 35) argues that ethical responsibilities consist of what is generally expected by society over and above economic and legal expectations. Crane and Matten (2010) define business ethics as the study of business situations and dilemmas according to dimensions of right and wrong. That is to say that right and wrong are seen as the binary virtue ethics of the profitable and financial aspects – deontology versus utilitarianism. A generalizing business ethics definition by Lewis (1985), after reviewing 158 textbooks – states that business ethics consists of rules, standards, codes or principles, which provide guidelines for morally right behaviour and truthfulness in specific situations. The ethics in business is not a simple action or just adding new tool to managerial toolkit. It involves strategical viewpoint what your business really is, how to create value and work with stakeholders and most important how willing is management to transform the organization to realize that vision (Wicks, 2010).

McWilliams and Siegel (2000), Carroll (1991, 41) and Crane and Matten (2010) have said that CSR is activity that appears to do further social good, and is beyond the interest of the company and what is required by law. According to the abovementioned statements, one can assume that compliance with the law is one main requirement in CSR principles but it does not take precedence. In circumstances of international business, the company can easily relocate their production to a developing country where, for example, environmental protection and labour laws and regulations are much lower than in the homeland. For example, in the case of Bhopal, no laws were actually violated but a disaster occurred (Meel, 2003). In this case, obeying the law was not helpful and it was necessary to obey the wider requirements of responsible business (Daniels, Radebaugh, Sullivan 2013). Nevertheless, there are two sides to every coin – on the one side, the law is not an appropriate standard for regulating all business activities, but on the other hand, obeying the law is obligatory in order to be a good citizen.

Corporate philanthropy includes those activities that a company offers as a gesture of goodwill to improve the quality of life of its employees, local communities and society as a whole (Crane and Matten, 2010, 54). Carroll (1991) says that there is no clear expectation from society about philanthrophy as an ethical responsibility. Therefore, any failure in philanthrophic actions does not cause conflict between interest groups.

Limitation of Carrols theory
Crane and Matten (2007, 44-54) note that the main limitation of Carrol's theory is that it does not adequately address the problem of what happens when two or more responsibilities are in conflict. In such instances, it may be helpful to use an ethics audit as a preventative instrument. Is a company that acts ethically and cares for its employees, the community and supports charity generously, but at the same time is violating the competition law, socially responsible? How should one respond when someone shows moral responsibility and at the same time ignores one law? Werhane (2007) points out that there is almost exclusive focus on relationships between business and society, neglecting relationships with the employees, customers, suppliers and shareholders who directly account for and depend on company success or failure. Enron, for example, was a large donor to Houston city and to a number of religious institutions to which its executives belonged. Secondly, Carroll's theory is strongly biased towards the US context and is not adequate if we compare the European and American business environment (Crane and Matten, 2010). For example, economic responsibility in the US is strongly focused on profits and returns for shareholders, while companies in Europe tend to define this contribution much more widely. Philanthropy is expected more in European countries than in the economic context of the US (ibid). In Carrols theory, the connection between stakeholders and responsibilities is weak. The question has been raised who should the corporation be responsible to? Is it the employees, society, the customer or partners? One can only assume that they are all stakeholders, but to what extent.

Additional approaches to CSR theories
Wayne Visser (2007) argues that there are different key points in Europe. In England and France, economic issues are considered the most important factors in determining the priority given to CSR, but in Germany legal issues were seen as more important. At the same time in Africa, philanthropy and economic aspects are generally seen as high priority. This raises the question of national subcultures, and the historical and religious background. According to Miettinen (2004), cultural diversity is seen as an asset, but global trends seem to contradict efforts to respect both personal and cultural ethical pluralism.

Kotler and Lee (2005, 3) offer the following definition: "CSR is a commitment to improve community wellbeing through discretionary business practices and contributions of corporate resources." They are not referring to businesses that abide by the law or are just moral or ethical in nature, rather they

stress the voluntary commitment a business makes in choosing and implementing these practices and making these contributions. In the opinion of the author, Kotler and Lee are overly biased towards charity and donations in numerous ways.

Melè and Garriga (2004) state that earning a profit is one dimension of the four main CSR principles: political performance, social demand and ethical values. Matten and Moon (2004, p.335) describe CSR as a cluster concept including such principles as sustainability, ethics, corporate philanthropy and environmental responsibility.

Corporations have a decisive impact on outcomes in terms of employment, consumption, environmental quality, social inequality and a host of other issues. The World Business Council for Sustainable Development offers a definition for CSR: the continuing commitment by business to behave ethically and contribute to sustainable economic development while improving the quality of life of the workforce and their families as well as of the local community and society (WBCSD, homepage).

To summarize the meaning of CSR, Table 1 provides an overview of the main CSR principles.

Table 1 Main principles of CSR (complied by the author)

Carroll (1991)	TBL	Melè and Garriga (2004)	Matten and Moon (2004)
Profitability	Profit	Profit	Sustainable development
Obeying law	Environment	Political performance	Environmental responsibility
Ethics	People	Ethical values	Ethics
Philanthropy	-	Social demand	Philanthropy

As Table 1 shows, profitability, ethics, philanthropy and environmental issues are common principles according the leading theories of CSR.

CSR as a whole was critized by Freeman, Velamuri and Ramakrishna (2006), who argue that CSR has outlived its usefulness. Firstly, separating business issues and social issues is not appropriate. A stakeholder approach acknowledges the intertwined nature of economic, political, social and ethical issues. Secondly, CSR cannot be handled as a business phenomenon. A stakeholder approach applies as much to an entrepreneurial start-up and to a mid-sized closely-held firm as it does to a corporation with diffuse ownership.

Lance Moir (2001) has discussed difference approaches to analysing and explaining CSR theories. He highlights social contract theory, legitimacy theory and stakeholder theory, which is the main basis of addressing CSR according to the current thesis. His approach is supported by scholars who associate the CSR concept with social licences to operate (Lynch-Wood & Williamson, 2007; Thomson & Boutilier, 2011; Wilburn & Wilburn, 2011).

Though Carroll's theory is a rather old theory, based on a study of the literature, the author nevertheless found that the basic components of Carroll's theory are important and suitable in the context of this work, but they need to be extended to include more modern and open concepts such as sustainability or social performances.

1.3. Stakeholder approach and CSR

It is interesting to note that in different CSR definitions little or partial attention has been drawn to stakeholders. Nevertheless, many CSR theories point out the role of stakeholders and address satisfying stakeholder interests through CSR activities (Johnson 1971 cited by Carroll 1999, 273; Rayner, 2003, 174).

Wicks, Freeman, Werhane and Martin (2010) report that the stakeholder approach is not CSR, but where a socially responsible organization coordinates the long-term interests of their stakeholders, rather than tackling the problems of society as a whole. The stakeholder approach brings the interconnection between business and social issues into the foreground. This is also supported by many other scholars. Waddock (2006, 210) states that companies with stakeholders and environmental policies are charged with managing responsibly. Kujala (2001, 2004) draws the attention that analysing stakeholder relations gives us a new way of looking at business life by describing, and analysing the interaction between companies and their stakeholders.

According to the European Commission's definition (2001) in their Green Paper, CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis. In 2011, the Commission gave a new definition of CSR – "the responsibility of enterprises for their impacts on society". Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility. To fully meet their CSR, enterprises should have in place a process that integrates social, environmental, ethical, human rights and consumer concerns in their business operations and core strategy in close collaboration with stakeholders, with the aim of: maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large; identifying, preventing and mitigating possible adverse impacts (European Commission, 2001, 2011).

Donaldson and Preston (1995) argue that stakeholder theory has a normative core based on two basic ideas: firstly, stakeholders have legitimate interests in procedural and/or substantive aspects of corporate activity; and secondly, the interests of all stakeholders are of intrinsic value. This means that each group of stakeholders merits consideration for its own sake. The fact that the firm holds greater power than the stakeholder should be taken into consideration, especially stakeholders who have less power in the dialogue between companies; therefore they need more protection through written regulations and reliable CSR (Greenwood and Van Buren III, 2010). Freeman and Velamuri suggest constant

monitoring and redesigning processes to make them better serve stakeholders (2006).

Crane and Matten (2010, 152-154), relying on longitude research, offer seven main tasks of an ethical leader in creating value for stakeholders and fulfilling the requirements of CSR: 1) to frame actions in ethical terms; 2) to articulate and embody the purpose and values of the organization; 3) to connect the basic value proposition to stakeholder support and societal legitimacy; 4) to create a dialogue about real ethics, values; 5) to create a mechanism for dissent; 6) to find the best people and develop them, and 7) to make tough calls whilst being imaginative. The stakeholder approach has been considered as the only one to lead to sustainability; more- over, a strong emphasis is put on a multi-stake-holder approach to engage leaders to design the most effective measures for tackling challenges caused by economic crisis

Despite the fact that the definitions of CSR do not directly consist of the term stakeholders, the author sees in every approach that stakeholder theory and CSR theories are strongly connected to each other.

1.4. An ethics audit as a management tool

To introduce the theoretical background to the ethics audit, several definitions and clarifications are given in this chapter. As approaches to CSR differ, auditing internationally also varies. For example in North America, audits focus on evaluation and compliance, where the audit can represent an external, independent expert's view of an organization's structure and operations. In Europe, the process emphasizes standards and verification (Nitkin and Brooks, 1998). Social and ethics auditing is considered an important tool for building trust towards stakeholders (Gao & Zhang, 2006; Mc Kenna & Kok, 2001) and improving accountability and transparency (Zadek & Raynard, 1995; O'Dwyer, 2005). A social audit provides an opportunity to create a balance in the way the organization plans and measures its commercial and non-commercial operations, and makes it possible to draw attention to social achievements (Spreckley, 2008). Social auditing is a process of assessing and reporting on corporate social and environmental performance through engaging stakeholders via dialogue, and helps to build trust, identify commitment and promote cooperation amongst stakeholders and corporations (Gao, Zhang, 2006). An ethics audit is an integrated tool for evaluating the ethical climate inside the company and companies' sustainability. It is a process through which companies seem to realize that social reporting is essential for improving trust with all stakeholders (shareholders, employees, suppliers, customer and society). Figure 2 below uses a Venn diagram to illustrate the different approaches and types of audits. The ethics, social and compliance audits are linked to each other; the ethics audit may involve a social audit and a compliance audit, the social audit may involve a compliance audit but is not really an ethics audit, the compliance audit is a narrow approach to comparing rules and regulations against real action.
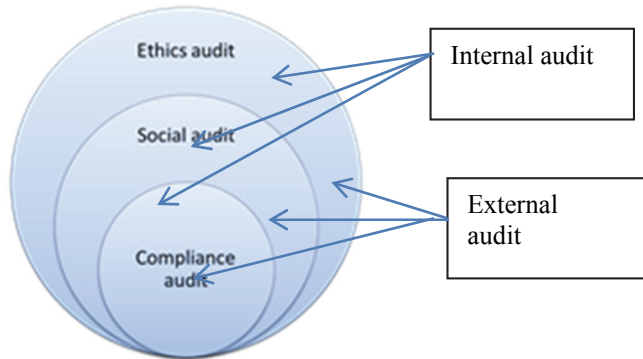
Figure 2 Disposition of audits (compiled by the author based on literature review)

A compliance audit compares internal behaviour to external regulations, and therefore, is limited to relevant documents (CSR guidelines, reports, codes, standards, regulations etc.) (Krell, 2010). The author dares to suppose that this often remains the routine duty associated with internal supervision and does not contribute to increasing real ethical behaviour or trust. Johnson (2001, 192-206) adds that compliance tactics look good to outsiders and prevent contradictions, but do not have a lasting impact on the ethical climate inside the organization. As one can see from picture above an ethics audit is wider than social and compliance audits because an ethics audit can discover problems and treat them in the field where no compliance tool is available. Potential problems and hidden risks can be identified at the grassroots level using an ethics audit.

An internal audit is usually carried out by an ethics officer or an internal supervisor. An external audit applied by a neutral third party can look at issues from another point of view. It is true that the external auditor cannot understand all aspects and historical connections in the company's narratives but there is always an opportunity to discuss the findings or ask for explanations for a better understanding. On the one hand, the internal auditor has freer and unhindered access to people and actions, but on the other hand, according to the theory of group thinking (Irving and Vecchio, 1997), there is a threat that hidden risks and real threats cannot be discovered. Schaefer and Swenson (2005) suggest always looking outside the organization as well, even if it has to be an internal audit. Understanding micro aspects of the diagnostic system and macro aspects of the organizational dynamic helps auditors anticipate obstacles and can help ensure the success of the measurement system (Bennet, Lance, et al., 2006, 317). If the auditor does the job properly and is effective and adds value, it is necessary to look externally at the business's customers, supply chain, stakeholder expectations, socio-economic and political influences and many other aspects (Rayner, 2003, 242). The best practises definitely result in cooperation involving both kinds of audits – internal and external.

The primary aim of an ethics audit in general has been to compare ethics guidelines with actual behaviour, and is therefore, a form of compliance

auditing. Ethics auditing is not very widely handled in business literature. Muel Kaptein[1] has developed an exhaustive theory of ethics auditing and ethical management (1998, 50). He has developed ethics auditing thoroughly and nobody before him has handled the ethics audit as completely. Kaptein points out that from the beginning of the 90s, scholars such as Madsen, Hill, Laczniak and Murphy have devoted little attention to ethics auditing. Madsen focuses more on the moral context of a company, and Lacznik and Murphy consider the ethics audit as a method of discovering aspects of unethical behaviour. Ostapski and Pressley (1992) refer to the ethics audit as the consequences of corporate conduct for stakeholders. Rosthorn (2000) writes that the ethics audit means "regular, complete and documented measures of the conformity of declared policies and procedures". Ethics audits can identify factors or pressures which encourage unethical behaviour or which may even act as incentives for unethical behaviour within an organisation (McDonalds, 2000). Ethics audits indicate how managers and executives communicate, demonstrate and enhance corporate values, ethics and culture. According to Carmichael (1998), the ethics audit clarifies the actual values to which the company operates, provides a baseline by which to measure future improvement and how to meet any societal expectations which are not currently being met, but also identifies specific problem areas within the company and general areas of vulnerability, particularly related to a lack of openness. Through an ethics audit, the management can learn more about the issues that motivate employees.

Kaptein's (1998, 51) view of the ethics audit is that it improves the ethical functioning of the organization and is conducted periodically and verifies the accuracy of the ethics report. He defined the ethics audit as a systematic approach, which provides a description, analysis and evaluation of the relevant aspects of the ethics of a corporation. He highlights six important aspects of auditing to which attention has to be paid: an audit's arrangement characteristics, indicators of behaviour, processing of measurement results, solving dilemmas, individual characteristics and evaluations of the situation.

An ethics audit tracks the moral climate of the organization as a whole, while filling in the CSR report is the duty for a limited number of executives.

The theoretical background of Kaptein's (1998, 119-145) auditing process is described through   six key elements.

• Quality Monitor – questionnaire for assessing ethical qualities (clarity, consistency, supportability, visibility, sanction ability etc.) to indicate how the organization stimulates and hinders ethical conduct.

• The Conduct Detector – by using interviews or questionnaires it reports the actual or perceived degree to which ethical or unethical behaviour occurs.

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[1] Muel Kaptein is professor of business ethics and integrity management at the Department of Business-Society Management, Rotterdam School of Management, Erasmus University. He has written six books and published 50 peer-reviewed articles in journals such as Journal of Management Studies, Journal of Organizational Behavior, Organization Studies, Journal of Management, and Academy of Management Review.

• The Stakeholders Reflector – for examining the interest and expectations of stakeholders and the degree to which these expectations are realized.

• The Measures Scan – first, to investigate the initiatives, activities, instruments and rules that have already been undertaken to protect and improve the ethics of the organization, and secondly, to identify places in the formal organization where inadequate measures create opportunities for the improper benefitting of employees.

• The Dilemmas Decoder – to establish an overview of the different conflicting expectations that confront employees. During this session actual insights, intuition, and assumptions are revealed and made the subject of a discussion panel.

• The Individual Characteristics and Circumstances Assessment – maps out the morally relevant characteristics of the individual (intentions, intuition, capabilities); this is particularly used for pre-employment screening (Kaptein, 1998, 128).

An ethics audit, like other audits, needs to be carried out regularly; there is no benefit in doing it only once. Revisiting the audit regularly helps to close the gap between the organization's declared values and real ethics. Schaefer and Swenson (2005) state that the ethics audit can be used in training programs and as a part of the organization's strategic planning process. An organization should plan for ethical issues as it would do for other long-term strategic goals.

Of course, even an ethics audit will not completely eliminate the risk of illegal or unethical behaviour, but it can reduce its likelihood (Metzger, Dalton et al., 1993). After a thorough research into several theories the author was not able to identify any mentions on how to deal or manage ethical risks. Ethical risk assessment and analyses help managers to quickly recognize potential adverse events, be more proactive and forward-looking, and establish appropriate risk responses. Therefore, it reduces the possibility of surprises and the costs or losses associated with business disruptions.

1.5. Ethics audit and ethical risks

A scientific understanding of risk should allow us to predict and prevent risk or even almost eliminate it (Sison, 2012, 228). Friedman and Miles (2001, 528) drew attention to the aspect of risk management – one of the main drivers of CSR reporting. Chandler (2007) adds that risk can be minimised by assessing by conducting effective ethical conduct training and evaluating the organizational micro climate through an ethics audit. There are many different strategies and management tools for how to make ethical decisions or avoid unethical incidents and ethical risks. For example, researchers from Bentley College Kallman and Grillo (1993, 34–53) have worked out an ethical decision-making model for information technology students to practice ethical decision-making; Mari Meel (2003) contributed this strategy to Estonia. Johnsons (2001, 143–160) introduced strategies as Kidder's ethical checkpoints; Nash's12 questions, Potter's box, Cooper's active process model. Crane and Matten (2007) provided a practical

ethical decision-making model using descriptive ethics theory. Melè (2012, 45–71) has provided practical instructions on how to solve ethical dilemmas and issues. Making the right ethical decision is always threatened by biases from the decision-makers, and sometimes it is necessary to improve or support the corporate ethical climate. Kaptein (1998, 2008) and McDonalds (2000) offer ethical toolboxes using codes of conduct, ethical officers or ethical ombudsmen, establishing ethical committees and opening channels of communication or an ethics hotline. Pučetaite and Lämsä (2008 b) carried out research in Lithuania among 44 companies, and their study shows that the most frequently used ethics management tool is the code of ethics, and in a few organizations an ethics audit was used as well. They admitted that the use of ethics management tools (codes of ethics, training, audits, ethics consultants, officers etc.) reinforced by ethical organizational practices can serve as instruments to advance organizational trust even in socio-cultural contexts where trust at the societal level is low (Pučetaite and Lämsä, 2008b, 387).

According to the AMA/HRI Business Ethics Survey (Reilly, 2005), the top five business ethics effectiveness measures are: ethics surveys; customer ethics complaints, ethics audits, achievement of ethics goals, theft/fraud. Interestingly, AMA/HRI does not mention social reports or international standards in the top five measures. In the author's opinion, the reason for this could be the fact that companies present a slightly embellished version of their CSR activities in their social reports. Their real business ethics may remain hidden behind a curtain of CSR.

Despite the different decision-making models and instruments, there is always a possibility that ethical risks may threaten everyday business unexpectedly. While using different internal toolboxes to prevent those risks inside an organization, another threat is looming. Group thinking (as mentioned in the ch 1.4) may lead to a tendency to lose critical thinking about decisions and reduce the ability to foresee the likelihood of risks. An ethics audit, as Kaptein (1998) has said is like an ethics thermometer to measure the "health condition of organizational ethics". The author would like to point out that after detecting ethical risks, it is necessary to evaluate and analyse the risks. All existing ethics audit models the author is familiar with manage to identify the ethical risk, but according risk management theories, risk identification is only the first step in systematic risk management (Pinto, 2007; Gray and Larson, 2003). The analysis of probability and consequences, risk mitigation strategies and follow-up activities, such as risk response and control, are essential elements of the whole risk management process (Pinto, 2007, 223).

1.6. The ethics audit and CSR reports

The following subchapter presents a comparative review of selected CSR reporting frameworks. The selection was made on the basis of those reports that are more known in Europe. Since no international CSR reports have previously

been used in Estonia, the Responsible Business Forum[2] (hereafter RBF) Index was added. The analysis focused on the extent to which the main principles of CSR (profitability, philanthropy, business ethics, obeying the law, environment) and stakeholder engagement are included in the content of the reports.

Many scholars (Solomon and Lewis, 2002; Morhardt, Baird and Freeman, 2002; Kolk, 2003) have mentioned that in order to offer information for stakeholders about social and environmental activities and strategies, companies are increasingly issuing several CSR reports. Stakeholders need CSR reports to understand the risks to which firms are exposed through social and environmental performance, and how proactive companies are in relation to social and environmental issues (Wilmshurst and Frost, 2000). Investors, insurers and underwriters use CSR reports to get information about socially and environmentally responsible business investments and potential risks such as fines for noncompliance.

The Global Reporting Initiative (GRI) first started in 1997 in Boston, where supportive frameworks for compiling social report were worked out. GRI reports follow the triple bottom line system with a stakeholder approach and are widely applied all over the world. GRI is definitely one of the most complete reports, and there are several levels (e.g. A, B, C) differentiated by the scope of subjects and volume (GRI, homepage). However, this report is extremely voluminous, complicated and time-consuming. It is obvious, and as the OECD has commented before, there is no benefit in completing this kind of report in the case of an SME or in a small country, where a foreign language (GRI does not support Estonian) could pose additional problems.

In 2010, the ISO 26000 non-certified management system standard was launched as the guideline for sustainable social development, emphasizing that compliance with the law is a fundamental obligation of CSR. The ISO 26000 standard assumes ethical and transparent behaviour, contributions to the sustainability of communities and the consideration of stakeholders` expectations. Although the main content of the guideline covers a wide range of areas, each organization can define which areas are important to follow, making the report dependent of individual considerations (ISO homepage). In implementing the ISO 26000 standard, taking into account the local community, natural environment, cultural, political and business environment in their diversity is recommended. The ISO 14001 (environmental management system) and ISO 9001 (quality management system) are certified standards with a specific focus, and therefore, are not relevant in the current thesis.

The SA8000 is a certificated standard of social accountability launched in 1997. This covers key labour rights (working hours, forced labour etc.) and certifies compliance through independent accredited auditors (Crane and Matten, 2007, 201). As can be seen in Figure 3, this standard does not cover important

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[2] Responsible Business Forum in Estonia is a non-profit organisation with an aim of furthering CSR in Estonian society through being the centre of competence building and communication on CSR

CSR aspects beyond the economic, legal and aspects concerning stakeholder engagement.

The standards series AA1000 are developed through a multi-stakeholder consultation process (AccountAbility, homepage). In the author's opinion, those standards are mostly like guidelines or frameworks for how to better respond to organizational sustainability and stakeholder engagement. They offer an outline on how to design and implement the organization's social and ethical accounting, auditing and reporting processes.

In 2007, the daily business newspaper Äripäev and RBF started the first CSR Index in Estonia. The index aimed to assist companies in defining, evaluating and monitoring their economic, social and environmental impact (CSR, homepage). The index is similar to the CSR model in Great Britain, and consists of four main parts: business strategy, integration of principles, management issues and measurement and reporting and communication. Participation in the Index gives companies the opportunity to obtain self-assessment through the lens of social responsibility and offers increased awareness of CSR. Furthermore, after participating, every participant can obtain feedback, set new goals and position itself amongst other companies.

Figure 3 provides an overview of the main principles or fields included in the most common and known social reports/guidelines in the Estonian business context.
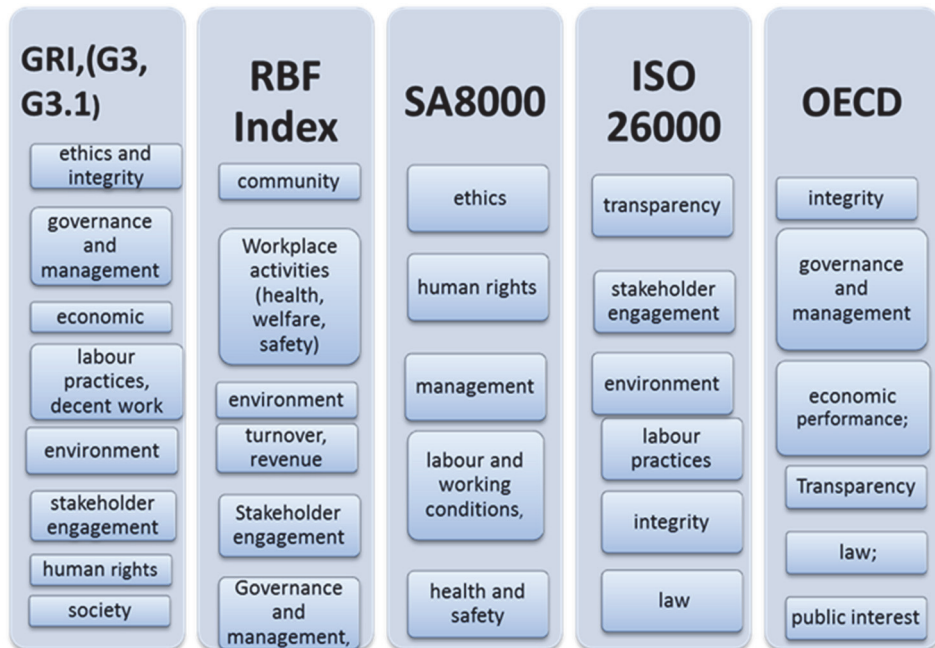

Figure 3 main principles and content of CSR reports (compiled by the author according the literature review)

As we can see from the Figure 3, little attention is paid to philanthropic, economic, and ethical aspects (GRI, OECD and partly RBF Index) yet they are among the most important aspects of CSR. The author found that if a company only highlights profit or turnover, and does not describe the real financial background in the CSR report, it may not satisfy shareholder interests. For example, when short-term liabilities substantially exceed floating assets, impressive turnover does not refer to real profits. Therefore, we can assume that the CSR report measures corporate social performance not social responsibilities in its full diversity. This means that the company may be insolvent and on the brink of bankruptcy, but in other areas of the assessment the report can indicate high levels of performance and the company can easily be reported as being responsible.

One concern among academics and practitioners is that there is always the question of how statements in CSR reports compare with actual corporate commitment to addressing social and environmental issues (Tate, Ellram, and Kirchoff 2010; Covey 2004). Solomon and Lewis (2007) found that there is a tendency not to disclose negative or potentially harmful information, and instead only good practices are presented in these reports. There is no place for failures in the reports. Wagner et al. (2009) refer to this as 'Corporate Hypocrisy', which could be effectively reduced if firms release statements that more reasonably communicate negative information on what has happened or what has already been reported, or if they have an external audit for CSR or ethical issues. Fassin and Buelens (2011) suggest using a sincerity/hypocrisy index, which would position the firm on a continuum between idealism and hypocrisy as a function of the degree of congruence or dissonance between CSR reports and reality. As suggested by Hoffman (2006), to avoid professional hypocrisy, actions must not contradict the organization's proclamations.

Summarising the theoretical approach to the thesis, the author would like to point out that the content of CSR reports varies considerably, and may not contain all the main principles of CSR in the minds of stakeholders. CSR reports may remain PR instruments allowing companies to show only their best practices and not mentioning negative cases. Reports are backward-looking and are more descriptive of corporate CSR history. Many of the studies cited above have shown that CSR performance may be misleading and hypocritical, and this compromises the effectiveness of the CSR concept.

In Figure 4, the author shows the main linkages in the theoretical framework of the thesis. CSR principles and reports should follow what the companies' main stakeholders are interested in. An ethics audit, as the main concept of the thesis, will serve the stakeholders' interests in a different way: it provides stakeholders the opportunity to clarify their expectations of the company's CSR behaviour; an ethics audit can identify hidden risks and vulnerabilities, which help to direct the company to be more transparent and open.

The ethics audit, on the one hand, has control over the veracity of reporting and risk assessment, and on the other hand, is a bridge to progress on CSR reporting and planning CSR activities.
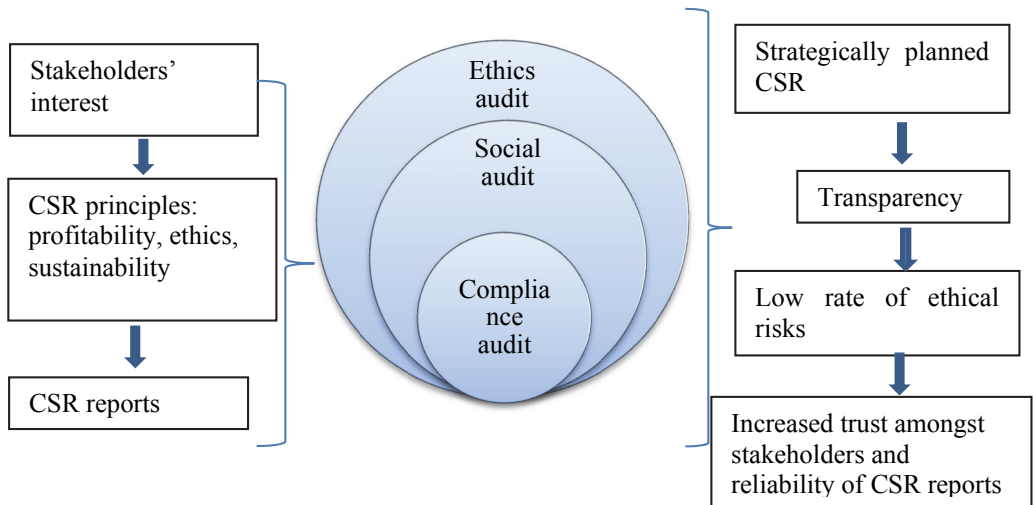

Figure 4 Linkages between theoretical concepts (compiled by the author based on theoretical framework)

The author stipulates that an ethics audit is a process for evaluating and diagnosing the external and internal consistency of an organization's values and their congruence with real behaviour. An ethics audit makes it possible to obtain an adequate picture of organizational health and sustainability, and the extent to which the business is driven by stakeholder interests and CSR principles. As can be seen in the Figure 4, the ultimate benefit from an ethics audit is increased trust among stakeholders and more reliable CSR reports. Unlike these reports, an ethics audit is flexible enough to suit each company's individual circumstances; for example, size, type, legal structure and industrial sector of operation, as well as the jurisdictional and other basic legal principles under which they operate.

2.   METHODOLOGY OF THE STUDY

Every research project dictates a special attitude towards choice of methodology. Research methodologies can be categorized into quantitative and qualitative methods, and the combination of these two offers the mixed-method research methodology. Within these categories exists a plethora of methods and the final choice depends on the scope, nature and type of research. This chapter covers an overview of methodology used in the current research.

2.1. Methodological choices

As qualitative research methodologies are primarily used when the purpose of the research is to analyse opinions, attitudes or behaviours. The author considered constructing a survey based on qualitative research criteria.

According to Hirsijärvi, Remes and Sajavaara (2005), qualitative research is by nature a holistic process of acquiring data and knowledge in a natural and real setting. Ethical and responsible decisions and behaviour are based on human factors, and qualitative methods see individuals as instrumental tools in the data collection process.

The author opted for a qualitative research methodology for two reasons: firstly, the research issue – conducting an ethics audit – is new and challenging for the author and the subject of the audit, and therefore, direct contact with the interviewees provides an opportunity to clarify and reformulate questions, making it possible to obtain a clearer overview of the whole process and at the same time allows the researcher to be flexible. Secondly, this methodology makes it possible to create a free and trusting climate during the research, the interviewees can express themselves in their own words, and describing the phenomena at length results in richer data. In addition, the non-verbal communication provides valuable extra information about the interviewee. A qualitative research strategy allows the author to choose the objects and methods of research according to the specific purpose of the research.

Through more discussion and consideration, the author found that triangulation would best serve the aim of the research. Triangulation is best used in qualitative studies that follow the post positivist search for generalizations – for laws and truth (Willis, 2007, 219). The need for triangulation arises from the ethical aspect of the research – to confirm the validity of the auditing processes, and this is a widely used method in the social sciences. Triangulation means that there are connections between different research methods, empirical data, literature, or embedded theories (Denzin, 1988). Denzin and Lincoln (1998), and Erikson and Kovalainen (2008, 293) talk about four types of triangulation: multiple data, multi researcher, multiple theory and multi method. Multi method has two subtypes – internal and external triangulation (Leppiman, 2010, 113). Erikson and Kovalainen (2008) differentiate between the triangulation of methods and triangulations of methodology. The basic idea of the triangulation method is that more than one method is applied; for example, questionnaires,

interviews, observations and so on. One advantage of this method is that the particular weakness of one method can be compensated for by the particular strength of another (Denzin, 2006). Using a triangulation methodology often means combining qualitative and quantitative materials in the same study.

In the current dissertation, the author uses the following types of triangulation:

• Multiple theories to understand the context of the ethics audit in connection with corporate social responsibility and business ethics theories.

• Multiple methods used including quantitative and qualitative approach such as questionnaire, interviews, observation and monitoring.

• Multi researchers – more than one researcher participated in implementing the ethics audit. Auditing committee consisted of the author and two auditors.

• Multiple data sources are being used such as literature, secondary data (e.g. annual and business reports, the web sites of the organizations under investigation) and new data from the auditing process.

The case study is known as a triangulated research strategy. The qualitative case study is used to address 'what', 'how' and 'why'– questions (Voss et al., 2002; Saunders et al., 2007; Flyvbjerg, 2006). To be more specific, an interpretative case study was used in the current thesis. The interpretative case study focuses on human interpretations and meaning. Interviews should be supplemented by other forms of field data in an interpretive study, and these may include press, media and other publications on the sector context of the organizations being studied. Internal documents, (strategies, plans and evaluations) and direct observations or participant observations of activities is a further data source (Walshan, 2005). During the case study, content analysis was used several times with the aim of systematically evaluating the theme of the recorded communications (Kolbe and Burnett, 1991). Content analysis makes it possible to synthesize texts with large word counts into specific categories (Weber, 1990).

In each article, there are several methods of qualitative research used. A precise description of each method used is given in each article, but a general overview of the data collection and analysis is given in subchapter 2.4.

2.2. Working with literature

In the early stages of the research, the main focus was on working with relevant literature to provide a platform for the study and the discussion of the results of the thesis. There are different types of scientific literature from different sources and of different value. Primary sources – the direct reporting of original research – refers to scientific articles in peer reviewed scientific journals, monographs, conference proceedings, dissertations, project reports etc. Secondary sources are the result of researchers integrating information from primary sources into review articles or books. Tertiary sources include broad topics at the level of research disciplines; for example, textbooks, handbooks and manuals.

The author has used all types of literature whilst keeping in mind articles and books with high impact. The strategy used in this was domain-based theory, and later, the trusted review approach (Bordens and Abbott, 2002, 41; Soerensen 2004). In working with a domain-based strategy to find reference keywords for the study, a large number of journals, books, and e-databases were perused. Through this strategy it was possible to identify relevant influential scientific works (Soerensen, 2004). After obtaining the big picture of topics related to the research focus, the trusted review approach was used to focus on the precise definition of the topic. The selection criterion was informed using keywords such as *corporate social responsibility, stakeholder approach, business ethics,* and *ethics audit*. The focus was a review of the subject area published by trusted sources such as highly ranked journals or databases. In terms of the main topic of the research, the focus of attention was on journals such as Journal of Business Ethics (Springer) and The Journal of Ethics, databases and publishers such as EBSCOhost Web, SpringerLink, Sage, Scholary and Wiley ScienceDirect. Due to the large volume of available resource centres, one can easily end up experiencing the snowball effect. This means that in the case of some highly relevant article or text, one will follow and read the sources referenced in that very same article. In the 21st century there are many opportunities to lose you in online citation-databases or libraries. Therefore, it is essential to focus on the aim of the study and to concentrate on highly relevant literature. Working with the literature gave the author an understanding of the main principles of CSR and a basic framework for developing an ethics audit model. The piloting of the ethics audit model in an Estonian company was safeguarded by this theoretical background.

2.3. Study design

The design for the study began many years ago, after final agreement about the basic idea of the thesis. The first aim was to get acquainted with the specific theory and research in this field in order to identify the research gap in those theories. The author conceptualized for herself the first systematic approach to the ethics audit in the article Ethics Auditing and Conflict Analysis as Management Tools (Rihma, Virovere, 2008). Later, this was followed by a more focused research objective on the ethics audit considering Estonian business culture. Despite the fact that this article does not qualify as part of the content of the current doctoral thesis, it nevertheless provides a basic understanding of the management tools used concerning ethical behaviour or CSR. Subsequently, in 2011, the basic framework of the ethics audit model – including the risk assessment module – was created by the author. In the first article, *'An Ethics Auditing Model for Estonian Large and Medium-sized Companies'*(see Appendix 1), the author used a domain based research strategy., which is suitable if the purpose of the research is to produce an overview article classifying the literature for other researchers' convenience (Soeresen, 2004). The nature of this paper was descriptive and rather theoretical. This article was

essential to understand and answer the second research question – *In what ways does the use of an ethics audit contribute to increasing trust among company stakeholders?* This stage was crucial for developing a new ethics audit model with a risk assessment matrix, which will be empirically investigated in future research. Compiling the abovementioned article and based on personal experience as an assessor of the RBF Index, a new research question for the next study appeared.

In the second article, 'The Discrepancy Between Declared Values and Real Ethical Behaviour of Companies (Estonian case)', the author carried out 13 interpretive case studies (see Appendix 2). The research was carried out between January and July 2012 among Estonian companies who were voluntarily included in either the RBF in Estonia, the family/employees friendly competition (FeFC), and received remarkable results in these fields. The focus of the survey on understood the particular context of the situation, setting or culture or the individual, although local understanding may be related to prevailing models or theories (Willis 2007, 239-243). Although this study was based on data from cases of 13 companies, the research results provided an answer to the first research question: *Why does the evaluation of a company's CSR matter in ensuring the company's credibility amongst its stakeholder?*

In the third article, 'Implementing Ethics Auditing Model: a New Approach', an intensive case study was used (see Appendix 3). According to Yin (2014), during an intensive case study, the researcher focuses either on one specific instance of the phenomenon to be studied or on a handful of instances in order to study the phenomenon in depth. He recommends three tasks that must be carried out for a successful project in a case study: preparation for data collection, distribution of the questionnaire, and conducting interviews. The objective was to explore and understand how the process of the ethics auditing model works in reality as a configurative and ideographic unit of analyses (Erikson and Kovalainen, 2008). The ethics auditing process was adapted for a specific company's needs to investigate ethical issues arising from the everyday use of information technology at the work place. This study was crucial in the Estonian business context, because ethics audits had not previously been carried out in Estonian companies. The topic and method was new for the auditors and the auditee, therefore the auditors started by introducing the principles of the ethics audit. All ethical parameters of the research methods, the expected results and confidentiality issues were mutually agreed upon between the researchers and the company's manager. An empirical investigation of an ethics audit model provides an answer to the author's third research question – *How does an ethics audit as a new assessment tool work in Estonian companies in the minds of the stakeholders?* Table 2 gives an overview of the methods used according to the published articles.

Table 2 Overview of research methods in light of the published articles (compiled by the author)

Article	Research question	Method	Objective
Ethics Auditing Model for Estonian Large and Medium-Sized Companies	In what ways does the use of an ethics audit contribute to increasing trust among company stakeholders?	Review of literature, domain-based strategy.	To examine the role of an ethics audit as a tool for assessing real ethical behaviour.
The Discrepancy Between Declared Values and Real Ethical Behaviour of Companies (Estonian Case)	Why does evaluating a company's CSR matter in ensuring the company's credibility amongst its stakeholders?	Qualitative research – interpretive case study among 13 Estonian companies with high ranking in RBF index and Family Friendly organization in Estonia.	To identify discrepancies between declared values and real behaviour.
Implementing Ethics Auditing Model: New Approach	How does an ethics audit as a new assessment tool work in Estonian companies in the minds of the stakeholders?	Qualitative research by triangulation, intensive case study (interviews, questionnaire, observation).	To test how ethics auditing model as a new diagnostic instrument works in reality.

Each method and research aim – depicted in Table 2 – has been thoroughly explained in articles which are provided in the appendixes 1-3.

2.4. Data collection and analysis

Throughout the research, unobtrusive measures were used for data gathering, which are highly valid sources of data such as official documents, databases, the physical environment and language use, including stories and metaphors (Andreson, 2010, 134–137). Combining unobtrusive methods with other methods can be a useful source of additional data to interpret the organizational culture and collected data. For the first article, all data was gathered from existing literature; after analysing the data, the findings were categorized by content and principle (ethics audit, CSR, stakeholder theory and risk management). The author concluded that such auditing processes do not result in improving real ethical behaviour and do not increase trust between stakeholders. Therefore, it was seen as essential to improve an existing ethics audit model to fill this gap.

The data collection for the next stage was based on the investigation of 13 socially responsible Estonian companies, which had voluntarily participated in the RBF Index or competition in the family/employees friendly corporation (FeFC) in Estonia. In selecting the sample, the author has followed two

principles. Firstly, the author selected those companies in the RBF Index that had excellent results – a quality mark in CSR.[3] There were 27 companies with a quality mark. Secondly, the author only selected companies based on Estonian capital, so 8 out of 27 were based on Estonian capital. The reason for not including companies that were owned by foreign capital or were subsidiaries of foreign concerns, was based on the assumption that the regulations and rules in such companies are settled at their headquarters and do not reflect the attitude of Estonian managers or owners. Next the author selected the 5 best companies from the FeFC. The aforementioned selected companies included both private and publicly owned companies. One company was nominated in both listings (RBF Index and FeFC).

Data collection was conducted through surveys, documentation review and media monitoring. The main data sources were company websites in order to find out the existence of codes of ethics, declared values or other implications of values such as a mission, international standards or certificates of recognition. All collected information was systematized and analysed through the manifest content analysis method. Each case was treated as separate, and correlated to aspects of the data analysis. The collected information was compared with information the author obtained from media monitoring. It is said that actions speak louder than words, and historical news articles provide a record of the actions of the companies.[4] For example, a news article can reveal whether a company has committed financial fraud, or whether it regularly makes large contributions to local charities. Media monitoring was carried out in the Estonian public media throughout 2011. The aim of media monitoring was to examine whether or not the findings from the websites (declared values, missions and public promises) coincided with real behaviour. The author conducted media monitoring using the Estonian business newspaper *Äripäev online* and the daily newspaper *Pärnu Postimees* with keywords such as the name of the company and company's top managers (or owners). The selection of the newspapers was done based on the fact that *Äripäev* is one of the leading business newspapers in Estonia and *Pärnu Postimees* was selected because of one company in the sample was owned by a small local community and articles about this company are mostly written in the local newspaper. The author found and worked through 969 articles according to subject and title. All articles were divided into three categories:

Clearly a positive article – the coverage the company received was written in a positive manner or something excellent was written in connection to the companies (sponsorship, better work conditions, client relationship etc.).

Clearly a negative article – company received negative media coverage (violation of laws, carelessness, unethical behaviour etc.).

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[3] Quality mark was given to companies which got over 70points from total 100.
[4] The Institute of Business Ethics monitors the UK media for stories about business ethics issues and challenges as well (IBE 2014).

A neutral article – regular press release, news, announcements and articles, where a violation was not proven. Articles that included accusations with regard to the company and where the company had given a response to these accusations were considered neutral articles.

To increase the reliability of the measures, the findings of the media monitoring were double-checked and coordinated with another expert. If there was a disparity between the two assessors, a third opinion was sought. The collected data was compared to company`s declared values or mission. The study indicated a contradiction between real and declared values, which led to hypocrisy and a decrease in trust among stakeholders. The real need for the next step grew out of the results – to improve the ethics audit model and its implementing process.

During the third stage of the study, a pioneering ethics audit process was conducted in April – June 2013. To test the ethics audit model, the author and two auditors carried out a six-stage study in a small printing company (approx. 38 employees). The choice was based on two factors: the company had achieved a high place in RBF Index and secondly, the management of this company was agreed to participate in the pilot auditing project. Also company holds ISO 9001 and EMAS certificates. In their main CSR reports there was no attention paid towards phenomena associated with the day-to-day business, such as information technology, human resource management and public relations. This was the reason why the auditors choose IT field for auditing. Data was collected using many sources of information, such as questionnaires, interviews, documents and workplace observations. In the data analysis phase, grounded theory was used.

The questionnaire was initially carried out with half of the company employees who volunteered (n=17, ~ 50% of employees). The survey was provided both electronically or on paper and consisted of four parts: general background (12 questions), use of information technology (10 questions), ethical dilemmas (8 questions) and ethical risks (7 questions). Questions were both open and closed-ended. Due to the fact that the sample size was not reliable, the collected data was only used as pre-information as input for interviews and case study analyses. It was difficult to get sample size which ensures sufficient responses for a proper margin of error. For most business research, researchers are content to estimate the sampling's characteristics to within plus or minus 3 to 5 per cent of its true value (Saunders, Lewis, Thornhill, 2007, 212). An analysis of the data was conducted using Excel program. The data was first inserted though data characteristics, which was followed by a recommended frequency convention and by calculating the average of the data where it was possible. Additional summarising information on the results with regard to the questionnaire is given in Appendix 4. A tour at the company's premises was conducted during work hours (offices, preprint area, leisure area etc.) to obtain information about the physical factors. The auditors took photographs and videos. Analysing all the information from the auditing process from the videos

or photographs, supports or undermines the results of the interviews and resolving dilemmas. The third stage of the auditing process included interviews with two people from the management level in addition to three specialists. The auditors used open-ended semi-structured interviews, which consisted of 14 questions divided into IT and ethical areas. The interviews were done in pairs (management) and threes (specialists) to expand the depth of the data gathering. The communication was recorded (prior permission was given by the participants); after which the text was transcribed, illustrated with comments by the interviewers and analysed by categorizing issues raised throughout the interviews: IT issues, ethical issues and general issues. As advised by Silverman (2005, 177–183), during analyses auditors focused on what things mean, noting regularities, patterns, explanations, possible configurations, causal flows and propositions. Wimmer and Dominick (1997, 461–462) warn that if there are dominant respondents in a group interview, the outcome of the group may be negatively affected and the results may be distorted. Potential risks were marked using traffic light colours: red – highly critical, amber – medium and green – best practice. The fourth stage of the audit and data gathering was solving ethical dilemmas with two people from management and two specialists. The participants were first asked to read a story and to discuss it in pairs; the participants then marked out ethical, IT and privacy related concerns. After that they discussed whether these kinds of problems have taken place at their own company, and if so how they should eliminate such risks. The discussion involved predictions on how stakeholders as clients and owners are directly affected in their behaviour around technology. This method also indicated critical aspects on how to deal with ethical dilemmas and prevent hidden ethical risks concerning the everyday use of information technology. The results of the dilemma discussion were transcribed and analysed in the same way as the results of the interviews. Main topics of the interviews - and duration of each interview - are given in the Appendix 5. The final stage of data collection involved observations of documents, regulations, contracts and other available written material (ISO 9001, EMAS standards). Auditors used this information as material for compliance for further analysis. Data gathering was followed by analysing the process of the auditing model and implementing it. This indicated to the shortcomings and successes of the model, which are described in more detail in the next chapter.

3. RESULTS: ETHICS AUDIT MODEL

This chapter focuses on testing the improved ethics audit model and the implementation of the previously mentioned process. The results of the current thesis include, besides the improved model, also the process described stage by stage is important part of whole result. To understand better circumstances of Estonian business culture concerning business ethics and CSR, the author found it is important to give to the readers short overview about cultural background of the research.

3.1 Background to the research

Cultural issues related to CSR and ethics are complex and depend on subjects such as religion, politics and type of society – monistic (USA, UK), dualistic (France, Germany), pluralistic (Japan) or individualist and collectivist. Societies characterised by individualism value the short-term success of the individual, while collectivists value the long-term flourishing of society (Visser et al., 2007, 146 - 149). Matten and Moon (2008) acknowledges the historic and abiding differences, and even within European countries there are numerous on-going efforts to capture these from a CSR perspective. Crane and Matten (2007, 28), Commenne (2006), Fassin and Buelens (2011) have all found that the economic systems in Europe, North America and Asia are based on different social and cultural backgrounds. For example, the responsibility for ethical behaviour in a company lies on the individual in America, on top managers in Asia and on the collective in Europe. Furthermore, a recently conducted international study shows that cognition about CSR and business ethics in the owner and managers is influenced by their national contexts (Fassin, Wernen et al., 2014).

Majority of today's Estonian business leaders grew up in the context of soviet moral and values, but business functions according to the rules of Western Europe, and primarily according to the rules of Northern Europe. Business ethics as a discourse has been developed over the last 20 years. Mari Meel, distinguished supervisor of the current thesis, can be considered the founder of business ethics in Estonia, and has published several pioneering articles (Sources of Business Ethics (Meel, 1999); Window on Eastern Europe: Business and National Culture in Estonia (Meel and Saat, 1996), as well as business ethics textbooks (Meel 2003). In the past there were a few possibilities to experience relationships between trustworthy behaviour and competitiveness in the market (Lämsä, Pučetatite, 2006, 138, Pučetatite, Lämsä, 2008a). According to Mari Kooskora, who has studied corporate moral development and managers perceptions of CSR, very often the meaning of CSR is limited to charity and donations (Kooskora, 2006). According to Kooskora's (2008) doctoral dissertation, "corporation moral development in the majority of Estonian business organizations developed from the double morality stage of the period of socialist erosion through the instrumental and legalistic stages to the responsive stage; however, only emerging by 2005". A study by Kooskora and Vau reveals

that the top ten CSR reporting companies in the RBF index (2009–2010) have also engaged more stakeholders and their principles are clearly more strategically implemented. But at the same time, in the majority of companies some specific issues are discussed and decided involving some stakeholder group (Kooskora and Vau, 2011). Another survey carried out in Estonia by Turu-uuringute AS in 2007, shows that only 15% of the respondents (n=1021) believed that Estonian managers are ethical and honest in their behaviour. At the same time, these managers saw themselves as much more honest and ethical (EAS, homepage.) Many studies have been conducted, but there are still many opportunities for improving the ethical climate inside organisations and in relationships with stakeholders.

Thus, the next subchapters describe the ethics audit model and its implementation as the continued steps in developing business ethics in Estonia.

3.2. The discrepancy between declared values and real ethical behaviour

Prompted by research results from Brande (2010), Tate, Ellram, and Kirchoff (2010), and Wagner et al. (2009) about the potential hypocrisy of presenting CSR achievements, the author wanted to know whether there are contradictions between declared values and CSR principles and real ethical behaviour among Estonian companies. The author's hypothesis was *that in reality, the highly ranked companies in terms of CSR and social reports tend to behave irresponsibly.* According to the results of the research conducted by the author in 2012 (more precisely described in the article *The discrepancy between declared values and the real ethical behaviour of companies (Estonian case)* (Appendix 2) the author can assume that the declared values do not always survive in everyday business. As mentioned before in chapter 2.4 were 13 companies in sample, which were the highest achieving firms on the RBF Index and FeFC. The survey of the homepages belonging to these companies shows that:

- Five companies had displayed their values;
- Seven companies had displayed their mission;
- One company had stated their values in a quality policy
- No codes of ethics or codes of conduct were available on their homepage;
- Two companies held international standards;
- One company took part in GRI reports at level B.

The media monitoring was based on the online version of Estonia's biggest and most popular business newspaper *Äripäev* and the daily *Pärnu Postimees*. From the 13 companies, 8 have not had a negative article. Out of the top 5 companies in the RBF index in Estonia only one has no negative output, the rest of the companies without negative outputs were from the FeFC. It is important to mention that there were positive articles concerning all the listed companies and the main topic raised in these articles was philanthropy. Table 3 presents the results of the media survey and homepage analyses.

Table 3 Contradictions between declared values and real behaviour (based on media and homepage monitoring)

Type of company	Values/Mission or values indicators	Findings from articles which lead to contradictions	Violations of CSR principles
Energy company	All our energy for the good of the people.	Increasing prices without any explanation, no transparency.	Stakeholder (clients) interests, business ethics
	Competence	Many blackouts of electricity and problems with IT services.	Stakeholder (clients) interests
	Responsibility	Most distrustful company in Estonia (customers Gallup), smokescreen with waste products, poor rating from "S& P".	Stakeholders interests (community, clients, and owner)
Logistics company	We conduct our business openly and transparently.	2011 convicted of violating competition act, price dumping.	Stakeholder interests (society, clients, partners) business ethics- unfair competition, obeying the law
	Client-orientated; We are familiar with our customer's value chain.	Customer satisfaction decreased. Closing post offices in the countryside.	Stakeholder interests (clients, community)
Chemistry company	Environmental protection policy	Smokescreen with waste products.	Stakeholder interests (society, community, environment)
Forest company	ISO 14001, ISO 9001	Insufficient and not transparent timber accountancy.	Stakeholder interests (owner, society)
Water company	Service to everyone.	A family has been waiting for 25 years for public water.	Stakeholder interests (clients)

The findings indicated that 5 companies out of 13 showed contradictions between their declared values or statements in CSR reports and their real behaviour. To illustrate the survey results, one company holds an ISO 14001 certificate, but at same time the National Audit Office found that insufficient and not transparent timber accountancy practices are used in the company (Kruusmaa, 2011). The author highlighted conflicts between the main principles

of CSR and stakeholder theory. The research asserts that contradictions exist between declared values and real behaviour. In this case, the reputation of a socially responsible business could be in doubt. Therefore, the hypotheses of the research have been partially proven. The present study confirms previous findings and one can state that the phenomenon of hypocrisy concerning CSR reports and actual performance is a general problem. There is tendency for CSR reports to be hypocritical about reality everywhere in the world. Although the results cannot be generalised for all Estonian companies, the author can therefore conclude that one cannot completely trust compliance mechanisms such as CSR reports. This case study indicated that the ethics audit could be useful management tool in the service of creating and maintaining trust among company stakeholders and preventing ethics contradictions. An ethics audit would discover such contradictions, identify the risks and provide evidence-based guidelines to prevent potential ethical risks and improve CSR performance from the future perspective.

3.3. Implementing the developed ethics audit model

The literature survey provided a theoretical base for developing a new ethics audit model (Rihma, 2012). The literature review indicated that there are several models and processes for implementing an ethics audit which identifies ethical risks but none of these involved risk assessment. The author would point out that according to risk management theory risk identification is only the first step in systematic risk management. These findings were the main impulse for the improvement of ethics audit model. The process of improved ethics audit model described here offers a new interdisciplinary approach for the assessment of indicators of organizational ethical behaviour.

To test the improved ethics audit model, the author carried out a pioneering ethics audit survey in one small printing company in Estonia (Rihma, Meel, Leppiman, 2014). Due to the fact that this company was highly ranked in the RBF Index and the previous study (Rihma, Meel, 2013) did not detect any discrepancy between the declared values and real behaviour, the author decided not to pay special attention to CSR principles. The author with the company's manager identified that there is a need to assess ethical risks in the field of information technology, which could be a source of harm in the everyday work environment.

First of all, a thorough preparatory phase should be conducted before auditing because, as mentioned before, the ethics audit as an instrument is new in the Estonian business culture, and therefore, one has to view this process with special care. Explanations about the aims and benefits of auditing, finding a common language and a framework are crucial to the success of future auditing. On the other hand, it is also essential to get acquainted with the auditing company. The amount of information provided to the auditor has a direct correlation to the outcome. Consequently, more information will provide a better outcome.

Figure 5 shows the author ´ an improved model and the process of the ethics audit.
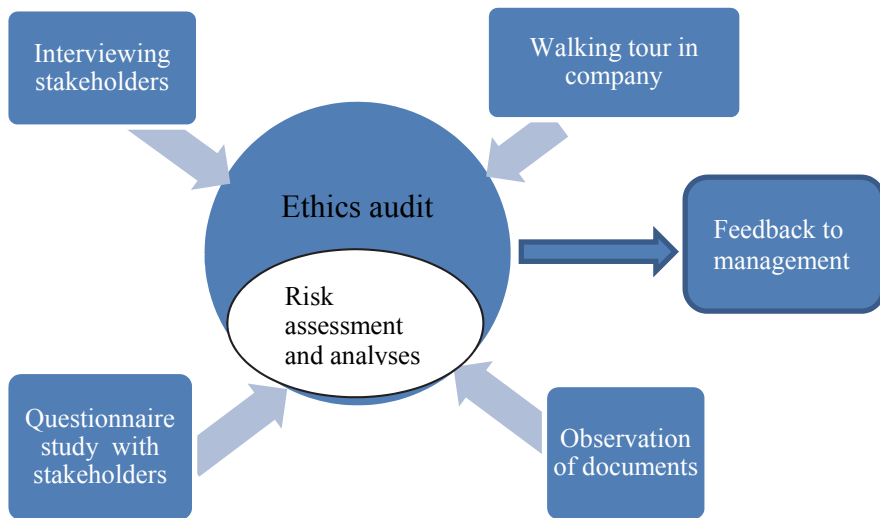

Figure 5 Model of the process of the ethics audit (compiled by the author based on the literature review)

As can be seen in the Figure 5, there are four main data sources for collecting information: observing documents, a questionnaire with selected stakeholders, interviews with stakeholders and a walking tour in the company. All data is categorised, analysed and assessed through risk mapping. Finally, feedback with risk analyses and a suggested action plan is given to the company's management.

The auditing process consists from six stages:

Stage I – involves sending a questionnaire to selected stakeholders (summary of the results Appendix 4). Stakeholders groups (e.g. employees, managers, shareholders, clients, suppliers, the community etc.) identified for the research depends on the company's interest and focus. A well-organized questionnaire results in a rich dataset on the subject of the survey. It is possible to use an ethics questionnaire or stakeholder engagement questionnaire; the online ethics monitor survey, or integrate existing questionnaires with specific questions followed by the company's or stakeholders' own questions. Both open-ended and closed-ended questions can be used. The author preferred to use the likert - scale with the opportunity to add remarks, where respondents can add their own understanding and comments. Through the questionnaire real attitudes and behaviour patterns in addition to hidden risks was discovered. Questionnaire gave also good compliance data for next stages.

Stage II – is a walking tour in the company workspace during working hours (office, factory, plant, leisure area etc.) to obtain information about the physical

evidence that supports or contradicts the results of other stages of the audit. For example, according to the results of the walking tour, the auditors noticed that no restriction for photographing was set, meaning that all guests can easily take photographs or videos without limitation. This poses a serious risk to the security of the company and client data.

Stage III – involved a focus-group interview with selected stakeholders (Valtonen, 2005, 223; Leppiman, 2010, 119). A person's attitudes and opinions have significant meaning in the auditing process. Reading between the lines is sometimes very informative and meaningful. At the same time, one should keep in mind the possibility of biases during the interview or when interpreting the gathered data. If a written questionnaire is fixed and there is no option to explain questions or the meanings of words, then an interview enables the researchers to clarify questions/phrases or to reformulate the topic immediately as needed. Furthermore, the interviewer and interviewees can get a better mutual understanding of the subject and can find a common language (McNamee, 2006). In the auditing process one can use either semi-structured or fully-structured interviews. The most complicated stage in interviewing is interpreting correctly, which assumes correct transcription and data analyses. If all words can be recorded, then the data the auditors get from interpretations of body language also need to be written as remarks during the interview. At least two interviewers should be present to fill the gap that could suddenly appear during interview. The results of the interviews indicate how the organization has met stakeholder interests or expectations and whether there is progress in meeting stakeholder interests or whether there is any improvement in ethical behaviour. In the current auditing case, the interviews provided the most valuable information. As mentioned before, the data from the questionnaire were used as background information, then the data from the interviews led to the risks connected to the security of client data, hacking issues, and the easy access to the printing area. The results of interviews also show that the employees knew the common values and CSR principles of the company. During the interview it became clear that there was a positive ethical microclimate inside organization, a strong team spirit and good working conditions.

Stage IV – involved discussing and solving ethical dilemmas. This is the natural sequel to the interviews. Story-telling and dilemmas indicate attitudes which shape or reflect behaviours in terms of honesty, individual and corporate ethics, satisfaction, expectations and tolerance for lack of trust, or quality. In pioneering the auditing model, several extra questions arose from the company's side; for example, how to deal with ethical dilemmas or how to manage the technical system better and decrease the likelihood of possible risks. The manager and employees confessed on many occasions that before anything bad have happened there are no security issues or risks.

Stage V – involves analysing documents (contracts, annual reports, internal documents, codes of conduct or values statements, regulations, rules etc.) The focus is on the directions and choices taken and on observable behaviour. During

the document analysis, the main data sources were contracts between employees, clients and service providers and the company. Auditors can obtain valuable introductory information from the company website (mission statement, CSR principles, portfolio of services, etc.). The structure of the webpage is eloquent – it indicates attitudes and intentions towards stakeholders (who it mostly concerns, who is the main stakeholder etc.) Data from annual reports provided an overview of the economic aspects of the company. However, the auditors can assume that the contracts of employees - employer and the company and service providers regulate confidentiality clauses and detail instances. Also documents such as CSR reports and quality certifications gave some information about issues under the questions of auditing.

The next table 4 gives an overview on the findings and data sources during auditing process. The findings depicted in the table below indicate that there are no common understandings with regard to the existing regulations. The answers given for the questionnaire did not correlate to the answers and information provided at the interviews. The incoherence appeared mostly in solving dilemmas and in situations in which the rules and regulations were not understood unanimously by managers and employees.

Table 4 Data sources and main research fields in auditing process (complied by the author)

Data sources / Main research field of ethical/CSR aspects	Questionnaire	Interviews (managers)	Interviews (employees)	Observation of documents	Solving ethical dilemmas in focus group	Walking tour
General governance: policies and procedures management rules	Evidences of awareness	Evidences of awareness	Mixed understanding of regulation	Evidences exist	Mixed understanding of policies and regulation	No direct data
Values	All respondents named some of the main values	Evidences and examples of awareness	Evidences and examples exist	Evidences exist (written values)	Common understanding of values	Evidences exist
Awareness of company's main CSR principles	Most are aware and 50% named some principles	Aware of principles	Aware of principles	No direct data	Common understanding of CSR principles	No data
Personal policies: privacy	Respondents do not mention problems	Evidences of hidden risks	Evidences of hidden risks	Complying	Evidences of hidden risks	Evidences about privacy problem
Regulations	No similar understanding	Complying	No similar understanding	No direct data	No similar understanding	No data
Clients issues: confidentiality	Confidentiality is fragile, evidences of hidden risks	Some evidences	Confidentiality is fragile, evidences of hidden risks	Evidences exist (contracts)	Evidences of hidden risks	Evidences about safety and confidentiality problem
It related issues Awareness of IT-related threats	Average awareness 3,17 (max 5)	Many hidden risks appeared concerning law awareness	Many hidden risks appeared concerning law awareness	No direct data	Evidences of low awareness	Evidences about safety and confidentiality problem
Security of IT	Evidences of the real risks	Evidences of real risks	Evidences of real risks	Evidences of real risks	Some evidences	Evidences of real risks
Compliance with laws and regulations	Inconsistency	Corresponding to law and regulation	Improper benefit of employees has come up	Complying	No direct data	No direct data

After collecting and analysing data next auditing stage - risk assessment and analyses was done.

VI stage – involves risk assessment and feedback for the company's management.

While all other auditing models and descriptions (see chap 1.4) are limited in their assessments and evaluations of the organizational ethical climate, this auditing model delivers a risk analysis, in addition to the suggestions given by the auditing committee on how to decrease the likelihood and significance of the risks. The author found a risk management assessment matrix visualized by through a heat-map to be an effective tool (Auditnet, 2010). Every risk that appeared was placed on scale of 1–5 based on the likelihood of its occurrence and then on a second scale of 1–10 according to its significance for the company. Since significance is considered more important than likelihood, it is scored highly. Subsequently, all potential risks are categorized and divided between four quadrants:

Quadrant 1 – "Prevent at Source" risks.

Risks in this quadrant are classified as primary risks and are rated "high" priority and coloured bright red. They are critical risks that threaten the achievement of the company's objectives. These risks are both significant and are likely to occur. They should be reduced or eliminated with preventative controls.

Quadrant 2 – "Detect and Monitor" risks.

Risks in this quadrant are significant, but they are less likely to occur. To ensure that the risks remain a low likelihood and are managed by the company appropriately, they need to be monitored on a rotational basis. Detective controls should be put in place to ensure that these high significance risks will be detected before they occur. These are second priority risks after the primary risks.

Quadrant 3 – "Monitor" risks.

Risks in this quadrant are less significant, but have a higher likelihood of occurring. These risks should be monitored to ensure that they are being appropriately managed and that their significance has not changed due to changing business conditions.

Quadrant 4 – "Low Control" risks.

Risks in this quadrant are both unlikely to occur and not significant. They require minimal monitoring and control unless subsequent risk assessments show a substantial change, prompting a move to another risk category (Auditnet, 2010).

Presenting risks in this visual manner provides a better and clearer picture of the most critical and potential risks that could harm the company's trustworthiness amongst stakeholders. First, potential risks were categorized and evaluated in terms of significance and then likelihood of occurrence. To illustrate the risk-analysis process, Table 5 and Figure 6 presents an example from the practical results of the ethics audit carried out by the author. According

to the privacy statement between auditor and auditee concrete risks with one exception cannot be named. The interview revealed that leaking private client data and easy access to the server-room were the most critical threats for this company. This risk received the maximum rating in terms of significance in the company's relationship with its clients and likelihood of occurring.

Table 5 Significance and Likelihood of Risks (compiled by the author based on the results of auditing)

Risk	Significance (1–10)	Likelihood of occurring (1–5)
Leaking private client data	10	5

After the evaluation, risks are divided between the four quadrants according to level of significance and likelihood of occurrence. As expected, the abovementioned risks were displayed in Quadrant I. Figure 6 presents real risks in the risk assessment matrix according the results of the audit.
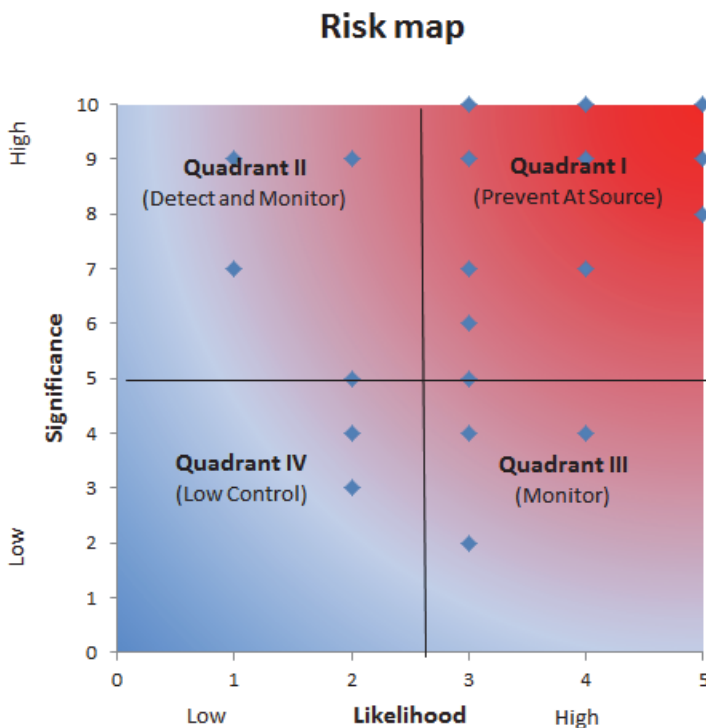

Figure 6 Risk assessment matrix (compiled by the author based on the results of the audit)

The auditing committee found 20 potential risks and divided them using the risk matrix as can be seen in Figure 4 above. According to the audit there are 10 risks in the first quadrant and entail threats to the reliability of the company. The author considers that risks in the IV quadrant (or nearby) could classified as hidden risks which can occur if control over thus risks is insufficient or even zero.

An auditing report as feedback is a factual document, which takes the most important findings as the basis for an action plan. The feedback contained the company's description of the audit methodology and the interpretation of the data, while best practices and hidden ethical and IT related risks were pointed out. In the final report every risk was supported with at least one example drawn from the facts identified in the auditing process. The feedback document was structured according to stakeholder groups: employees, managers, customers and shareholders. The management of the company accepted the proposals of the auditing committee. After receiving the feedback, a phone conference was held on the details of the auditing results.

3.4. Analyses of results and discussion

In this subchapter the analyses of the main principal issues and results which have arisen during long research period are given. The author also discusses about findings, research limitations and gives insights for possible future research.

The business world, especially international business is complex and needs a sophisticated approach to CSR and business ethics. A dichotomy of hypocrisy versus sincerity cannot be too black and white keeping in mind that each case is unique. Participating in several kinds of social reports or following different guidelines and codes do not guarantee responsible and ethical business behaviour. According to the findings about discrepancies between real and declared values, the author would like to point out that in every negative case the stakeholders` interests were damaged.

Implementing an ethics audit has made it possible to obtain new insights into the ethics audit in the context of Estonian business culture. The auditor has moral and ethical responsibilities to the company as a client. This means confidentiality and mutual trust. Implementing an ethics audit may significantly affect the organizational dynamic and vice versa.

The process of the auditing model can be implemented in such a way that makes it possible to apply all elements of ethics auditing separately, and to systematize the gathered data more precisely and so analysing the data is not so time consuming. Comparing current model to Kaptein's model, he uses mostly quantitative research methodology including multi methods in the auditing process. There are many questionnaires (inside qualities monitor, conduct detector, stakeholder decoder, and individual characteristic), all together more than 200 propositions. Kaptein calls it the ethics thermometer – where questions are posed per dimension over a perceived actual context and perceived conduct

(ibid). The ethics thermometer formulates concrete areas of attention in a short period of time. The last stage of his model involves methods such as a polygraph examination, a voice stress and handwriting analysis, a drug and alcohol test and so on. In the author's opinion, this makes the method much more expensive and time consuming. Kaptein's model uses interviews and observations less than the model of the current thesis. On the one hand, standardized questionnaires are efficient for the auditor and make it possible to compare organizations to one another, but on the other hand, qualitative research provides more direct communication and the opportunity to collect data in a different way (observations, interviews, and case studies).

The author has avoided the problems indicated by Levinson (2002). He found that one of the major problems in assessing an organisation is that the assessors depend too much on data gathered from interviews and questionnaires. The observation and the work contact is a way of ascertaining how a person feels about the work situation while the employee is in the work setting. The ethics audit involves observations and walking tours around the company.

Figure 7 presents an overview of the author's contribution to developing a systematic approach to the ethics audit. Information about the existing auditing model is based on the literature.
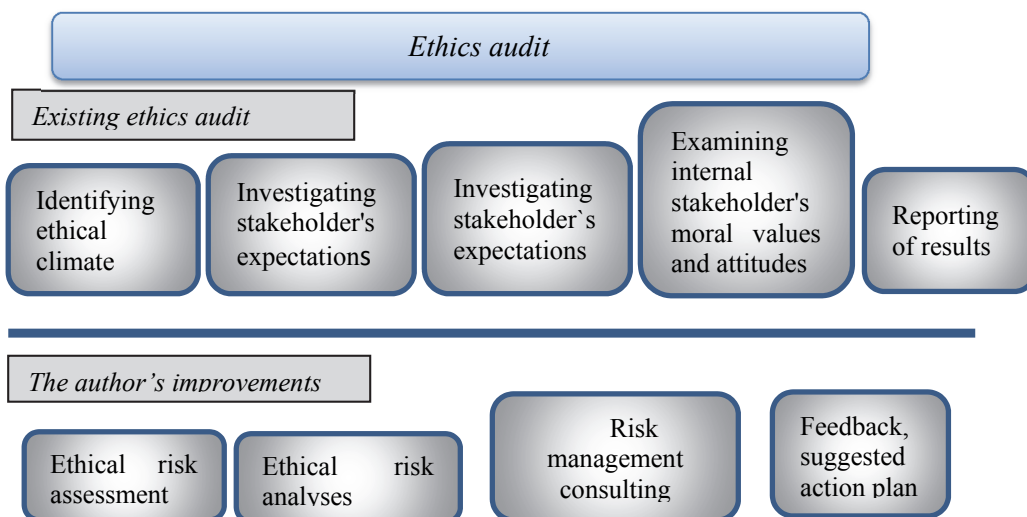

Figure 7 Author's contribution to improving ethics auditing (compiled by the author)

From the Figure 7 one can see that the main tasks of existing ethics auditing models are to identify the ethical *status quo* or make a compliance survey in a company. These auditing models identify ethical shortcomings and climate but do not analyse the likelihood or significance of risks or hidden risks. The gap in existing models is that a risk analysis is missing. A risk analyses is particularly important when talking about stakeholders' interests and preventing or minimizing ethical risks. After a risk assessment, a risk analysis should be conducted. The author added to ethics audit full risk assessment module including risk analysis, risk management consultation and relevant suggested action plan for management. This approach is supported by risk management theories (see ch 1.5 and Pinto, 2007). An ethics audit with a risk analysis gives the manager more useful information. As mentioned before in Kaptein's (1998) auditing model risk assessment can only be held in a stage of measures scan, where the chance of improper benefit of employees has come up. The auditor's opinion and evidence should be discussed by the management of the company under investigation followed by an action plan to mitigate or prevent possible risks. Selecting the stakeholder group or field (relationship with customers, society or partners) to investigate during auditing depends on the company's needs.

In the current case of implementing an ethics audit, the author cannot be satisfied with the questionnaire part of the whole auditing process. In view of small companies, it is difficult to get a sample size, which ensures sufficient responses for a proper margin of error. No doubt, the questionnaire is one of the most important sources of data during the auditing process, and it is necessary to make every effort to achieve a reliable sample size. The author used a questionnaire based on the literature and on the needs of the company; although, questionnaires designed for measuring the ethical climate inside an organization particularly among employees do exist (Victor and Cullen, 1993; Owen et al., 2002, Shawver and Sennetti, 2008) as does the ethical thermometer (Kaptein, 1998). To increase the reliability of the audit a larger sample size is needed. In the current survey, the author counts the questionnaire stage as one of the weakest parts of the auditing process. A lot of valuable data was unsuitable because of the small sample size. The more verified data the auditors can obtain the more accurate the results and findings they can offer the company management. Extra data sources are available through tracking internal events (e.g., previous surveys, customer complaints, transaction errors, litigation).

Some researchers have argued that focus groups interviews are not the best research method because of the potential influence of one or two respondents inside the group. The author is agreed that employees should be interviewed individually, as there were some signs indicating that experienced employees were more loyal than new employees. In the current study, there was also a dominant respondent in one group interview, the outcome of that group may be negatively affected and the results of the interviews biased. On the other hand, if the abovementioned situation arises, this may refer to a possible hidden ethical

issue within the organization. The author would like to point out that dilemma solving focus-group interview was very successful because it allows freedom and flexibility for the respondent to argue about issues without bounders. These ethical dilemmas had happened in some other company but during arguing about dilemmas, interviewees` attitude and hidden threats appeared clearly.

During analysing results the author realised that interviewing the shareholders of the company is inevitable. Many things which appeared or were confirmed during the interviews and did not appear to be a problematic issue to the employees or managers may definitely harm shareholders' interests (like hacking with the employer's tools, easy access to confidential files etc.). Shareholders' and investors' opinions are key elements to understanding the scope and activities of the organization. But on the other hand Kaptein (2008), James and Shapira (1987) profess that stakeholders risk readiness (incl. shareholders) can vary from risk-seeking to risk avoiding, or according to Jones, Felps, and Bigley (2007), and Rayner (2003), stakeholders cultures are different, and therefore, their treatment and attitude towards risks varies.

In the risk analysis, a biased interpretation may occur or threats that seemed to the auditors to be important (according significances or likelihood) may be less important to the mangers or *vice versa*. Therefore, it would be beneficial to have healthy dialogue with the management during the risk assessment.

To be more precise in evaluating risks, it is an important to reduce the frequency of scale of the risk assessment matrix (for example 0,5; 1; 1,5; 2 ...-4,5; 5).

As mentioned before there were not many documents that need to meet certain compliance standards, especially when talking about IT related documents or procedures. The auditing process should be supplemented with the minimum requirements of a compliance mechanism. Meaning that during the auditing process one should follow compliance using a certain basic kit of moral values or cyber ethics, but in this case it was not possible to use a checklist for such basic requirements (except in the case of different kinds of contracts). In this case neither of the auditors followed the compliance of the Estonian RBF index questionnaire, as it appears to have very little to do with IT ethics and the risks involved.

The benefits and advantages of this new approach to ethics auditing are as follows:
1. Ethical and CSR risk assessment;
2. Risk analysis and suggested action plan are compulsory parts of audit process;
3. Tailor made approach for the auditee;
4. Multiple methods (interviews, observations, questionnaires) of investigation;
5. Lower auditing costs.

There are several direct benefits in terms of a company's sustainability in addition to creating trust. For example, through an ethics audit companies

operating in controversial fields like gambling, fur, alcohol, mining and so on, have ways to provide more transparency about their business for their stakeholders and in that way earn a social licence to operate. This can result in less public protests and reactions against the company's activities. The ethics audit helped the company find out about hidden ethical risks, which could be harmful for stakeholders. The results of the ethics audit provide suggestions on how to manage these risks and prevent them from occurring in the future.

4. CONCLUSION

In the following chapter, the author will summarize the answers to the research questions and the theoretical and practical contributions of the research.

In the beginning of the thesis, several research questions and tasks were set up in order to pursue the main goal. A large amount of specific scientific and non-scientific literature has been analysed with the aim of analysing the role CSR according to stakeholders` interests, and to investigate CSR evaluation instruments. During the process of writing, the author had to manage the resulting information noise due to the large volume of available data. Separating the wheat from the chaff was not always easy. A considerable amount of information about CSR is held by central institutions on their websites.

According to personal research experience and literature studies, the author found several problems which are the bases for choosing the topics of the current thesis. Companies written values and CSR principles do not always coincide with the real behavior, which can harm stakeholders trust and CSR ideology. Therefore the author found that an appropriate management tool to stop this kind of contradiction could be the ethics audit. The author found during investigating different ethics auditing models and processes (Kaptein, 1998; Carmichael, 1998; Rosthorn, 2000) that previous ethics audits lack a risk assessment and analysis component. To fulfil this research gap in ethics audit approach the author's goal was to improve the ethics audit model which fills this gap and gives to managers instrument which helps managers in strategic planning of CSR and contribute to developing ethical climate.

Many scholars have argued that participating in several kinds of social reports or having code of conduct does not guarantee responsible, ethical business behaviour and does not meet the expectations of the stakeholder. Therefore, there is a need to investigate contradictions and hypocrisies between CSR reports or codes of conduct and real behaviour. From this raised one of three research questions. To provide an answer to the first research question: *Why does evaluating a company's CSR matter in ensuring the company's credibility amongst its stakeholders,* the author carried out research in 2012, which looked at several examples from international and local business culture. The results show that CSR reports or declared values are not always relevant nor do they reflect the real situation (see the Appendix 2). The author can summarize that highly evaluated social responsible performances oftentimes do not give society a proper picture about the companies' real operating values and behaviour (supported also by other studies from Wagner, Brande and Fassin). Summarizing the answer to question above the author can say that to maintain a high reputation, trustworthiness and transparency of CSR reporting among stakeholders, a third party external audit or monitoring before and after reporting may prevent hypocritical situations and reduce ethical risks.

Two further research questions were posed: *In what ways does the use of an ethics audit contribute to increasing trust among company stakeholders?* and

How does an ethics audit as a new assessment tool work in Estonian companies in the minds of the stakeholders? These questions contribute precisely to achieving the goal of the thesis. In article 1 (see the Appendix 1) the author investigates literature to know more about ethics audit and its shortcomings. The author hereby has improved ethics audit model with risk assessment module and added a full description of the process. For the author it was interesting to analyse previous auditing models and to find out how they might suit the Estonian context. The ethics audit model improved in this thesis is partly based on the model by Kaptein (1998), and contributes to Kaptein's model by adding risk assessment module. Identifying, assessing and analysing ethical risks will help managers to recognize potential adverse events in time, be more proactive to manage risks and minimize new ethical risks from occurring. An ethics audit has special value in the context of an acquisition or merger. An ethics audit contributes to the development of organizational trust and the trustworthiness of CSR reports for the past and provides guidelines for future sustainable management. An ethics audit allows the external auditor to map and analyse the company's compliance with international standards and CSR reports, evaluate the functioning of the responsible supply chain and identify ethical dilemmas ahead of potential risks in terms of their likelihood and significance. During auditing managers cooperating with the auditors can identify the main values of their business, who are the stakeholders, what are their expectations and how to meet them. Also, it is essential question how all members of the organization can support reaching their common goals. Sometimes this requires fundamental changes in organizational discourse, reward and incentive systems, people's attitudes and habits.

An ethics audit is definitely a new tool for establishing trust and reliable CSR performances for stakeholders in the Estonian business context. The Estonian business community needs more public information about the benefits of implementing an ethics audit. However, the author claims that the pilot project that implemented an ethics audit was successful for both parties – for the auditors and for the auditee (see the Appendix 3).

Compiling the thesis confirmed that the improved process of the ethics audit model is a systematic management instrument for the assessment of organizational ethical risks and CSR performance. The aim of the current thesis has been fulfilled – existing ethics audits methodology is improved and supplemented by risk assessment module.

To summarize *theoretical and methodological contributions* the author would like to point out most important aspects.

The main contribution of the dissertation is to have developed and empirically tested an ethics audit model with a risk assessment module. A new methodological approach has been used in improving existing ethics audit models. The new approach to the ethics audit does not only explore deficiencies of ethical or socially responsible behaviour or the ethical climate, but also highlights potential risks and assesses their impact on the organization. The

dissertation contributes to theory by providing more effective ethics audit system as recommended by Muel Kaptein. The results of the audit will be analysed in terms of the significance and likelihood of the occurrence of an ethically damaging event, after which a suggestion for managing this risk will be given. The risk assessment and risk analysis makes this ethics audit model unique and effective, offers more value for the auditee (see the articles in Appendices 1 and 3).

The author indicated the importance of the decrease in trustworthiness of CSR caused by the contradiction between declared and real behaviour. These findings are supported by many others scholars and may lead to CSR losing all its integrity due to hypocrisy. At the same time there is a growing interest in and demand for following common CSR principles for long-term corporate sustainability from international organizations (OECD, EU, World Business Council etc.). The literature study showed that a dissonance between the content of CSR reports and CSR principles can exist – CSR reports do not chart all the basic principles of CSR in terms of ethics, philanthropy, obeying the law, environment protection and profitability. This ethics audit model can be used as a systematic survey instrument and theory-based process for correlating real organizational behaviour and CSR reports.

From *practical contribution* it is important to mention that this was the first attempt to introduce an ethics audit as a managerial and diagnostic tool in Estonian companies with the aim of increasing the integrity and transparency of companies and preventing ethical risks. The ethics audit can improve a manager's ability to build up a transparent and reliable CSR strategy and contribute to eliminating the tendency towards hypocrisy. This successful pioneering ethics auditing model encourages researchers to continue to conduct ethics audits in Estonian companies and to work on improving the ethics audit process. As a result of the auditing experiment, ethics auditing makes it possible to discover hidden risks as they are forming and indicate the contradictions between declared regulations, documents and real behaviour and situations. Through the use of the ethics audit these kinds of risks and contradictions can be discovered in time and can be managed proactively and systematically.

The current thesis also contributes in terms of planning CSR strategies through an ethics audit. Up to now the main focus has been on CSR reporting, but no attention has been paid to the purposeful planning of CSR activities.

Limitations and further research

1) In regard to the results of the first survey about the discrepancy between declared and real values, one may question the reliability of an analysis based on media-monitoring because all articles have some emotional or subjective backgrounds. However, they are double blind analysed and both experts found that the negative cases selected here really were unethical or had a negative impact towards a stakeholders group. The author would also like to point out that due to the fact that the investigation into the discrepancy between published values and real actions was conducted some years ago, it should be repeated in

greater depth. At that time, the survey was rather preparing the next step – implementing the ethics audit to investigate real contradictions, and so the author can say that in this context the survey was sufficient. Another question that arose during the survey, when talking about CSR, is there a threshold for when a violation is substantial enough to see a company's "values" as hypocritical? Even the literature survey could not provide a final answer to that question. Future studies of the issue are therefore recommended.

2) The ethics audit was conducted in a single small company; therefore, the generalizability of the results or these experiences is rather limited. Considering the small sample size, caution must be applied, as the findings might not be transferable to other contexts, and auditing in different company or field might raise different issues. Auditing the whole company and all stakeholders will provide a big picture about the company's real ethical behaviour, hidden risks and the likelihood of risks occurring. The challenge exists for the author to use this model comprehensively throughout an entire company and in different types of organizations (services, industry etc.). Some researchers argue that one cannot generalize from a single case. But Flyvebjerg (2006) found that carefully chosen experiments, cases and experiences were also critical in the development of physics. Moreover, he argues that more discoveries have arisen from intense observations than from statistics applied to large groups.

3) Risks were estimated by the auditors based on the collected information. Nevertheless, the possibility of some risks seeming larger to the auditors, or, on the contrary, being underestimated remains. To be more precise in assessing risks, the frequency of scale on risk assessment matrix should be smaller. In this case some risks got same values and spots on the risk matrix were overlapping and focus of the risk may be lost. The major categories of data collection methods include stratified random sample research and focus group interviews, questionnaires, in addition to observations and content analysis. The challenge is to select proper methods and a research style for every case (organization).

One of the challenges in creating and implementing an ethics audit in the Estonian business culture was the absence of compliance material like codes of ethics, behavioural standards or CSR standards. After implementing the ethics audit for the first time, it is now clear that it could be a more successful process if the auditors can agree with the company management during the preparatory stage regarding certain basic requirements and what the managers would like to find out as a result of the audit.

4) The stakeholders approach foregrounds the interconnection between business and social issues, but according to CSR theories, the connection between CSR theories and the stakeholder approach is rather weak; therefore, it is complicated to report on stakeholder engagement in CSR reports. At the same time, CSR reports are targeted at the stakeholders. CSR reports offer information to stakeholders about the organization's social and ethical impact in order to acquire a better understanding of the risks to which firm is exposed through social and environmental performance (Solomon and Lewis, 2002). One

question remains, how managers can know what stakeholder expectations really are and what to report when CSR principles do not address the stakeholder approach. It can be assumed as believed by Crane and Matten (2007) that each organization needs a tailor-made approach toward stakeholder expectations and interests. When companies develop their CSR and stakeholders approaches, it is essential to take into account their nature, size, activities and location as well as costs, capacities and other competitive concerns, and the expectations of stakeholders, in order to further improve their environmental and social performance in an innovative manner. The author may argue that ethics audit is the best, and maybe even the only, way to address stakeholders' concrete interests more accurately and increase trust between the organization and their stakeholders.

The ethics audit as an assessment and measuring management-tool needs to be continuously developed. As the ethics audit can be implemented in different fields or can focus on particular stakeholder groups, the author can conclude that improving the ethics audit model is unlimited.

It might be appropriate to summarize the contribution of this thesis in the words of Lind and Van Den Bos (2002), who have said that although the creation and maintenance of trust can be costly in terms of managerial time and energy, those costs are rather small in comparison with the expenses associated with regaining lost trust.

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Ethics auditing model for Estonian big and middle size companies, Chinese – USA Business Review 2012, 1146 – 1158

Ethics Auditing Model for Estonian Big
and Middle Size Companies

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The purpose of this article is to introduce ethics auditing model for Estonian big and middle size companies where the majority of ownership is held by Estonian citizens. The earlier developed ethic audit models are not suitable for Estonia, due to the limited development of business ethics in general. Firstly, the paper offers an overview of corporate social responsibility reports and auditing. Taking into account Estonian business ethics culture, cultural background and the shortcomings of social reports, the author creates a new auditing model for Estonian companies, based on stakeholders' theory. Despite the fact that only 20% of managers in Estonia are aware of ethical management tools such as ethical auditing or different social reports and standards, most of the top managers would indeed like to pay more attention towards the ethical relationships among stakeholders. It is well known, that in a long term perspective, ethics auditing can improve company's effectiveness, raise the quality of management and assure sustainability. Ethics auditing is understood as an opportunity and agreement to devise a system to inform about ethical corporate behaviour. After the upcoming actuation of the previously mentioned model, the auditing model will be examined and improved when necessary in order to guarantee its applicability *per se*.

Keywords: ethics auditing, trustworthiness, stakeholder theory, social audits, social reporting, sustainability

Introduction

Today's need to rebuild trust after the financial crisis and the apparent reorientation towards a sustainable economy is being translated to call for unprecedented levels of transparency. The reward of a highly ethical value system is not fame or fortune; the reward is the knowledge that you did what was right, which is far more life-enhancing than money or prominence. It is important to hold companies effectiveness and happiness together. There are needs to be more to ethics than the trust and honesty that requisite of any successful organization and the ethical strategies such as care for customers, employees and others stakeholders pay off in increased profit (Duska, 2007). Economic crisis amplifies all other crisis in the society and in human relations. Businesses which have built a bond of trust with their interest groups have a much greater chance of survival. Intuition, which is often used as an evaluating measure for the quality of the acts, may be misleading. However, objective evaluation is possible when different types of interest groups are attracted. Ethics auditing and social reports are the main tools for companies for analysing relationships between stakeholder groups and companies real activity. Transparency means that management decisions are clear, honest and open about our environmental programs and performance. Other mechanisms developed to build trust and accountability is

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different reports, performance assessment and evaluation, codes and common accepted good practices.

The aim of this article is to describe ethical auditing model for Estonian big and middle size companies where majority of ownership is held by Estonian citizens. Most of the big companies and employers in Estonia affiliates of international companies, where all strategically decisions are made in the headquarters. There are own national rules, habits and values which are common to concrete cultural society or based on companies deep cultural values.

In spite of fact that we are a Nordic country, there are some historical and cultural reasons for tendencies to act differently in comparison to Swedish or Norwegian or even Finnish people.

International trust towards Estonian companies and managers is rather poor. Companies' sustainability depends on the values, honesty, and moral of the owner or the CEO. That is the reason why it is urgent to implement regulations to improve trust with all interest groups, including investors from outside.

The implementation of the audit model can help to build trust through facilitating companies' accountability and transparency. It is important to use auditing more internal way than external way. Auditing means to help managers to make and plan right strategies and polices, not to be one passive or fictive PR element. This is evaluation of the positive and negative consequences of business activities by using criteria that consider the value to society, social performance, the environment, profitability, etc. (Büscher et al., 2005). The public decision and attitudes as well are based on the ethical choice and the grounds for observing these values are the recognition of that circumstance. Facts can never lead to direct decisions about what should be done. State of things can be described by facts but in order for the decisions about the future to be possible to make, the author needs to complement these facts with assessments. That's why all opinions and standards regarding important decisions should be made public. In spite of a rather high unemployment rate, all managers and owners think about possibilities to attract the best employees and capital on the most favourable terms. Challenges, work conditions, and microclimate are more essential for potential employees than the salary level. To get best human capital, managers have to pay attention for those aspects.

Main focus has usually been on the behaviour of managers, but less attention has been paid towards employee's attitudes and sense of responsibility. What is the role of employees in organizational surviving and how they share the responsibility for company's sustainability? There could be a lot of different codes of conducts, reports, and regulation, but if employee does not feel his/her is a part of the organization or he/she does not take part of the responsibility, the thought or the attitude towards his/her extra bonuses should not be accepted. Ethical behaviour, trustworthiness, and morality have to be internalized into every member of the organization. It could be possible in circumstances when managers and employees are real partners with mutual respect. All organizations are vulnerable to the risks of stakeholders, for example employee's misconduct or inefficiency. CEOs should promote actively environmental awareness by training and education of employees and follow efficient use of energy and materials in offices in production areas. Talking about core values of the organization in every level (employees, partners, owners etc.) helps these values and norms to become effective in everyday's life. An untrustworthy company cannot succeed in the medium- or long-term perspective. The only opportunity for success may be possible in societies where legal regulation and oversight are insufficient.

Business owners and top managers must be carefully fostered in order to create trust towards each stakeholder group and maintain a long-term license to operate. This auditing model will take into consideration of stakeholder's theory and through this one can analyse integrative roll of each stakeholder group, meaning value based on management and social responsibility. The systematic analysis helps companies

comprehensively evaluate their own activities. Ethics auditing is more than an exercise of information gathering.

Very often organizations culture is like a nice display window—fancy and excellent—they are sponsoring culture, launching good and luxurious products, they are market leaders in ones segment, but real life inside organization is hidden and distinct from external side.

In this article, the author first gives short overview of the ethics auditing and social auditing literature, after that a background of business ethics in Estonia is given to understand better differences between old developed economy systems. Main part of this article describes auditing process and its action on the before mentioned topic.

Short Overview of the Ethics Auditing Literature

Ethics auditing is useful and objective tools for implementing good governance principles in organization. It gives trustworthiness and transparency for every stakeholder group. Auditing provides information which allows investors to evaluate the intensity of an organization's approach to social performance management, to validate the reliability of social performance information self-reported by an organization and to compare or benchmark performance between organizations. OECD (Johnston, 2004) has definite good governance as a set of eight characteristics:

• Equity and inclusiveness—to ensure that all stakeholders feel that they have a stake in the organization and do not feel excluded;

• Responsiveness—organizations, institutions and processes try to serve all stakeholders within a reasonable timeframe and within the means available to them;

• Participation—direct and indirect involvement with the organization through the ethics;

• Audit and other means open to all stakeholders;

• Consensus oriented—be prepared for, meditation between different interests in society and the community to reach a broad consensus;

• Effectiveness and efficiency—produce results that meet the needs of society at large and stakeholders in particular, while making use of the resources available and using them carefully and environmentally;

• Transparency—decisions are made and enforced in a manner that follows the organization's rules and procedures, and all relevant documents are open for inspection;

• Rule of law—good governance requires fair legal frameworks that are enforced impartially and human rights are upheld at all times;

• Accountability—is accountable to the public and to the organizational stakeholders.

Ethical auditing is strongly connected to social auditing and social reporting. For its beginning, almost 30 years ago, social auditing was mainly used by non-profit companies or social enterprises. Nowadays, different social auditing reports are widely used. Social auditing (Boyd & Albee, 1998) is a process that enables an organization to assess and demonstrate its social, economic, and environmental benefits and limitations. It is a way of measuring the extent to which an organization lives up to the shared values and objectives. Social auditing is based on the need of organizations to create a balance in the way they plan and measure their commercial and non-commercial operations, and to prove that there is consistency between what an organization says it will do and what it actually does (Spreckley, 2008). Social auditing provides an assessment of the impact of an organization's non-financial objectives through systematically and regularly monitoring its

performance and the views of its stakeholders. Social auditing (Centre for good governance, 2005) requires the involvement of stakeholders. This may include employees, clients, volunteers, funders, contractors, suppliers, and local residents interested in the organization. Stakeholders are defined as those persons or organizations who have an interest, or who have invested resources in the organization. The social auditing process requires an intermittent, but clear time commitment from a key person within the organization. In ethical auditing process are main roll of external independent experts. Business dictionary defines social auditing as follows: Social auditing is a process for evaluating, reporting on, and improving an organization's performance and behaviour, and for measuring its effects on society. The social audit can be used to produce a measure of the social responsibility of an organization. It takes into account any internal code of conduct as well as the views of all stakeholders and draws on best practice factors of total quality management and human resource development.

The definition for ethical auditing by a business dictionary: neutral, third-party verifiable process to understand, measure, report on, and help improve an organization's social and environmental performance. Ethics auditing is value-linked. It gives awareness of nature of the firm core values, highlights gaps between the officially stated values and those actually practised under the pressure of everyday's realities (Rosthorn, 2000). Even though the main reason for having ethical guidelines is not to provide a cookbook solution to every practice-related problem, but to aid in the decision-making process for situations that involve ethical questions. Ethics auditing topic has been discussed very thoroughly by Muel Kaptein, a professor of the University of Erasmus of Netherlands. Kaptein (1998) had defined an ethics auditing as a systematic approach which makes a description, analysis and evaluation of the relevant aspects of the ethics of an organization. An auditing process can provide information about the improvement of the organizational qualities and relationship with stakeholders. It helps to prioritize the objects and aspects to be improved. The point of the ethics auditing is found in the systematic manner in which the analysis is performed. The whole company should be monitored in all its activities and actions whilst paying particular attention to the company's stakeholders and the values that form its moral foundations (Büscher et al., 2005). At the same time, there could be concentrate for special field for example personal management or marketing activities. By performing ethical audit, the company is aware that it is an entity whose responsibilities are more than just for maximizing profit. Ethical auditing helps to capture and clarify the identity of an organization or if necessary even create new one (Büscher et al., 2005). Results of the auditing should be practical; it means that the committee should give real suggestions for improving the working environment and increasing its transparency. As Parthasarathy said (1988) former additional deputy controller and auditor general from India—there are in fact few social indicators and these have been developed by academic institutions doing research in a very narrow area and in highly artificial environmental models. It is necessary therefore that before any use is made of the so called social indicators, their relevance to the context of the programme audited has to be determined or, if it is at all possible, they should be appropriately modified. Excessive reliance on social indicators can lead to an accountant's measurement of the state of affairs rather than an intelligent auditor's evaluation.

To be ethical involves three activities: knowing the good, loving the good, and doing the good (Duska 2007). Of cause most important is basic—knowing the good. This knowledge must be same for all members of organization.

An Overview About Estonian Companies From the Ethical Aspect

The quality of ethical management is largely depending upon the decision-making ability of a manager and also on ethical knowledge people have. There is often an ethical conflict between earning money and doing what is good. Sustainability of society and republic depends on economic, the growth of economy. For a small country like Estonia, foreign investments play an important role in the sustainability of society. Unfortunately, trust towards Estonian economy is currently not very high. There are some researches carried out among Estonians to find out the characteristical patterns that describe attitudes towards Estonian business ethics and honesty. Survey carried out by author in 2009 among top managers and owners of Estonian middle and big size companies, gives the reason to implement more and more ethical management into Estonian society. There are around 150 middle or big size companies in Estonia owned by Estonian citizen. The study shows that only 20% of managers are aware of ethical management tools like ethical auditing or different social reports and standards. At the same time, 75% of top managers or owners would like to pay more attention towards ethical relationships among stakeholders. 85% of managers pay attention to their business partners' ethics. Therefore, the author can assume that in case of choosing business partner, attention is not only paid to economic aspects but also to culture, ethical decision-making, and performances. It seems to be similar in other post-Soviet countries. It is just a question of time, when there is need to follow same regulation and standards as developed countries. Year by year it is going better and better. In spring 2008 the Forum of Responsible Enterprising carried out a study on responsible enterprising among the lodging establishments of Estonia. A total of 46 companies participated in the study (Siller, 2008).

Auditing Model for Estonian Companies

Most important keyword for the next 10 years is the value of immaterial capital, especially the value of human capital. That depends on how quickly and optimistically we can adapt to changes, how capable are our employees to use high tech technology or create new solutions. The beneficiary depends on how committed and loyal are our employees. Employees are committed to their work, when work conditions and attitudes meet the needs of workers or they are even higher and when they are treated equitably. As in Global Report Initiative (GRI) significant market value derives from intangible assets such as reputation, capacity to innovate, and commitment to social well-being. It will help to identify various components of a company's value that are not always apparent when simply assessing its financial performance. According to Mackenzie (1998), Domingo (2005), and Kaptein (1998), ethics auditing has very little to do with the traditional auditing of accounts. It aims to reflect the extent to which the company meets the economic, social, and environmental demands on which the trust placed in it depends. Ethical auditing is a process of taking account of financial as well as non-financial utilization of resources, delivery of outputs and outcomes of an activity or programme or organization in a participatory manner by consulting all stakeholders. Auditing is about supervising and advising, therefore the results cannot be released to the public, if owners or top managers do not agree with that. There are several reasons to implement auditing process and possibilities to take advantage of that. This is the first attempt to use the ethical audit (or social audit) in Estonian companies. The focus is on evaluating the previous performance and establishing the structure, procedures, criteria, and objectives for next period. Auditing process is carried out by the external auditing committee. The auditing committee should be composed of at least three independent experts. They might be representatives of a cross section of stakeholders

but it is not suggested in small country and sometimes corrupts Estonian culture. It is difficult to stay impartial expert in described circumstances.

There are three basic restrictions for committee experts:

• He/she has to be active researcher in business ethics. Publishing one-two scientific article per year in a reviewed journal or presentations in conferences;

• He/she should have practical experience in corporate government;

• He/she should not have any kind of interest towards the organization being audited.

Internal partner to committee is the workgroup inside organization to provide for auditors assistance and operative information. To develop ethics auditing for Estonian big and middle size companies built on Estonian capital, the author created a framework, that took into account the goals and indicators of Kaptein (1998) ethics auditing, GRI model and social auditing models. Creating auditing model principles of EU SCR strategy for 2020 (Communication from the Commission, 2010) and ISO 26000 model are supporting as well.

There are some meaningful aspects that author would like to stress modelling auditing process. Before collecting information, it is necessary to find out companies main strategies, principles of management and operations. After this, the author can continue with identifying the values, aims (mission), and objectives of the organization. Attention must be paid to the fact that all data used in a regulation, is up to date, if there are internal regulations like code of conduct, if the code of conduct is fictive or it has real practical value. If 20% of Estonian companies have code of ethics or code of conduct, then at least 80% of them are fictive. It means that they are obligatory to have, but they are never followed. Hereby presented auditing model takes into account following strategies and activity fields:

• General Government;

• Personnel policies;

• Economic effectiveness;

• Law-abiding;

• Environmental performances;

• Sustainability.

An auditing process is divided into parts and it depends on companies needs, which part is receiving more attention during the process. Audit can be tailor-made for each company, but there should be some common principles and parts to compare with other companies. Employees and managers will encounter novel situations in their jobs and will need ethical guidelines to handle them effectively.

Auditing Process

The auditing process includes several activities, which are described as follows.

Defining Audit Boundaries for an Organization

• Purpose and expected outcome of the ethical auditing;

• Identifying key stakeholders group;

• Detailed planning of auditing process.

Collecting an Information

Observation of documents:

• Reviewing the aims and objectives set out in the organization's business plan, operational plan, and

constitution or funding proposals;
- Previous SWOT analysis ;
- Minutes of board meetings ;
- Annual and management reports;
- Internal regulations etc..
  Questioning and interviewing stakeholders:
- Owners and top managers (how are they used? and how they are involved?)
- Employees;
- Customers (products and services, safety);
- Partners;
- Suppliers (honesty, payment rules);
- Society (environment and local habitants);
- Competitors.

In the questionnaire, the ethical aspects will be quantified by requesting each stakeholders representatives (n = ca 50) to give their opinion on a diversity of propositions on Likert-type scale from 1 to 5, where 1 is absolutely disagree and 5 is agree completely. For each stakeholders group, a special questionnaire will be worked out. A sample question from survey forms, worked out by the author, for employees is given in Appendix A. Some questions require a simple yes/no answer, some are open type questions and require the respondent to write an answer or an opinion. The questionnaire is divided into three parts—first part gives basic information of organization, second part gives overview of personal, and third part is about employee's common moral attitude and ethical behaviour to understand employee's responsibilities in organizational success and ethics.

Additionally, a multiple choice integrity test can be used. It helps to find out employees thoughts, feelings and expected behaviours in matter of ethical aspects. Usually this paper and pencil honesty test is used as a stage in selection process among job applicants, but it is valuable data source in auditing process as well (Kaptein, 1998). In Estonian model, this part is important because of its historical culture perspective, where stealing behind employer is common and everyone's right. There are some rudimentary from Soviet time that still belong to our employees accepted norm. Indicator requirements:
- Meaningful and significant: An indicator must tell something about what organization is trying to achieve;
- Measurable: An indicator must be able to show change, through numbers or level of satisfaction;
- Simplicity: If an indicator is too complex it may be ignored, or misunderstood;
- Comparability;
- All indicators are indirect measures that tell us whether organization is making progress toward achieving ethical behaviour and expectation of stakeholders.

After questioning a statistical qualitative, analyses will be done. Measures represent the proportion of employees who respond with agree and strongly agree to selected questions. From this analysis could come out contradictions between or in stakeholders group. It means that the difference between what is said and what is done, or what people do and what other people think they do. Results of this analysis will show if there are any contradictions between or in the stakeholders group. If there are any differences between what is said or written and what is the reality. To clarify and determine this contradictions focus group or personal interviews will be held. A concentration is towards ethical aspects and findings from questionnaire analyses. A personal interview

is more effective because interviewees may not be so open among co-workers or stranger people. This is the most important part of the auditing process since it gives adequate information to the auditors. If needed, SWOT analyses will be done by stakeholders group. Each focus group's participant identifies and writes down on cards, what they think of the organization in terms of its strengths, weaknesses, opportunities and threats. After that, most important areas will be prioritised and secondary areas discarded.

Hereby, some examples of an interview question for employees are given:

- Who helps employees to solve ethical conflicts or misbehaviour?
- Do you have adequate information for doing your job accurately?
- What are your expectations towards the organization within next five years?
- What do you do if the work regulations do not support your interests?
- How you feel that you are treated by your colleges and manager?
- Do you think that the owner/employer is honest with the employees? Give an example.

Auditing Committee Walking Tours in Company (Factory, Office, Storehouse ect.)

During walking tours real picture of organization will open to the auditors, real work conditions will be photographed.

Table 1 gives a general overview about the data sources, which auditors can use during the auditing process to collect information.

Table 1

Data Sources and Fields of Governance/Strategies

Stakeholders group / A field	Board of Directors and owners	Employees	Customer	Society (environment)	Partner and supplier
General govern	Mission, vision, strategic goals	Involvement when working out strategies, dialogue in case of critical decisions.	Policies and procedures for dealing with customer complaints.	Compliance with internet standards, ability to manage local environmental crises	Honesty credibility, back taxes, cases of bribes
Personal policies	Training plan, number of cases in labour dispute committee	Recruitment and dismissal, trainings in last three years	Customer service standards, number of solved conflicts	Percentage of indigenous among employees	Mobility, capacity
Economic effectiveness	Annual reports, return of investments	Workforce productivity	Price and quality	Cost of office trash	x
Compliance with laws and regulations	Regulation of accounting, number of court cases, cost of jur. consultation.	Cases of discrimination, inequality, remuneration, undeclared salary.	The number of cases of bribes	Environment pollutions	International standards
Relationship with local community	Involvement in social activities, sponsorship.	Family activities, donations (in case of birth, marriage, death)	Fair trade policies	x	x

Risk Mapping

Mapping the risks helps to identify, evaluate and prioritize a group of risks, which could significantly influence companies or business unit's ability to accomplish its strategies. Only risks are taken into account, which can occur due to unethical behaviour, illegal action or non-value based management. Hereby, in auditing the author talks about strategic-, transaction-, reputation- and regulatory/compliance risks.

Using the Arthur Andersen Business Risk Model (Auditnet, 2010), several business risks which could significantly impact a company's ability to accomplish its business strategies have been identified. The risk that changes in regulations and actions by regulators can result in increased competitive pressures and significantly affect the company's ability to efficiently conduct business. The Risk Map prioritizes each risk according to significance and likelihood and maps the risks into four quadrants.
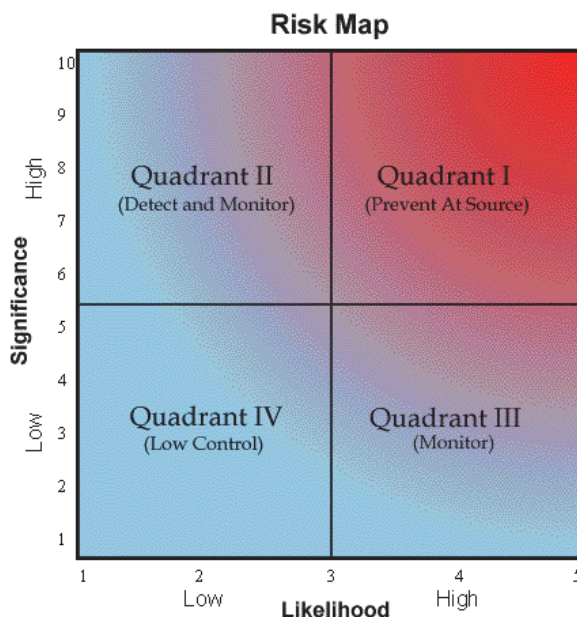

Figure 1. Arthur Andersen Business Risk Model (Auditnet, 2010).

(1) Quadrant "Prevent at Source" risks.

Risks in this quadrant are classified as Primary Risks and are rated "high" priority. They are the critical risks that threaten the achievement of company objectives. These risks are both significant in consequence and likely to occur. They should be reduced or eliminated with preventative controls and should be subject to control evaluation and testing.

(2) Quadrant "Detect and Monitor" risks.

Risks in this quadrant are significant, but they are less likely to occur. To ensure that the risks remain low likelihood and are managed by the company appropriately, they need to monitor on a rotational basis. Detective controls should be put into place to ensure that these high significance risks will be detected before they occur. These risks are second priority after Primary Risks.

(3) Quadrant "Monitor" risks.

Risks in this quadrant are less significant, but have a higher likelihood of occurring. These risks should be monitored to ensure that they are being appropriately managed and that their significance has not changed due to changing business conditions.

(4) Quadrant "Low Control" risks.

Risks in this quadrant are both unlikely to occur and not significant. They require minimal monitoring and control unless subsequent risk assessments show a substantial change, prompting a move to another risk category.

Risk assessment survey will be presented in Table 2, where significance is rated on scale 1-10 (1—week and 10 strong) and likelihood of occurrence is rated on scale 1-5 (1—likelihood of occurrence is low and 5 is high).

Table 2

Significance and Likelihood of Risks

Risk	Significance (rate 1-10)	Likelihood of occurrence (1-5)
Hard to recruit highly qualified employees	8	5

An example above illustrates the circumstances where risk *to recruit new employee* is very high and at same time quite significant. It falls into Quadrant I, suggesting that this risk should be *Prevented at Source*. These are critical risks that threaten the achievement of company objectives. The completed risk map should give a basis for assessing risks and addressing each one in accordance with its potential impact on business strategy.

Writing and Presenting the Final Reports to the Council or Board

Auditing report provides multifaceted and factual information and describes the performance of the organization, the problems and solutions. Auditing report includes an analysis for all investigated fields according to Table 1. Independent and external auditors verify that the information is accurate and relevant. Report also includes a risk analysis and suggestions on how to eliminate most significant and obviously rising risks.

According to the agreement with CEOs or directors, the results are presented fully or partially to the stakeholders. Each part of the audit could be handled separately.

Report should also include a variance analysis between the year's planned and actual achievements, a general statement about the organization's overall performance in relation to the management statement and trends from one year to the next, if that evidence has been generated. The ethical audit report should have a self evaluation of the auditing team regarding the positive and negative factors involved in the audit.

Auditing committee will gives guidance regarding which stakeholder should be consulted in the next social accounting cycle and appropriate methods of consultation in the future.

After the report is presented, a clear action plan and timetable will be prepared. Planned activities should be measurable in order to guarantee their effectiveness.

Follow up Activities

Evaluation of the audits effectiveness would be done in cooperation with managers. For that reason organization should compile a work group who guarantees that all suggested activities will be implemented as prescribed. Periodic review of the ethical audit programme should be conducted by a control group, which involves as many stakeholders as possible. Not before than six months after the audit, same focus groups should be interviewed again to ensure, that planned activities were successful. Next audit should take place in two years; in this case auditors have opportunity to gather comparing materials.

Conclusions

Ethics auditing gives possibilities for brand and reputation enhancement, differentiation in the marketplace, protection from brand erosion resulting from the actions of suppliers or competitors, networking and communications. Ethic auditing is a valuable tool for managers. It provides possibility for cutting costs, increasing turnover, improving corporate identity and image. This is a great instrument to measure and improve corporate ethics and moral duty. For Estonian credibility and the country's economic growth the following topics, such as the adaption of the euro, the labour market, the balance of the current account or the credibility of the banking sector, cannot be solved or analyzed completely before the economic climate is not trustworthy, transparent and based on same values as in developed old western countries. Then the unanimous dialogue can take place. Model, presented in this article is general, but also significant and unique.

(1) This auditing model follows an advisory approach. No punishments or repressions are carried out. Second auditing could be based on a preventative or even repressive approach. At first, we need to introduce Estonian managers to a new way of thinking, to show, that higher ethical behaviour and ethical management are the ways for survival at global market in long term perspective;

(2) Several problems are caused by dishonesty and cheating, which are the rudiments or heritage from Soviet moral. Estonian society (including economy) has changed rapidly during the last 20 years from socialism towards free market economy. People took over the economic examples from European countries, but did not adapt new manners, relations and principles of the management;

(3) This model covers widely spread misbehaving problems like undeclared salaries, bribes, mental violation at work relations, discrimination, and cheating.

Attention has been paid to question of responsibility of employees. Employer and manager cannot be blamed for unethical behaviour or incidence at workplace. It is question of personal responsibility, about personal role in organizational sustainability and effectiveness. It is a wide, but less talked problem in all over the world and it should get more focus in the future. Through value based management we have to combine employees' interests with value and profit/loss in business (Lin & Tang, 2009). It is important, that all stakeholder groups follow good common values;

(4) Obstructions may occur in the auditing process due to manager's lack of interest and time to deal with ethics questions. In fact, there is need to change the way of thinking and reorient principles of corporate governance. Unfortunately social responsibility, value based management, and business ethics are not self-evident, but fortunately there are lot of possibilities to show for managers how much benefit and profit could be taken from the value based on management in long term perspective. One already discussed possibility is to implement trade mark like *Ethical Corporation* which can be used as PR instrument in local and an international market.

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Appendix A

In following section please mark X if you are agree and add a comments.

Table A1.

An Ethics Auditing Questionnaire for Employees (an Example).

	Yes	No	May-be	Do not know	Comments
1. Basic information of organization					
Are you aware of the organizations values					
Do you have a written mission statement that defines broad social goals in terms of: a)who are your target clients b) how will their needs will be met					
Do you have a code of conduct					

In following part 1 means absolutely disagree and 5 is agree completely

(Table A1 continued)

	Yes	No	May-be	Do not know	Comments
2. Personnel policies	1	2	3	4	
The personnel policies are interpreted and used fairly by managers.					
The payment system is fair.					
The incentive wage system in our organization is fair.					
Managers set a good example by following the laws and policies that apply to their jobs.					
Managers insist that employees follow the laws and policies.					
If I have a complaint in my department, it will be handled fairly.					
Recruitment process is transparent.					
Misusing work time is common.					
Personal moral					
Employees in my work group behave ethically in the workplace.					
Employees in my workgroup take part in decision-making.					
I can report any unethical behaviour.					
I am confident that quick and decisive action will be taken if wrongdoing is discovered in my work group.					
I am a loyal to the employer.					
I feel valued in my company.					
I feel responsible for the success of organization.					
I feel responsible to satisfy the needs of the customer.					
I work as much as minimally required.					
I would like to participate in decision-making.					
If possible, I cheat my employer.					
I believe that there is no need to be at workplace to fill the working hours, if the work is done.					
In case of misbehaviour I am able to admit the committed mistakes.					
I have a strong commitment to my employer.					
My values and the values of my department are similar.					
I rate my personal ethics highly.					
I rate my manager's ethics highly.					
It should be always clear, what is the right thing to do.					
Ethics depends on the context and the consequences of actions.					
Virtuous person do not need rules of ethics.					
I replied to the questions honestly.					

Appendix 2

The discrepancy between declared values and real ethical behaviour of companies (Estonian case), European Scientific Journal, 9(16), 26 – 42, 2013

THE DISCREPANCY BETWEEN DECLARED VALUES AND REAL ETHICAL BEHAVIOUR OF COMPANIES (ESTONIAN CASE)

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Abstract
      Many corporations present their corporate values, mission and executive principles on their website or in the public manifesto. During the recent years, describing and presenting the values of a company to the public and taking part in social reporting seems to be a growing trend in Estonia. In reality, the declared values oftentimes do not work and the actual managerial decisions are not influenced by the values or mission declared.

The aim of this paper is to describe how organizations express their values and to analyse does how the behaviour of manages are cconsistent with the declared values. Through media monitoring the authors find out is there any discrepancies between declared values and real ethically responsible behaviour.

The issue gained momentum after several companies, which had recently won high places in competitions responsible and sustainable business in Estonia, started suffering growing criticism from the media.

To avoid contradictions between real behaviour and declared values the authors suggest ethics audit as solution.

Keywords: Corporate social responsibility (CSR), business ethics, values, trustworthiness, ethics audit

Introduction
      Investors and partners today are more concerned about trustworthiness and honesty than ever before. The organization expresses its values first of all through their managers` decisions and behaviour.
      An organization may publish one set of values, perhaps in an effort to push forward a positive image, while the values that really guide organizational behaviour could be very different. If there is a disconnection between declared and real behaviour, it may be difficult to determine what is

"acceptable" and companies trustworthiness comes under suspicion.

OECD has defined good governance as a set of eight characteristics of good management practice (Johnson, 2004):

1. Equity and inclusiveness—to ensure that all stakeholders feel that they have a stake in the organization and do not feel excluded.
2. Responsiveness—organizations, institutions and processes try to serve all stakeholders within a reasonable timeframe and within the means available to them.
3. Participation—direct and indirect involvement with the organization through the ethics.
4. Audit and other means open to all stakeholders.
5. Consensus oriented—be prepared for, mediation between different interests in society and the community to reach a broad consensus.
6. Effectiveness and efficiency—produce results that meet the needs of society at large and stakeholders in particular, while making use of the resources available and using them carefully and environmentally.
7. Transparency—decisions are made and enforced in a manner that follows the organization's rules and procedures, and all relevant documents are open for inspection.
8. Rule of law—good governance requires fair legal frameworks that are enforced impartially and human rights are upheld at all times.

Managers know well the meaning of sustainable and responsible business; they know the right answers when they have to fill questionnaires or reports. Reality often turns against them when they do not understand how to act and operate in   accordance with the declared values and mission.

In the current article, the authors examine 20 Estonian corporations, which have received significant results from CSR report competition in Estonia and analyze the coherence of values and cases based on media monitoring and organizations` websites.

The lack of accordance indicates double unethical behaviour:

1. Actions have been unethical or good managerial customs have been violated
2. Cases of hypocrisy, undermining the trustworthiness of the corporation.

The aim of this article is to find out the contradictions between companies visible declared values and real socially responsible behaviour and, secondly to indicate through ethics audit possible solutions how to avoid these kinds of conflicts and contradictions.

The authors` hypothesis is that in reality the highly ranked companies in CSR and social reports tend to behave irresponsibly or not in compliance with principles corporate social responsibility.

CSR and social reports as a reflection of declared values of organization
        The importance of values at all kinds of organizational levels cannot be underestimated. The contradictions between real and presented behaviour and values can result in the loss of trustworthiness, since the misbehaviour and disingenuousness will not be disregarded. Very often organizational culture is like a *window-dressing* – the organizations are sponsoring culture, launching good and luxurious products, they are market leaders in ones or more segments, but real life inside them is hidden and different from external side. In the other hand corporation´s credibility and trustworthiness is determined by how much the stakeholders believe that the organization is faithful to their positive expectations (Kaptein, 1989). The only way to be sure that declared values and promises will be kept is the evidence of manager`s everyday decisions and real true acts.
        Studies of Dryer and Chu (2006) and Barney and Hansen (1994) show that trustworthiness lowers transaction costs and may be an important source of competitive advantage.
        Corporate social responsibility is more than a managerial attitude or economic trend in the 21st century. It is also a management instrument or toolbox that helps managers in their decision making process following sustainability by focusing on strengthening their network from companies everyday management to their surrounding community and environment. It helps companies to improve their brand`s trustworthiness towards their stakeholders.
        Archie B. Carroll (1991), who is one of the most well-known and productive researcher according to CSR evolution, said that the socially responsible company should strive to make a profit, obey the law, be ethical, and be a good corporate citizen. It means that four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. CSR means acting in an ethical and transparent way that contributes to the health and welfare of society and trustworthiness towards the stakeholder.
        In the 1990s, the CSR concept transitioned significantly to alternative themes such as stakeholder theory, business ethics theory, corporate social performance and corporate citizenship (Carroll, 1999).
        Sustainability reporting started as a voluntary movement to account for social and environmental impacts of businesses. The motivation for sustainability reporting is twofold, driven by increased awareness of the environmental impacts of corporate activities and the support from consumers to organizations reporting their CSR activities and sustainable practices.

Evidence of the proposition that through CSR reporting corporations seek to enhance their reputation and manage risks to reputation can also be found in CSR reports.

The reason why the authors hereby took into consideration CSR report is that reporting in CSR expresses organizational values, beliefs and social norms.

During the past 20 years, a voluminous literature on narrative reporting has emerged with different reporting frameworks and approaches in many developed countries. Hereby authors give a little overview about internationally known social reports which are more or less known also among Estonian managers and business leaders.

Global Report Initiative (GRI) Sustainability Reporting Guidelines (G3) is the leading reporting standard for the triple bottom line[1] approach. GRI provides 79 performance indicators for quantitative and qualitative reporting of non-financial information.

GRI offers a high number of indicators which makes it hard for corporations to determine the materiality or importance of their key issues and its relation[11] to the indicators. In the hand, different levels of parameters and indicators allow corporations to handpick those that are important to them leading the issue of selective reporting (Moneva et al. 2006).

However, the GRI indicators pay little attention to ethics management practises and good governance in general (Morland 2008, p 46).

ISO 14001 is an environmental management system that is part of the general management system which includes division of labour, obligations, practices, procedures, processes and recourses that are necessary for the development, implementation, and performance review of environmental policy.

ISO 9001 is a quality management system, like an environmental management system, it is part of the general governance of an organisation; however, in its case, the organising of management procedures aims to ensure continued customer satisfaction.

The certificate ISO 9001 is valid 3 years and after that a new re-certification audit has to be conducted and the validity of the certificate will be extended for another three years.

In Estonia there is only one company (Viru Chemistry Group) participating in GRI reports G-3, on C- level. Many companies have been issued the ISO quality management (9001) and environmental certificates (14001). They are convinced that ISO standards give to organisation the quality systems that will provide the foundation to better customer

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[11] TBL is a method of pushing social problems and pressures towards economics and changing corporate behaviour through institutional pressure and self-regulation.

satisfaction, staff motivation and continual improvement. None others internationally used or known reports are used at all. This is the reason why the authors took into the sample size also locally known social reports described in the next chapter.

One source to find organizational declared values is the companies` different codes or statements– code of conduct, code of ethics, code of good manners etc. Those values, which are expected to be in written form, often do not match with the real behaviours of the organizations. In the case of an organization creating a code of ethics or values, conflicting with the internal cultures, this code does not work and it remains an inside tool of misdemeanour concealment. Many authors (Wotruba, Chonko and Loe, 2001) believe that the relevance of codes may be demonstrated through the practical case study discussions and ethics training programs. It is obvious - no matter what kind of regulation or report an organization submits.

Short overview of reporting in Estonia

Morland (2008) gives an overview in her book *Business Ethics as Practice* of the typical ethics management programs like self-assessments and risk analyses, ethics training programs and activities, ethics offices etc. Many Estonian companies have some kind of self- assessment forms, but ethics trainings or ethics officers are unknown in business ethics context in Estonia.

A survey carried out by authors in 2009 among top managers and owners of Estonian middle and big size companies, shows that 20 % of Estonian companies have a code of ethics or code of conduct, but that at least 80% of them are fictive. On the other hand most professional unions have a code of ethics or conduct and all organizations belonging these professional unions have to obligatorily follow their code of union. As mentioned before, there is one big private chemistry company which is participating in GRI reports.

Locally used social reports are Responsible Business Forum Index (RBF Index) and Family and Employee Friendly Company competition (FeFC).

The aims of the Responsible Business Forum Index are to assist companies in defining, evaluating and monitoring their economic, social and environmental impact. It enables companies to receive feedback and compare their results with those of other companies, thus identifying the future needs for development, consultation, and training and development projects. This evaluation questionnaire is based on *Business in the Community's* CR *Index*, the UK's leading voluntary benchmark of corporate responsibility (Responsible Business Forum in Estonia, *homepage*).

There are four parts in report questionnaire:

- ◦ Business strategy (mission, vision and values, risk management etc),
- ◦ Integration of Principles;
- ◦ Management issues and measurement,
- ◦ Reporting and communication.
  As we can see the index follows principles of triple bottom line.
  In 2011the Responsible Business Quality mark was awarded to 30 companies, which all scored higher than 70 points. From the small business category group, the leverage was 60 points respectively.
  The aim of the FeFC competition is to find out the most family friendly and employee friendly corporations and to draw attention to developing work conditions which help companies to strength the integration of family and work. In the spring of 2012, the companies participating in the FeFC were assessed by its CEO and/or the head of human research manager and by its other employees. The points for the overall winner were derived from its scores on the following categories: most family friendly company; most employee friendly company; most gender equal company. For the evaluation, the points collected were divided by the amount of possible available points which one could gain and calculated also in percentages. This competition follow mostly social dimension of companies` operating environment.
  How these certificates and reports work in reality should be monitored systematically, otherwise there could arise two-dimensional discrepancy:
- ◦ Conflict between declared values and real operating values.
- ◦ Conflict between CSR reports (indexes) and real behaviour.
  Friedman and Miles (2001, p. 528) drew attention to the aspect of risk management - one of the main drivers of CSR reporting. Specifically that a company's reputation lens "would make companies more aware of the need to manage a wide range of environmental, social and ethical risks and to show externally that they are doing so". It would increase the quantity and quality of CSR reporting, but there is the option that it remains only as an instrument for increasing reputation.
  Concerning the circumstances managers often can't see the hidden risk of damaging organizational reputation and trust. For example a company which makes big efforts to present itself as a green and environment protective production company, but in reality it is trying to hide illegal waste disposals. Trustworthiness here will get hurt not only in context of company, but also principles of social responsibility could get outraged. If CSR reports

earn only a role of "window-dressing" it may cause damages of CSR images and credibility in the whole society.

Even more important is the fact that apparent CSR or declared values, which will not be realized or implemented, will negatively influence efficiency of the company itself and of course all the stakeholders` interests.

A focus of developing CSR standards and auditing CSR reports is a focus of risk management approach aimed at building trust and cooperation among stakeholders.

Ethics audit as a tool for assessment real corporate socially responsible behaviour

Ethics audit is a multifunctional instrument for investigating compliance between real behaviour and declared values. Even more - ethics audit can help verifying the completeness and reliability of the CSR Report.

- Before of ethics audit a social audit as management tool was used. Mc Kenna and Kok (2001) have stated to Poe survey that social audit is "report cards on the company's social consciousness", or as Vinten suggests "a review to ensure that an organisation gives due consideration to its wider and social responsibilities to those both directly and indirectly affected by its decisions, and that a balance is achieved in its corporate planning between these aspects and the more traditional business related objectives". Mc Kenna and Kok have indicated to Humble survey and he found that a reasons to use a social audit can be summarised as follow:
- as part of the strategic and operational planning process, to review the existing practices with regard to social responsibility, internal and external.
- To define strengths and weaknesses in strategy and in practices.
- In relation to the development of an improvement plan.
- To measure progress in relation to the efforts undertaken in the implementation of social responsibility in the organisation
- To obtain the participation of people who are able to contribute to developing social responsibility.

In the eighties, ethics auditing topic was discussed very thoroughly by Muel Kaptein (1989), a professor of the University of Erasmus in the Netherlands. He said, ethics auditing is a process that measures the internal and external consistency of an organisation's values base. The key points are that it is value-linked and that it incorporates a stakeholder approach. One of the greatest benefits of the ethical audit is that it assists the company to scan the environment to identify the issues which are most likely to provoke action by pressure groups. This gives an opportunity to react very fast to conflicts or possible threat of rising conflicts. Muel Kaptein (ibid) has

brought out six important aspects of auditing especially important in the auditing process:

- an audit's arrangement characteristics
- indicators of behaviour
- processing of measurement results
- solving dilemmas
- individual characteristics
- evaluations of situation

Concerning social reporting and possible contradictions between written documents and real acting, ethics auditing could be a value-creation tool and effective to prevent discrepancy between declared values and real behaviour.   Taking the aforementioned circumstances into consideration through ethics auditing we could draw attention to the following aspects:

1. Clarify the actual values to which the company operates.

In case of sustainability reports ethics auditor can test whether or not the values and missions really work, or to which extent they work. What should be done to meet values in reality?

2. Provide a baseline by which to measure future improvement.

Ethics audit will help to prepare a better way for the next reporting period.

3. Learn how to meet any stakeholder's expectations` which are not currently being met.

Ethic audit could find out shortcoming in this field and working out plan on how to meet this not completed expectation of stakeholders group. It helps to improve dialog between stakeholders.

4. Identify specific problematic areas within the company.

Identify general areas of vulnerability, particularly related to lack of openness. It means that sometimes we can miss a control of the quality of reputation and ethics audit helps monitoring across all stakeholders. Organizations must look for opportunities for positive news especially in the midst of adverse situations.

5. Learn about the issues that motivate employees.

Ethics auditing goals are doubled - it is intended for accountability and transparency towards stakeholders and it is intended for internal control, to meet ethical objectives of the organisation.

Survey among Estonian companies

Research were carried out among Estonian companies who were voluntarily reported in a Responsible Business Forum (RBF) in Estonia, family/employees friendly corporation (FeFC) or GRI in 2011 and have got remarkable results in these fields.

Research Method and Sampling

Hereby the authors used for data gathering content analyse method through surveys, documentation review and media monitoring.

Survey was carried out between January and July 2012.

The selection consisted of companies based on either Estonian private business capital, state owned companies and/or municipal owned companies who were given the Responsible Business quality mark.

The authors examine 13 Estonian companies, which have received significant results from reports on RBF in Estonia 2011 and FeFC 2011.There were 6 state owned and 7 private companies.

The research consists of the following aspects:

1. Companies websites monitoring in order to find out:
   ◦ the existence of code of ethics;
   ◦ announced values;
   ◦ Other implications of values.
2. Media monitoring according to Estonian business newspaper *Äripäev* online during the year 2011 to find out contradictions between published values and operating values.

Äripäev belongs to Journalist Professional Union, which have ethics code of journalists; hence it is obligated to publish revised information and to allow participation of the other part in the case of a possibility to give on objection. *Äripäev* is synoptic and national distributed daily business newspaper.

Media monitoring was carried out basing on following principles:
   ◦ Clearly a positive article – something extra valuable or excellent is written in connection to the companies (sponsorship, better work conditions, client relationship etc).
   ◦ Clearly a negative article – something negative has happened (violation of laws, carelessness, unethical behaviour etc).
   ◦ A neutral article - regular press release, news, announcements. Articles, where the violation is not proved. Articles where there is some blaming or describing a negative case and company answered or explained the case, are counted as neutral article.

Finding of media monitory was double-checked and coordinated with another expert to avoid single opinion. If there was variance between estimation a third opinion was asked.

Results and findings

Content analyse of websites

Websites are a modern business card of much organization. Websites are a window to have a first look inside a company and to have an idea what

the company is all about. In table 1 there is given an overview about findings from websites. Statements of values, missions and other concrete indicators are given in appendix 1. In table 1 mark "x" means that values or mission was presented on webpage, mark "-" means there was no references about mission or values.

- ◦ 5 companies had displayed their values on their website
- ◦ 7 companies had displayed their mission on their website
- ◦ None of these companies had a code of ethics or code of conduct.
- ◦ One company had stated their values in the quality policy.
- ◦ 2 companies are holding international standards; one is taking part in GRI reports.

Table 1 Website Information about Values, Mission, International Standards

Companies	Values	Mission	International standards	Other indicators
State owned energy company [12]	x	x	-	Regular Internal audits
State owned logistic company	x	x	-	
Private printing Ltd. [13]	-	x	-	What makes us a good partner?
State owned forest company	-	-	Forest Stewardship Council (FSC®), ISO14001, ISO9001,PEFC	
Private Chemistry Ltd	x	x	-	GRI Reports (3 last years)
Private agriculture Ltd	-	-	-	-
State owned real estate company	x	x	Holds the ISO14001, ISO9001 certificates.	Real Estate Guru 2011
State owned air navigation company	x	-	-	-
Private consulting	*x*	-	-	-

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[12] Company from RBF
[13] Compny from FeFC

company				
Private mapping company	-	x	-	-
Municipal water company.	-	-	-	-
Private training company	-	x	-	-
Private law company	-	-	-	-

Media monitoring

Media monitoring was based on the biggest and most popular business newspaper *Äripäev* online version. From 13 companies 8 have not had a negative article during 2011. Out of the top 5 companies in RBF in Estonia ranking only one has no negative outputs, the rest of the companies without negative outputs were from FeFC. 6 of them are private companies; only 2 are state owned companies. Overview about finding was some problematical cases raised are given in following table 2.

Table 2 Statistics of articles in media

Type of company	Nr of articles	Clearly negative	Clearly Positive	Neutral
Energy company	650	44	22	584
Logistic company	195	8	4	183
Private chemistry company	44	3	5	36
Forest company	16	2	5	9
Water company	39	3	3	33

There was contradiction between operating and published values or promises in 5 companies which were highly ranked in social report competition Estonia. 4 of them are owned by the state or some local authority and one of them is a big private chemistry company. In following table 3 companies` statements of values and findings leading to contradictions are shown. According to Carroll (1999) there are given conflicts between four principles of CSR (stakeholder theory, business ethics theory, corporate social performance and corporate citizenship) and companies' revealed real behaviour.

Table 3 Contradictions between declared values and real behaviour

Type of company	Values/Mission or values indicators	Findings which leads to contradictions	Violation of CSR principles
Energy company	All our energy for the good of the people.	Increasing prices and no explanations, no transparency	stakeholder interests, business ethics , corporate

			social performance
	Competence	Many blackouts of electricity and problems with IT services.	corporate social performance
	responsibility	Most distrustful company in Estonia (customers Gallup), smokescreen with waste products, poor rating from S&P.	Stakeholders interests, corporate social performance
Logistic company	We conduct our business openly and transparently	2011 convicted in violation of competition act. price dumping	stakeholder interests, business ethics , corporate social performance
	Client-orientated We are familiar with our customer's value chain	Customer satisfaction decreased, Closing post offices at countryside	stakeholder interests, business ethics , corporate social performance
Chemistry company	Environmental protection policy	Smokescreen with waste products	stakeholder interests corporate social performance
Forest company	ISO 14001, ISO 9001	Insufficient and not transparent timber accountancy	stakeholder interests, corporate social performance
Water company	Service to everyone	A family has been waiting for 25 years for public water system in the city of Pärnu	stakeholder interests

We can recognize that private companies tend to be more correct in following declared values and promises. I would like to stress out a remarkable statement of Marek Tull, member of board from private chemistry company who said, "*One cannot compete with all the other companies constantly, which is the moment when the importance of soft values (such as the traditions in the company etc.) will gain momentum.*" (Tull 2011). It indicates that top managers of company are guided by core values, which have a significant impact in everyday business.

It is regrettable that state own companies do not pay enough attention to their values and stakeholders` valuations and do not see contradictions between real acting. To illustrate the fact, there is a company holding ISO 14001, but at same time the National Audit Office found out that in the company there is insufficient and not transparent timber accountancy. (Kruusmaa 2011). Another example - company on the 7th position in RBF was convicted in violation for competition act in 2011 (Karner 2011).

As we can confirm there occurred contradictions between declared values and real behaviour. In this case reputation of social responsible business could be doubtful. The question is: What is the reason of conflict between declared values and reports and real operations? Is there lack of awareness among employees, are managers inadvertent or are there all these factors together? An internal audit or ethics audit should regularly draw attention to this kind of issues.

Limitation and discussion

First question arising is whether or not this RBF index and evaluating process in Estonia is inadequate and insufficient. If companies have all written rules, values, mission, strategies, and then it is well known how they should be presented and what the right answers in reporting are. Evaluation of reports was carried out by 2-3 experts and after that one executive will adjust. Although after evaluating by authorized assessors the first top ten companies had a double checking from local auditor company like KPMG or Price Waterhous Coopers. Anyway it happened to be, that a highly ranked company in RBF index was convicted in violation for competition act, penalty 36,000 euro in the same year 2011. Concerning once again to Carroll (1991, 1999) and Johnson (2004) situation mentioned just before is not correct and not relevant to meaning of corporate social responsibilities principles and good management practice.

Secondly we can argue about the reliability of analysing media-monitoring because all articles have some emotional or subjective backgrounds. Although they are double blind analysed and both experts found that selected negative cases were really unethical or had negative impact towards stakeholders group. Talking about corporate social responsibility; is there any limitation from which extent we can assume that some violation is substantial enough to count companies "values" hypocritical?

Third aspect is that (Wensen, Wijnand 2011) there could be stakeholder groups that are interested in different topics, which is why it has been decided to additionally provide an overview on key sustainability topics materials to the company and to provide all sustainability-related information in two dimensions: thematic domains, based on ISO 26000 and GRI; and stakeholders. A good alternative hereby could be an objective ethics audit in stakeholder's interest services.

Fourth – in the social reports slightly draw attention to aspects of IT ethics and cyber security issues. Using more and more information technology becomes ethically critical to the way that we work issues such as the spread of viruses, poor password management practices and loss of sensitive data through electronic tracking. Stakeholder expects trustworthy handling of vulnerable data and information.

For a further survey it could be interesting to study whether or not socially responsible companies in other European countries act more according to their declared values, determining if there is some common pan-European phenomenon. And what is the reason of conflict between declared and operating values and reports? Is there a lack of awareness among employees? Is this managers arrogance or inadvertent? According to Johnson (2012) values must be continually reinforced through training, public meetings and corporate published documents underestimating leader's good behaviour examples.

Conclusion

This study validates that SCR reports in Estonia are not relevant nor they reflect a real situation. To maintain high reputation of SCR reporting and trustworthiness towards social reports there is a need to take a third party external auditing or monitoring before reporting.

Participating in several kinds of social reports does not guarantee responsible and ethical business behaviour. High position in social responsible performance very often does not give society a proper picture about companies' real operating manners and behaviour

As mentioned by Kaptein (1989) indicators of real behaviour, how members of organizations solve dilemmas within stakeholders group, who and how evaluation of situation is given it emerge clearly and undistorted way during auditing.

The hypotheses set in the beginning of our survey *in reality, the highly ranked companies in CSR and social reports tend to behave irresponsibly* have been proved in part.

If CSR reports are mainly as *window dressing* then it may concern damages of CSR images and credibility in the whole society.

More attention should be paid to public sector and state owned companies obeying declared values in everyday management and taking into consideration stakeholder's interests. Ethical and social norms should apply in every level of society.

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Appendix 1
Webpage survey

	Core values	Mission	Additional info
State owned energy company	Enterprising spirit Teamwork Responsibility Expertise	All our energy for the good of the people	Internal audits several times in year
State owned logistic company	Client-orientated Reliability Innovation Sustainability	We will reach everyone in Estonia by providing high-quality services and flexible solutions in the field of postal services, logistics and IT.	Policy of quality We conduct our business openly and transparently;
Private printing company		To provide optimal printing solutions that enhances the competitiveness and reputation of corporate customers; to develop "Green Print", the first environmentally friendly printing service on the Estonian market. .	What makes us a good partner?
State owned forest company	-	-	Duties of department of internal audit Forest Stewardship Council (FSC®), ISO 14001, ISO9001, PEFC
Private Chemistry company		Our mission is the valorisation of oil shale – the brown gold of Estonia	Sustainable development report, GRI Principles: for the good of the environment for the good of its employees for the good of the region for the good of arts and sports sponsorship
State owned real estate	Innovation, Transparency Promises keeping	The mission of ... is to value the state real estate and give the assets to the	Holds the ISO14001, ISO9001

company		disposal of the state administrators which with its functionality is compliant with the needs of the executor of state authority.	certificates. Award –Real Estate Guru in Estonia 2011
State owned air navigation company	Trustworthiness Safety Collaboration Professionalism Concern	Customer, quality, environment, friendliness and personnel ‑oriented company	
Private consulting company	Energy and care Simplicity and ingenuity Thoroughness and reliability		
Private mapping Ltd.		We are inspired by unleashing hidden possibilities embedded into location information. This is increasingly important in the world that wants to seek and know more and more.	
Municipal Water Company		Serving society in an environmentally sustainable manner with good prices	-
Private Training Company	-	-	-
Private Law Company			As a leading Baltic law firm, we recognize our responsibilities to our clients, our team, external partners, as well as the wider communities, in which we live and work

Implementing Ethics Auditing Model: New Approach, Journal of Knowledge Management, Economics and Information Technology, (Forthcoming)

Implementing Ethics Auditing Model: New Approach

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The aims of this article are to test how does enhanced ethics audit model as a new tool for management in Estonian companies work and to investigate through ethics audit model the hidden ethical risks in information technology which occur in everyday work and may be of harm to stakeholders' interests. Carrying out ethics audit requires the diversity of research methods. Therefore throughout the research the authors took into account triangulation method. The research was conducted through qualitative approach and an analysis on a case study, which also included interviews, questionnaires and observations. Reason why authors audited info technology field is due to the fact that info technology as such is an area which is not handled in any CSR reports but may cause serious ethical risks to company´s stakeholders. The article concludes with suggesting an extension of the ethics audit model for evaluating ethical risks and for companies to help to raise employees'- awareness about safe internet using and responsibility towards protecting the organization's information technology and to prevent ethical and moral risks occurring.

Keywords: Ethics audit, stakeholders , corporate rules and regulations, information technology (IT), internet safety

INTRODUCTION

In various statements by numerous institutions (e.g. Estonian Ministry of Foreign Affairs, E-Estonia) Estonia is considered of one of the leading E-governance and a society that relies on technology and internet. This is a weakness and strength at the same time. Estonia has lots of services which people can access through computers and mobile phones despite these online services being very time efficient, the services oftentimes result in raising a risk of becoming too open for exploiting the expected users' goodwill and resulting in violating the individuals' privacy. In the current study the authors focus on the area which is in the middle of IT and ethics, as there are issues that neither field has (internet safety, espionage, business ethics, social manipulation, online behaviour and rules and regulations that focus on solving these issues for the companies). In this paper, IT is considered as a mean for using info technological equipment's like computers, phones, tablets, online and computer programs in everyday work. There are some previous researches (Ribble and Bayley 2004, Lessing 1999, Spinello 2010 etc.) conducted in the field responsible of technology use and cyber ethics. Discussion about setting new online rules and regulations have come up in several occasions to regulate advertisement (Nettleton, 2008, Jones, 2011) and data gathering (Eecke, 2009) which solely focus online client and business relations. Although there are lots of regulations and suggestions on how to survive and protect yourself or you company in computer using,

there are always risks not to act according to rules. In Estonia there have been no previous attempts to carry out ethics audit in private sector.

The research gap is to find out whether the ethics audit model works in small Estonian company as ethics audit seems to be unknown within Estonian companies. A conceptual model was created in 2012 by Rihma and is displayed in current research. The research is aimed to discover the hidden ethical risks in the examined small Estonian company where, like in most of companies, IT is used as toolbox in everyday work.

Author's goal is to investigate the ethical challenges regarding the use of IT at workplace. The model was adapted for the current research in the minds only of internal stakeholders` (owners, employees and customers) expectations and by adding the information technology audit area that will be explained in more detail in the forthcoming chapter.

The research questions were:

- how will ethics audit contribute to the prevention of risks in information technology
- what have to change for modifying ethics audit model

By using the ethics audit in the technology field offers the company the insight and enables it to develop tools to protect the business and workers from hidden risks and ethical issues which may usually stay unnoticed when doing these two audits (ethics and IT) separately.

The auditing process in current research involves three components: ethical framework of auditing model (Kaptein, 1998; Rihma,2012), elements form cyber security audit (Northcutt 2004); internal stakeholder`s interests toward company. An auditing gives the overview on how company in its daily business' meets internal stakeholder's interests from the point of their expectations in IT field.

1. **Theoretical clarification: stakeholder`s theory, ethics audit and ethics of info technology.**

Business can be understood as a system of how to create value for stakeholders. For maintaining the organization it is essential to build strong relationships with stakeholders and fulfil their expectations (Mahoney, 1994; Ambler and Wilson, 1995). Each and every member of the organization has to remain ethically responsive in relationship to its different stakeholders (Morland 2008).

According to R. Edward Freeman (1984, 2010) the corporation should to be managed for the benefit of its stakeholders: shareholders, employees, customers, suppliers and local community. Domenec Melé (2012) argues that stakeholders are people affected by or who can affect the activity of the company. Managers have to ensure that stakeholder's interests are

secure in every level of company's activity. Unethical behaviour or negligence attitude towards stakeholder may decrease trustworthiness between stakeholders

There are several definitions and principles on how to classify stakeholders. Even Freeman (2010) has no clear cut answers for how to notice internal or external stakeholders who belong to the abovementioned groups. Freeman considers internal stakeholders as owners (or shareholder), employees, managers, customer and suppliers. In current research authors based on the viewpoint of owners, employees/managers and customers for reason that they are directly threatened risk which are caused from info technological issues. Ethical issues in info technology are directly related to general business ethics principles.

There is always a question on how to measure ethical business behaviour or what is business ethics at all. A generalizing business ethics definition by Lewis (1985) - after reviewing 158 textbooks - states that business ethics consists of rules, standards, codes or principles which provide guidelines for morally right behaviour and truthfulness in specific situations. To be more specific - empirical ethics developed by Musschenga (2004) states that the study of peoples actual beliefs, intuitions, behaviour and reasoning yields information that is meaningful for ethics and should be the starting point of ethics. The aim of empirical ethics is to improve the context-sensitivity of ethics. This approach is suitable for ethics audit as well; because ethics audit will highlight through the employees` company´s real microclimate and same time helps to raise employees' awareness of ethical behavioural risks.

Ethics audit can be used in different fields to analyse ethical risks in company. Ethics audit is flexible; it works according to company's individual circumstances, including their size, type, legal structure or industrial sector of operation. Main structure and processes of ethics audit model should be followed.

According to Mackenzie (1998), Domingo (2005) and Kaptein (1998) ethics auditing reflect the extent to which the company meets the economic, social, and environmental demands on which the trust placed in it depends. Usually ethics audit involves compliance with stated rules or regulation (code of conduct, values statements etc.) or by other words comparison between actual employee behaviour provided in rules and procedures. According to the Stephen Northcutt (2004) the IT- audit functions allow professionals to perform review of the security risks and corresponding controls to incorporate changes to the business requirements and priorities. Auditing compares company's policy and culture versus legal requirements and will try to compliance the aforementioned with real behaviour. The purpose of IT ethics audit is to carry out review of IT system, the controls and corresponding ethical security risks like leaking of confidential information, privacy and possible attacks towards company's

stakeholders. Hereby auditing is considered through the lens of internal stakeholder's expectation. In the current case study ethics audit was carried out to find out shortcomings and risks which could be harmful in IT aspects and to be more focused in cyber ethics through stakeholder´s lenses.

As mentioned before the current ethics audit is based on qualitative research with a methodological triangulation being used. For clarifying auditing process visualization of auditing model (created by Rihma 2012) in Figure 1 is given.
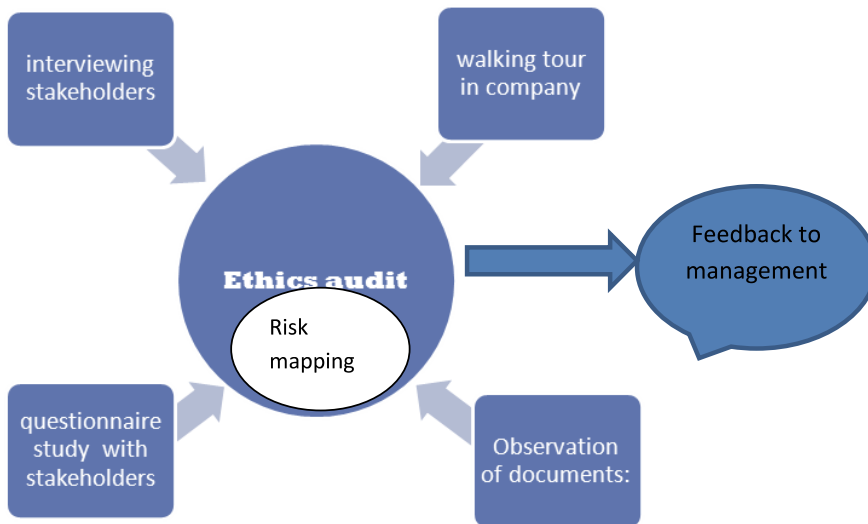
Figure 1 ethics audit model (compiled by authors).

There are four main data sources as input to auditing process: questionnaire, documents observation and working tour in company and interviews. All data will collected, categorised, analysed and assessed through risk mapping. Auditing committee gives feedback to management or stakeholder group.

Organisations have a responsibility to act ethically in everyday use of info technology. IT related cyber ethics has gone long way since 1950 when this issue was first mentioned. In the beginning there was the fear about artificial intelligence and database privacy, which was later followed by the concern intellectual property, software piracy and computer crime. At 1990 people started to talk about free speech, anonymity and virtual communities. Taking into

account the constant development and innovation happening in the information technology sector, it is likely that in the future there will probably be even more discussion about artificial electronic agents, such as ethical matters with regard to robotics (Tavani, 2004). According to Gotterbarn (2001) IT professionals have opportunities to do good or cause harm and enable or influence others to do so. The only way to restrict it to happen is to implement professional codes of ethics or relay on company´s shared values. Challenges that companies face are related to various issues with regards to privacy (Regan 2002), keeping track of confidential information (Rowe 2006) and the freedom of speech (Spinello 1999). It is evident that internet has opened doors for everyone to post and comment on all kinds of matters on the Worldwide Web and has enabled its users to be approachable at any time and any place. However, despite the numerous positive opportunities internet has offered to its users, it should be born in mind that these same opportunities may also be taken advantage of and thus may be of a potential concern for the possible limitation of freedom of speech. Risks in IT field usually involve phishing, modifying systems or data, counter fiction, distributed denial of service attacks or simply making them ineffective. The most problematic aspect for the organization is to discover its weaknesses in cyber security that concern management, resources, documentation, security measurements (Hanson, 2009). That is why our study focuses on more legal justification and ethical behaviour of humans that are using software and webs to interact with each other inside the company.

2. Methodology

As auditing process involves different research methods the authors hereby found the best and most qualitative method is a triangulation. Triangulation means integration of different methods, empirical research material or frameworks into research (Denzin 1988). There is differentiated (Denzin & Lincoln, 1998) four types of triangulations: multiple data sets, multi investigator, multiple theory and multi method. The multi method contains two subtypes (Leppiman, 2010) an inner and an external triangulation. Also another advantage of this method is that the particular weakness of one method could be compensated by the particular strength of another (Denzin, 2006), for the same reason this method is widely used in social sciences. In current survey the authors used multi method as questionnaire, interviews, observation of documents and working environment to be more specific authors used case study which is known as a triangulated research strategy as well. Whilst conducting case study, Yin (1994) recommends three tasks that must be carried out for a successful project: preparation for data collection, distribution of the questionnaire, and conducting interviews.

To test our model for IT ethics audit the auditors carried out a six stages study in one small printing company (38 workers) which got a prize from Responsible Business Forum Index 2011 (RBF) in Estonia. The company was operating in print industry. Company was selected from top companies in the RBF list which has Estonian background (all the shareholders are Estonian). The audit in the information technology field was firstly agreed with the management of the investigated company in a preliminary manner since the company had not conducted any investigations - including risk and threat assessments- itself in the aforementioned field, yet the ethical behaviour and matters related to responsibility were already investigated in the company through CSR reports. The auditors chose an Estonian company since all the big international companies are by default meant to follow the headquarters requirements. Also the selection of participants in our research was a matter of convenience – in other words much of it depended on the availability of the company to allow the auditors to conduct this research.

The auditing was carried out by auditing committee. As settled in auditing model for Estonian big and middle size companies (Rihma 2012) there were three basic restrictions for committee experts:

· He or she has to be an active researcher in business ethics; publishing one to two scientific articles per year in a reviewed journal or has given presentations in conferences.

· He or she should have practical experience in corporate government.

· He or she should not have any kind of interest towards the organization being audited.

All this requirements were met by the auditors. The auditing committee consisted of two auditors, supervised by associated professor. Two authors of current article were the auditors and another author participated as supervisor.

It is crucial that during planning and implementing ethics audit the authors would develop mutually supportive and collaborative relations with the company being investigated. First of all auditors started introducing the principles of ethic audit, since all the auditors were a pioneers in the aforementioned field in Estonia. All ethical parameters of the research methods and confidentiality issues were mutually agreed between both parties –the researchers and the company. The aim of auditing from company side was to get overview about ethical issues and threats connected to info technology.

The auditors got a primary data about company before the auditing process from public media, annual report and some informal sources (friends, familiar businessmen).

Ethics audit in current research was built up as it was given in figure 1 and settled as follows:

Stage I – questionnaires conducted amongst the company`s employees. There were no special written regulations, rules or codes of conduct to which to rely on (except some contracts) during the auditing process. The aim of the questionnaire was to get first information about employees' awareness about ethical issues in information technology. The survey was carried out within half of the company employees who volunteered (n=17, ~ 50% of employees) in May 2013. Survey was provided both electronically or on paper and consisted of four parts: overall background (12 questions), IT usage (10 questions), ethical dilemmas (8 questions) and ethical risks (7 questions). Questions were both open and closed; in addition the Likert scale was being used. Survey gave us overview about the overall background of the company, people's knowledge about IT area and on various ethical issues. Data was analysed in excel and auditors used this data as preinformation for providing an input to interviews and case study analyses. These results gave auditors' the basic informational starting point for the forthcoming auditing process.

Stage II – A tour at the company`s work space was conducted during the work hours (offices, preprint area, leisure area etc.) for getting information about the physical evidences which could support or deny the results of interviews or surveys. The auditors took photos and videos to save all data from this stage of the survey. This method was considered as non-participatory observation which allows following the ordinary working conditions and environment.

Stage III – Focus group interview (Valtonen 2005, 223; Leppiman 2010, 119) with company workers moderated by the auditors.

Auditors decided to use interview as research method mainly for two reasons: firstly, as mentioned before the topic and ethic audit was new for all involved persons and the interview enabled the researchers to clarify the questions or reformulate the issues immediately when needed and to get better understanding of subject. Secondly, in this survey as in qualitative research persons attitude and opinions have significant meaning in whole process (Laherand 2008).

The purpose of the interviews was interrogating the essence of the ethical climate in everyday work conditions tied to IT. Whilst preparing and conducting the interview, the auditors were aware of the possible biases and questions organized with special care. Auditors used open-ended semi-structured interviews to expand the depth of data gathering, and to increase the

number of sources of information. Participants were two individuals from the management level and three specialists were also present with voluntary base different occupations such as sales manager and accountant; secretary, designer, new employee from printing area to be represented those from the company that directly are using technology, internet, company servers etc. Interview consisted of 14 questions which were divided to IT and ethical areas and was done in peers (management) and threes (specialists) during their extended lunch time (1 hour) as a group interview. The interview questions were semi-structured and developed from the literature survey. The survey was not anonymous, but all employees knew that their interviews were confidential and that honest answers will help to improve their everyday work in this company. The analysis was carried out as a qualitative content analysis (Mayering, 2000; Leppiman 2010, 124-125).

Interviews recorded (prior permission was given by the participants); after several time listening all text was transcribed. As suggested by Laherand (2008) written text was read many times before categorizing raised issues: IT issues, ethical issues and general issues. The appeared risks were marked in the colours of stoplight: red – highly critical, yellow – medium and green as best practice or good sign.

Stage IV – discussion was conducted about ethical dilemmas with two people from management and two specialists, with one person being the same who participated in interview (the company aside organizer). The auditors used two cases: one was about company secretary that used computer as a public computer (everyone could use it and get access to client's private data) and another one was about a photographer that mixed up work and private life by putting client's data on social network. Discussions varied from 45 minutes to 1 an hour. Participants were first asked to read the story and to discuss it then with peers; participants marked out ethical, IT and privacy related challenges and then presented the findings to others. After that they discussed whether these kinds of problems emerge at their company and what may be the best policy to avoid these. This method also raised several extra questions from the company's side on how to deal with IT ethical dilemmas or even how to manage technical system better.

The auditors collected data from employees and managers, but the discussion involved also predictions on how other stakeholder groups (clients and owners) are directly affected in their behaviour around technology. Results of the interviews and discussion were transcribed and analysed as described in stage three.

Stage V – documents analysis on contracts between workers, clients and information

technology service provider and company; basic information that is displayed at company website to guide workers, clients (mission, CSR principles, portfolio of services). This gave us information on standards and regulations that are already implemented in the company and provided an input for the foundation in the model compared to what auditors will analyse in the results. As some of the materials were confidential auditors were not able to get a hold of all of the documents, but auditors were able to contact to the person who was responsible for the documents and who gave us the insight of the content in the papers. Auditors used this information as only material for compliance with further research.

VI stage – The auditors analysed risks and gave feedback to company management. As indicated before several time in this article and based on Rihma auditing model (2012), risk analyses is connected to auditing process as a new instrument. The risk analysis was based on A. Andresen risk mapping theory (Auditnet 2010) where the likelihood of a risk appearance and risk significance has been identified in four quadrants. I quadrant "Prevent at Source" includes risks which are classified as primary risks and are rated "high" priority.) In II quadrant called "Detect and Monitor" risks are significant, but they are less likely to occur. III quadrant "Monitor" risks are less significant, but have a higher likelihood of occurring and in last quadrant "Low Control" group risks are both unlikely to occur and not significant. Overview about risks in I quadrant is given in table 1.

Partial follow-up audit will be planned in year. During the follow up auditing the auditors will visited a company once again but only to check the progress against the issues and risks found during a previous audit.

3. Analysing auditing process and results

Authors approach to analyse implemented ethics audit model is structured according the stages of auditing process and in every stage there are results in three level - first best practices of auditing process will described, then parts of auditing process which could be improve will be pointed out and in third part failed actions will be analysed. In this article authors do not demonstrate real finding about IT shortcomings because of the silent agreement with company ´s mangers and due to of the small business society in Estonia the company could be identified. After the audit substantive feedback was given to company's management.

3.1 Questionnaire

Starting from questionnaire, ordinary written anonymous questionnaires give the most honesty answer to questions and gives the best basic awareness of company's' real business behaviour however in this case the sample size was not reliable enough.

In fact employees have a large amount of information that the public, the media and even managers are not aware of. Not every breach of ethics is illegal, either, and employees can be an insightful source of information on legal breaches of ethics occurring on a regular basis. This is the reason why well prepared questionnaire is best source of information. The authors are not satisfied with a sample size in the present auditing process which was rather small to point out any findings. As mentioned before all the data we got from the questionnaire was used as preliminary information. In the future for the auditors to carry out ethics audit auditors should have to get reliable sample size.

3.2 Walking tour

A lot of information is available by simply observing the company during working hours. Many routine activities or special operations will provide adequate picture about the actual work environment within company. The organizational culture will be better understood by seeing the physical evidences. Looking same things and issues from another point of view could be help to discover new nuances and hidden risks. Usually people are not aware of the risk or forget to act properly in a workplace to protect this kind of information (both physically and virtually). No restriction for photographing was set by the company, meaning that all guests can easily take photographs or videos without limitations and by doing so, posing serious risk to the security of the company.

3.3 Interviews and dilemmas

Conducting the interviews and solving ethical dilemmas gave valued information for auditing process. Experienced interviewer can interpret body language, an attitude, a microclimate and interviewee´s feelings (Gillham 2009) besides to simply analysing the verbal answers of the interviewees. During interviews there was appearance that employees were loyal and had strong unity. In same way all negative aspects appeared which could indicate to further risks.

Representing interviewees in a group gave us the impression that they could not talk about everything what was going on in detail, but gave us good overview of the current situation and of the basic challenges, whilst having the possibility of being able to support other employees arguments. Results from this area gave information which was later compared to documentation; it also gave a lot of information on work process, cyber security issues, ethical understanding and sustainability. The authors used content analyses to understand more precisely all interviewees` statements and data between the lines (Richards 2009).

Using stories in solving ethical dilemmas can be used as the *silent teacher* which rose a new understanding among interviewees´ about the possible risks and opportunities.

Lessons the auditors learned indicate that to get more reliable audit results employees should be interviewed individually as there were some signs which indicated that experienced workers were more loyal than the new ones. After the auditors realised that interviewing the shareholder of the company is inevitable, because the many thing which appeared or was confirmed during interview and look like not problematic issue to employees or managers but definitely may harm shareholders' interests (like hackwork with employer's tools, easy access to confidential files etc.).

3.4 Observation of document

To avoid hypocrisy (Rihma 2013; Wagner et al. 2009, Michael Van den Brande 2010) practises must not contradict the company's proclamations.

Compliance document and real behaviour are crucial aspects in trust creating process because both are preceded mainly from company's decisions and real behaviour. What is once settled should be followed.

As mentioned before there were not many documents to have base for compliance especially talking about IT related documents or procedures.

The auditing process should be supplemented with minimum requirements of compliance mechanism. Meaning that during the auditing process one should follow compliance with certain basic box of moral values or cyber ethics, but in this case there was not possible to use a checklist for basic requirements (excepted different kinds of contracts). In this case neither of the auditors followed the compliance of Estonian RBF index questionnaire as it appears to have very little to do with IT ethics and responsibilities.

However the auditors can assume that the contracts between employee and employer regulate confidentiality clauses and detail instances such as the employers right to read employees e-mail etc.

3.5. Risk mapping and feedback

For summarising the auditing results an overview about risks which occurred in the I quadrant are given in the Table 1. Risks in that quadrant *Prevent at Source"* are classified as primary risks. These are the critical risks that threaten the achievement of company objectives. These risks are both significant in consequence and are likely to occur and should be reduced or eliminated with preventative controls. It is also agreed that these risks should also be subject to control evaluation *(AuditNet 2010).)*

Auditors have provided also suggestions how to manage risks (given in the last column of the Table below).

Table 1 I quadrant risk analyses (compiled by auditors).

Affected stakeholder group	Description of Risk	Likelihood of risk 1-5 (increasing)	Significance of risk 1-10 (increasing)	Suggestion to risk management
Customer	Leaking clients private data Uncontrolled and easy access to server.	5	10	Restriction of access to preprint areas and databases to outsiders; Examination of the safety of the data of the client. Supervision of the integrity of the information chain.
Shareholders	Monitoring to reduce official orders and clients.	4	10	Restriction for employees; not allowed to do hackwork.
Employees	Reading workers emails without the permission and investigating workers backgrounds from internet may reduce the trust between employers.	5	8	To regulate background checks and vetting by notifying the applicant. Issuing agreements, signed by both parties, which regulate the vetting procedures.

Risks are estimated by auditors based on the collected information. Nevertheless, there is the possibility that some risks seem to the auditors bigger or - on the contrary are underestimated, thus it would be beneficial to have a dialog with the management during risk mapping.

After auditing a written feedback and full risk mapping to the company´s management was given. In the report every finding was supported with at least one example drawn from the facts determined in the auditing process. Results of auditing process (questionnaire, documentation survey, interviews, and workplace survey) auditors analysed all answers according to internal stakeholder's interest - how these hidden risks can affect their expectations towards company and whether there are any risks which would reduce trustworthiness.

Feedback contains company's description of audit methodology, interpreting data; best practices and hidden ethical and IT related risks were pointed out. Feedback document was structured by stakeholders group: employees, managers, customer and shareholder.

Management of audited company accepted proposals of auditing committee. After receiving feedback a telephone conference was held on the matters as well. Results of risk analyses help managers to prevent hidden risk and possible conflicts from occurring. A relationship based on mutual trust and respect enabled the ethics audit to be conducted and reported in a way which would create the most efficient response. In the company under the survey there were no contradictions between the declared values and actual values.

Since hereby described and used ethics audit model includes methodological triangulation which easily brings out hidden risks in selected area. All used methods were familiar to auditing subjects and authors can assume that the first attempt to pioneering ethics auditing in Estonian business environment was successful for both party – for the auditors and for the management. Linking ethics audit to risk mapping gives to the model a specific value. Ethics audit does not only discovers the hidden risks but also categorizes risk by significance and likelihood. Ethics audit will easily discover risks from the grassroots level before anything bad has happened. Oftentimes problems are being caused by the inexperience of employers with regard to data leaks since these instances have not been allegedly apparent in most companies. The authors can conclude that ethical IT related risks appear unexpectedly and trust based management may not work in conflict situation. Ethics auditing enables to discover hidden conflicts in their generation phase and bring out the contradiction between declared regulations, documents and real environment. Throughout the use of ethics audit these kinds of risks and shortcomings can be discovered in time and will give the opportunity to manage risks proactively and systematically.

4. Limitations of auditing process

Despite of successful auditing process there are some shortcomings and limitation for improving auditing model. On one hand the multiplicity of the research methods may have caused a situation where the interviewees did not interpret the questionnaire unanimously. On the other hand it was possible to check the coherence and to increase the reliability of data.

First, as mentioned before questionnaire is a valuable source in the general data gathering stage. Reliable sample size gives auditors the quantitative information which will be used whilst comparing auditing results in different period. In current research we lost that opportunity. Qualitative data has proved to be difficult compare in follow up activities. Secondly, interviews held in groups could deface information because of fear to tell something wrong or unexpected. In same time the genuine opinion from every member of organisation is important for putting together the big picture. Besides the group interviews, confidential individual interviews should be part of auditing in future as well.

Biggest challenge in this process was the absence of compliance material like codes of conduct or codes of ethics or standards. It could be more successful process if in auditing preparatory stage the auditors can come to agreement with the management in certain basics requirements in what the managers would like to find out in the results. This is an overall issue in Estonian business environment that there is lack of behavioral standards, ethics code or other regulations.

It could be valuable to work out special auditing model for CSR reports used in RBF indexes to avoid the discrepancy between declared values and responsibility and real ethical behaviour of companies. Authors would like to stress once again that in CSR reports or in another reports there are no places where one could report about these particular issues such as IT or public relations. Secondly, companies may have the opportunity to keep silent about inconvenient incidents or circumstances compiling CSR reports.

CONCLUSIONS

This study was the first attempt to provide ethics audit in an Estonian company. Whilst conducting the ethics audit, analysing results and auditing processes it became clear that the model and process need to improve and validate audit model and process for Estonian company.

Authors see continuing problem with compliance instruments, because major Estonian companies do not have a code of conduct or ethics or regulations to which compare real behaviour.

Current pioneering auditing study investigates a special part of a small company. To test ethics auditing model more comprehensively there is need to practice this model all-around company and in different type companies (retailers, selling, servicing etc).

Although the ethics audit process is time-consuming because of the amount of information and selecting relevant data it is effective and valuable management tool to provide sustainable trust between stakeholders. The authors would like to emphasize that microclimate inside the organization was mutually supporting, an attitude towards auditing process was contributory and the management was obviously interested in getting a constructive feedback. This encourages authors to continue to conduct ethics audit in Estonian companies and to work on improving the ethics audit model.

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Appendix 4. Summary of the results of the questionnaire (complied by the author)

Question	Answers
You position in the company:	Specialists: 11 Managers: 3 Operator: 1 Worker: 1
Does your job require using ICT?	Yes: 14 To some extent: 3 No: 1
If needed, can you use ICT resources during your free time for your personal needs/ interests?	Yes: 10 Rather yes: 4 Rather no: 1 No: 2
Can you use your personal gadgets at work (i.e using company's internet on your own laptop, smartphone or USB stick)	Rather yes: 4, Yes: 10 No : 1, rather no – 2
Do you need to use personal ICT gadgets for doing your job?	No : 12, Only, when I work at home: 3, No : 2
Has the usage of personal ICT gadgets been regulated?	No: 4, No direct agreement: 6, Rules are in written: 4, Code of conduct: 2
From which sources have you received information on IT risks?	From media: 1, Topic have been discussed at the meeting: 10, Relative/friend/acquaintance is Explained 2, No information: 3
From which sources have you received information on internet safety?	From media: 2, Topic have been discussed at the meeting: 6, Relative/friend/acquaintance is Explained 7, No information: 2

How well informed do you consider yourself on identifying risks related to IT?	3, 11 (average)
How well informed do you consider yourself with regard to internet safety?	3,27 (average)
How well informed do you consider yourself with regard to ethical risks posed by IT?	3,11 (average)
Do you consider the company you are working at responsible?	Rather yes : 9, yes: 7, no : 1, rather no – 1
In cases of answering yes or rather yes to the abovementioned question, please name the most important aspect which defines a responsible corporation?	Reducing ecological footprint (3) imposed welfare packets for employees (4), constant improvements in the product chain for more environmental friendly production (2).
What do you consider your company's main values?	Environment: 8 Good working environment: 5 Employees welfare: 3
In your company, who is in charge for using ICT in secure and safe manner?	Each employee: 15 Head of the company: 1 Head of IT department or the service provider: 2
How is the identification process set up at your workplace?	A personalized username and password: 16 A standard username and password: 1
The usage of ICT tools (incl. e:mail in the company), which are provided by the employer, are regulated	Rules of usage of ICT tools is available in written form: 8 Code of conduct regarding usage of ICT tools is agreed orally: 1 Code of conduct regarding usage of ICT tools is agreed orally: 5 Using employers ICT tools for personal needs on the workplace is forbidden: 1
Accessibility of the data in the workplace	Files are accessible according to the work tasks: 18

Do you have ICT User Agreement between you and the employer	no : 11, I don't know : 5, yes : 1
Do you have an agreement of the material liability between you and the employer	no : 10, I don't know :3, yes : 4
Do you have agreement of the privacy of the data between you and the employer	no : 5, I don't know :3, yes : 9
Do you have a regulation regarding photographing and filming at the workplace	no regulation: 16, oral agreement: 2
Do you have regulation regarding uploading the footage/photos taken at the workplace	no regulation : 14, oral agreement: 3
Do you have regulation regarding the usage of personal accounts for the benefit of the company (e.g. advertising the company in your social networking sites, using your personal e:mail account for work e:mail)	no regulation : 15, oral agreement: 2
I've completed the occupational training courses relating to the use of ICT equipment in the company: (choose one)	I haven't completed the courses: 10, some courses: 3, there have been no courses : 3, all courses:1
Do you feel that the knowledge obtained is sufficient?	Rather yes: 6, yes – 6, rather no: 4
What type of ICT related support you lack of?	A acquisition of the new opportunities: 2, I do not feel the lack of something: 11
Can you bring out another ICT related to written or oral agreement which applies to your company?	no: 12, contract of employment : 1, IT strategy and instruction – 1
How does the possibility that during the recruitment process, background information about you is gathered (using Google search, social networking, etc.), makes you feel?	I find it insignificant :10, I find it inappropriate : 5, I find this very necessary: 2

Is archiving your work e:mail regulated?	Rather yes: 6, yes : 4. Rather no :3, I don't know: 3, Not in every device : 1
How likely do you think is the possibility that the employer reads your professional e-mail?	Not likely: 5, Likely : 2 Rather not likely :7, I don't know : 2
If you answered very likely or likely, do you find this behaviour	Allowed only if the staff has been informed : 5, Not allowed : 2
How does the data storing take place in your company?	I don't know : 5, Archiving in some way: 12
How do you behave if you find other data on your clients USB stick?	Do nothing with it: 12 In case I've found something of interest I'll share it with someone: 2 Will check the file: 1, Will check the file, but won't share the content with anybody: 1
In case you noticed something which appears to be illegal or against your company's interests in that file, how will you behave	Will not check other files, only the documents related to the case: 1 Will decide impulsively: 1 Will inform either my boss or law enforcement agencies: 9 Will ask advice from colleague: 3 Will do nothing: 2
Name the potential ethical risks posed to your colleagues by the usage of ICT gadgets?	Cannot name any: 9 Related to privacy: 4 Leaking data: 3 Derogatory information: 2 Using employers possessions for personal interests: 1
Name the potential ethical risks posed to the company by the usage of ICT gadgets?	No risks: 7 Derogatory information: 7 Viruses: 1 Leaking data: 2 Using employers possessions for personal interests: 1

Name the potential ethical risks posed to the clients by the usage of ICT gadgets?	Cannot name any: 6 Leaking clients data: 5 Derogatory information: 1 Protection of property: 2 Maliciousness: 2
Which kind of actions has been taken to reduce the ethical risks posed by the usage of ICT gadgets?	Nothing has been done: 5 Employer has issued regulations: 5 Emailing information letters: 5 Meetings on the matter: 4
Forestalling the potential risks imposed nu the usage of ICT gadgets in the company is	Unknown to me: 6 Based on cases: 6 Random: 4 Systematic: 2
The usage of ICT in the company should be regulated by.	The new employees should be explained the principles, regulations and suggestions: 15 Thematic literature: 2 Notifying fellow colleagues on a potential threat: 1 Do nothing: 1

Appendix 5. Conducted interviews (complied by the author)

	Participants	Main topics	Duration
Interviews with managers	Top-manager Financial manager	Background of personal status in company; CSR principles; Regulation and policies related ethical issues; Ethical issues related to IT.	1:09:08
Interviews with employees	Operator Assistant	Background of personal status in company CSR principles Documentation and regulation connected IT-ethics; Ethical issues related to IT.	45:33
Discussion about 2 ethical dilemmas	**(2 managers and 2 employees)**	Ethical issues related to IT	35:57

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Inglise	Kõrg/kesktase
Soome keel	Kesktase
Saksa keel	Kesktase
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   Date and place of birth: 28. 11.1965
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2. Education

Educational institution	Graduation year	Education (field of study/degree)
Estonian Business School	2003	MBA
Tallinn Pedagogical Institute	1989	Estonian language and literature
Orissaare High School	1984	Secondary education

3. Language competence/skills (fluent, average, basic skills)

Language	Level
Estonian	Fluent
English	Fluent
Finnish	Average
German	Average
Russian	average

4. Special courses (selected)

Period	Educational or other organisation
12/2012-06/2013	Business ethics and CSR, Tartu University
10/2011-04/2012	Teaching entrepreneurship in non-economic courses at university level, Tartu University
03/2009	Methodology: Quantitative research methods, Tallinn University of Technology

5. Professional employment

Period	Organisation	Position
2013…	Tallinn Health Care College	Head of Department for Continuing Education, lecturer of management

2010…	Tallinn University of Technology, Tallinn College	Lecturer of business ethic
2010 – 2012	Tallinn Pedagogical College	Vice - rector
2007 – 2010	Foundation Teadlik Valik	CEO
2004 – 2007	Mainor Business School	Vice - rector
1999 – 2004	Estonian Business School	Director of Study department
1995 – 1999	Estonian Business School	Program manager

6. Scientific work:

Publication:
Rihma, M (2015). CSR to whom and why? Metsaülikool Eestis 2013- 2014, SE&JS (in process).

Rihma M., Meel, M. Leppiman, A. (2014). Implementing Ethics Auditing Model: New Approach, Journal of Knowledge Management, Economics and Information Technology (Forthcoming).

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Kooskora, M., Kadak, T.; Roostalu, L.; Rihma, M. (2013). Rethinking Parsons' Paradigm in the Context of Sustainability. International Journal on Spirituality and Organizational Leadership, 2, 62 - 72.

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Rihma, M.; Virovere, A. (2008). Ethics Auditing and Conflict Analysis as Management Tools Working Papers in Economics, (67 - 79). Tallinn: Tallinna Tehnikaülikooli Kirjastus.

Conferences:
Rihma, M., Meel, M., Leppiman, A. A new approach to ethics audit: assessing of corporate social responsibility and preventing ethical risks.' In the 15th EBES Conference – Lisbon, January 8-10, 2015 (Forthcoming).

Rihma, M.; Meel, M. Corporate published values versus real values. In: EBEN Annual Conference 2012, Barcelona, Spain: 25th Annual Conference of the European Business Ethics Network (EBEN 2012 AC), September 19-21.

Rihma, M. Ethics Auditing Model for Estonian Big and Middle Size Companies. In: EBEN Annual Conference 2010, Italy, Trento: 23rd Annual

Conference of the European Business Ethics Network (EBEN 2010 AC), September, 9-11, 2010.,

Virovere, A.; Rihma, M. Ethics Auditing and Conflict Analysis as a Management Tools. 22nd EBEN Annual Conference, Athens, Greece., September, 10.-12. 2009.

7. Main areas of scientific work:
    business ethics, corporate social responsibility

8. Defended Theses:
    Master's Degree:
    Rihma, M. The Role of Teaching Business Ethics in Business Administration Curriculum and in Executive Training, Supervisor Anu Virovere, Estonian Business School, 2003

9. Honours:
    2012/2013, Business Ethics Scholarship (Swedbank Estonia)

KOKKUVÕTE

Vastutustundlik ja eetiline äritegevus on põhimõte, mida jätkusuutlik äriühing 21. sajandil eirata ei saa. Rahvusvahelised organisatsioonid (ILO, OECD, Euroopa Komisjon jt) on kehtestanud ettevõtetele sotsiaalseid ja eetilisi standardeid, mille järgimine ei ole enam vabatahtlik vaid kohustuslik. Lisandunud on vabatahtlikke sotsiaalse aruandluse raporteid ja juhendmaterjale sotsiaalselt vastutustundliku ettevõtluse *(corporate social responsibility, CSR)* edendamiseks organisatsioonides.

Ometigi on paljud uuringud (Cerin 2002, Solomon ja Lewis 2007; Brande 2010, Fassin ja Buelens, 2011, Scalet ja Kelly, 2009) ja ka autori isiklikud kogemused vastutustundlike ettevõtete raportite hindajana viidanud juhtumitele, kus kõrgeid hinnanguid ja tunnustust pälvinud vastutustundlik ettevõte on käitunud ebaeetiliselt või rikkunud vastutustundliku käitumise põhimõtteid. Sellised juhtumid kahjustavad sotsiaalse vastutustundlikkuse olemust, langetavad sotsiaalsete raportite usaldusväärsust ja kahjustavad sidusgruppide huve. Sellest johtuvalt tekkis autoril küsimus, mil moel ja milliste juhtimismeetmetega on võimalik selliseid olukordi vältida ja vastutustundlikku ettevõtlust strateegilisemalt planeerida. Nimetatud asjaolu saigi doktoritöö teemavaliku põhjuseks.

Vastava erialase kirjanduse läbitöötamise ja eri mudelite analüüsimise kaudu jõudis autor seisukohale, et vältimaks konflikte raportites esitatu ja tegelikkuse vahel ning eetilise juhtimise toetamiseks ettevõtetes on üks efektiivseid tööriistu eetikaaudit. Autor jõudis järeldusele, et senised eetikaauditi käsitlused (Kaptein 1998, Rosthorn, 2000, Carmichael jt 1998) keskenduvad peamiselt eetilise keskkonna kaardistamise ja faktide konstateeringutega, kuid riskid või ka võimalikud varjatud riskid võivad jääda avastamata. Paljud ärieetika uurijad (Parboteeach *et al*., 2010; Morimoto *et al*. 2004, Carmichael *et al*., 1998) viitavad vajadusele arendada ja täiendada selliseid juhtimisinstrumente (sh eetikaauditit), mis aitaksid juhtidel paremini planeerida ja juhtida eetilist mikrokliimat ning hinnata eetilisi riske. Sellest uurimislüngast johtuvalt püstitas autor oma uurimistöö eesmärgiks eetikaauditi kui juhtimisinstrumendi mudeli arendamise, selle rakendusprotsessi ülesehitamise ja seejärel mudeli toimimise kontrolli auditeerimise protsessis.

Eesmärgi täitmiseks püstitas autor esmalt uurimisküsimused ja siis omakorda konkreetsemad uurimisülesanded.

Esimese uurimisküsimuse – *mis rolli omab ettevõtte sotsiaalse vastutustundliku käitumise hindamine ettevõtte ja sidusgruppide vahelise usaldusväärsuse tagamisel* − aitasid lahendada järgmised töös püstitatud ülesanded: analüüsida CSR-teooriaid sidusgruppide huve silmas pidades ning uurida, kuidas need põhimõtted on kajastatud enam levinud CSR-raportites. Muuhulgas uuris autor, kas ka Eesti ettevõtete juures ilmneb vasturääkivusi deklareeritud väärtuste ja tegeliku käitumise vahel. Esimese küsimusega seotud uurimustulemused on kajastatud põhjalikumalt 2. artiklis.

Teine uurimisküsimus on loogiline jätk esimesele − *mil moel aitab eetikaauditi kasutamine kaasa ettevõtte ja sidusgruppide vahelise usalduse kasvule.* Küsimusele leiti vastus, analüüsides seniseid eetikaauditi mudeleid. Autor jõudis järeldusele, et senised käsitlused piirduvad ettevõtte eetilise mikrokliima hindamisega või vastavusauditiga, kuid sidusgruppe huvitav võimalike riskide analüüs jääb puudulikuks. Autori arvates võiks eetikaauditi kasutegur olla seega märksa kõrgem. Autor täiendas senist eetikaauditi mudelit riskihindamise mooduliga. Eetikaaudit on tõhus juhtimistööriist jätkusuutliku ja vastutustundliku ettevõtluse kasvustrateegia loomiseks. Autori poolt arendatud auditimudel ja selle rakendamise käik on kirjeldatud 1. artiklis.

Kolmanda uurimisküsimusega soovis autor leida vastust küsimusele, *kuidas loodud eetikaauditi mudel töötab Eesti ettevõttes esmaste sidusgruppide teenistuses.* Arendatud auditimudeli testimine Eesti ettevõttes andis võimaluse auditi läbiviimise protsessi veelgi täiendada ja kriitiliselt hinnata. Uurimuse tulemused on üksikasjalikumalt kajastatud artiklis 3.

Doktoritöö koosneb kolmest peatükist. Esimeses peatükis annab autor ülevaate teemakohasest kirjandusest, teine tutvustab uurimismeetodeid ning kolmas peatükk esitab uuringu tulemused ning tulemuste teoreetilised ja praktilised rakendusvõimalused. Doktoritöö lahutamatuteks osadeks on kolm eraldiseisvat teadusartiklit (lisad 1–3).

Töös rakendatav teaduslik meetod on tõlgendav ja uurimusküsimuste lahendamisel on tuginetud valdavalt kvalitatiivsele uurimusmeetodile, kasutades meetodite, teooriate, andmete triangulatsiooni. Triangulatsiooni kasutamine lisab uurimustulemustele suurema usaldusväärsuse. Uurimistöö strateegiaks on juhtumianalüüs. Autor viis läbi 13 interpreteerivat juhtumianalüüsi ja ühe süvaanalüüsi. Metodoloogilistes valikutes tugines autor enim Denzini ja Yini teooriatele.

Doktoritöö *originaalsus* seisneb selles, et autor täiustas senist eetikaauditi mudelit, lisades eetiliste riskide hindamise mooduli koos protsessi kirjeldusega. Eetiliste ja varjatud eetiliste riskide hindamine muudab eetikaauditi kui juhtimisinstrumendi efektiivsemaks. Autori poolt arendatud auditimudel kaardistab eetilised ja varjatud riskid ning aitab hinnata riskide ilmumise tõenäosust ja mõju ulatust. Riski kaardistamine ja hindamine peegeldab ettevõtte vastutustundliku ja eetilise käitumise tegelikkust, aitab avastada ja ennetada eetilisi riske, mis võivad ohustada ettevõtte usaldusväärsust sidusgruppide hulgas. Riskide juhtimise või ennetamise kohta antakse soovitused auditi lõppraportis.

Loodud mudelit testiti ühes Eesti väikeettevõttes. Kuna eetikaauditi mudel on paindlik ja seda on võimalik kasutada vastavalt ettevõtte vajadustele, viidi siinse töö raames eetikaaudit läbi infotehnoloogia valdkonnas. Auditeerimise jooksul tehti märkmeid ja parendusettepanekuid protsessi täiustamiseks. Näiteks selgus, et grupiintervjuud ja selle tulemused võivad olla mõjutatud domineerivast grupiliidrist, mistõttu auditeerimise objektiivsuse seisukohalt ei ole otstarbekas grupiintervjuusid korraldada (v.a eetiliste dilemmade diskussioonis). Positiivne

tagasiside ja tänulikkus auditeeritud ettevõtte poolt, vastastikune koostöö ja heatahtlikkus annavad usku järgmisteks edukateks eetikaaudititeks.

Töö tulemusena selgus veel, et CSR-aruanded, deklareeritud väärtused ja tegelikkus on sageli omavahel vastuolus, mistõttu kannatab CSR-põhimõtete ja raportite usaldusväärsus. Ühest küljest ei saa investorid ja teised sidusgrupid kasutada CSR-raportit kui infoallikat, teisalt näitas kirjanduse uuring, et raportite sisu ei hõlma ka kõiki CSR-i olulisi valdkondi (jätkusuutlikkus, õiguslike ja majanduslike normide järgimine, filantroopia, keskkonnakaitse). Väheoluline ei ole ka asjaolu, et eetilised ja sotsiaalsed riskid võivad varitseda ettevõtteid ja nende huvigruppe valdkondades, mis CSR-aruandlusega seotud ei ole (näiteks infotehnoloogia, avalikud suhted jt). Neid riske saab maandada või paremal juhul ennetada eetikaudiiti kasutamisega. Samuti aitavad eetikaudiiti tulemused konkreetsemalt kavandada ettevõtte CSR-strateegiate elluviimist selliselt, et sidusgruppide ja ettevõtte usaldusväärsus ei saaks kahjustada.

Doktoritöö panustab nii erialase teaduskirjanduse edendamisesse, tööl on ka praktiline väärtus ettevõtetele ja organisatsioonidele. Töö teoreetilise väärtusena tuleb mainida arendatud ja empiiriliselt testitud eetikaudiiti mudelit ja selle läbiviimise kirjeldust, kasutades organisatsiooni hindamisel uudset metoodikat. Täiustatud mudelit on sobiv kasutada mis tahes ettevõttes, auditeerides kas kogu organisatsiooni kui tervikut või mõnda kindlat valdkonda. Vähetähtis ei ole ka autori uuringu tulemus, mis viitab olukorrale, kus CSR-raportite aruandlus toob kaasa silmakirjalikkuse ilminguid, sest raportites esitatu ja tegelik käitumine ei pruugi alati olla vastavuses. Autor juhib tööga tähelepanu asjaolule, et kuivõrd CSR-aruanded analüüsivad peaasjalikult minevikku, siis järgmiste uuringutega peaks panustama rohkem CSR-planeerimise tõhustamisele ja CSR strateegiate kavandamisele keskmistes väikeettevõtetes. Eetikaudiiti kasutamine aitab kaasa sotsiaalselt vastutustundlikku käitumise strateegilisele planeerimisele.

Töö praktiline väärtus seisneb selles, et doktoritöö raames tehtud eetikaudiit on Eesti ärivaldkonnas esimene katse hinnata ettevõtte eetilisi riske just eetikaudiiti abil.

ABSTRACT

Corporate Social Responsibility (CSR) and business ethics are principles that sustainable organizations cannot ignore in the 21st century. Several international organizations (ILO, OECD, and EU) have established business, social and ethical standards and guidelines, which are no longer optional but mandatory. There are now additional voluntary social reports and initiatives for promoting CSR in business organizations. However, a number of studies (Cerin; 2002; Solomon and Lewis, 2007; Brande 2010; Fassin and Buelens, 2011; Scalet and Kelly, 2009) media releases, and the author's own personal experience as an assessor of CSR reports in Estonia, have thrown up cases where highly-ranked responsible companies have acted unethically or violated the basic principles of responsible behaviour. Such cases undermine the nature of CSR, reduce trust in social reports and damage the interests of stakeholders. Existing social and ethics audits (Kaptein 1998, Rosthorn, 2000, Carmichael 1998) point out shortcomings in managerial ethics and identify patterns of ethical behaviour, but do not draw specific attention to ethics risk management. Many scholars (Parboteeach et al., 2010; Carmichael, et al., 1998; Morimoto et al. 2004) suggested for future studies developing an auditing system and to find out instruments for developing organizational ethical climates, so that managers can be more comprehensively equipped to manage ethical behaviour in their organizations. Herein lies the research gap and the main problem the author has chosen to explore. The author attempts with this dissertation to contribute to filling this gap by improving existing ethics audit models with risk assessment module. The aim of the current thesis is to improve existing ethics audit models for the assessment of CSR performance and to prevent ethical risks in the Estonian business organization context. To achieve this goal, the author initially set research questions followed by specific activities aimed at answering them. The work is based on three inter-related scientific articles.

The first research question is as follows: *Why does evaluating a company's CSR matter in ensuring the company's credibility amongst its stakeholders?* This was answered by analysing the role of CSR according to stakeholder interests and examining how CSR principles relate to CSR evaluation instruments. The results show that the managerial decision-making process in organizations that have achieved a high standing in CSR rankings do not always correlate to the values declared in the CSR reports. This indicates that to get an accurate picture and avoid possible hypocrisy there is a need to conduct an ethics audit based on CSR business principles. Searching for a solution to the problem through the professional literature, the author found a management instrument in the form of an ethics audit. Therefore, the next research question arose as follows: *In what ways does the use of an ethics audit contribute to increasing trust among company stakeholders?* The answer to the question was found through investigating existing ethics audit models, and the author concluded that these are mainly aimed at enforcing the ethical *status quo* or carrying out a

compliance survey in the company. In reviewing the literature, no data was found about an ethics audit model that includes risk analyses or risk management to discover ethical risks or hidden risks. The author improved the ethics audit model by adding a full risk assessment module. The improved ethics audit model was tested in a printing company in Estonia, with the aim of investigating ethical issues arising from the everyday use of information technology in the work place. The reason to choose above mentioned filed was based on the fact that ethical and social risks can ambush companies and their stakeholders in areas which are not included in CSR reports. This stage of the study also provided an answer to the third research question: *How does an ethics audit as a new assessment tool work in an Estonian company in the minds of the stakeholders*? After analysing the ethics audit process via critical analysis, improvements to the auditing process were made.

The study is unique, as the ethics audit in question does not only measure the ethics climate by identifying ethical risks, but also contributes to ethics risk management. The results of the ethics audit do not merely improve the ethics climate, but risk mapping also charts the likelihood and significance of risks. The ethics audit will contribute to the development and implementation of the company's CSR strategy, preventing ethical misbehaviour and help increase trust amongst stakeholders. The improved ethics audit model and its implementation is a new approach and methodology in assisting companies to better meet stakeholder expectations and remain sustainable in the long-term perspective.

The main methodological basis for the study design is qualitative research. In the methodology, the author used Denzin, Yin, Willis theories as the basis. Triangulation is best used in qualitative studies that follow a post positivist search for generalizations – for laws and truth. Using triangulation gives more reliability to the results of the research. The author uses multiple theories, methods and data sources and a case study research strategy. Altogether, the author conducted 13 interpretive case studies and one intensive case study.

The results of the audit will be analysed in terms of the significance and likelihood of the occurrence of an ethically damaging event, after which a suggestion for managing this risk will be given. The risk analysis makes this ethics audit model unique and effective and offers more value for the auditee.

Consequently, an ethics audit could be used as a management instrument to measure the ethical climate and evaluate possible ethical risks with the aim of increasing the trustworthiness and reliability of CSR for stakeholders.

The main contribution of the dissertation is to have developed and empirically tested an ethics audit model with a risk assessment module. A new methodological approach has been used in improving existing ethics audit models. The improved ethics audit model is tested and made suitable for many organizations in different fields. The author indicated the importance of the decrease in trustworthiness of CSR caused by the contradiction between declared and real values and behaviour which could damage the trustworthiness and purpose of CSR.

From practical contribution is important to mention that this was the first attempt to introduce an ethics audit as a managerial and diagnostic tool in Estonian companies with the aim of increasing the integrity and transparency of companies and preventing ethical risks.

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