



## Ethics Audits and Ethical Assurance

At a recent international conference, an American professor of business ethics expressed scathing condemnation for the relatively new management tool called social or ethics audits. She placed her comments within the context of three successive periods of management's progressive subjugation of workers.

Stage one, in the early twentieth century, saw management attempting to control workers muscular power through scientific studies of every step of production that ushered in the assembly line. Later, in stage two, we had a profusion of corporate experiments with live-work family benefits, corporate-sponsored daycare and charitable giving campaigns, and social impact studies where management attempted to control the social dimensions of workers' lives. Today, she argues, we are in the stage three period that includes visioning exercises, popular books on ethics, and social audits: these she describes as corporate attempts to control workers' souls. From controlling the muscles, through controlling the mind, to control of the soul.

The criticism is sobering, but as unhelpful as it is wrong-headed. When applied appropriately, social audits can be an effective way to assess an organization's strengths and weaknesses using values-based criteria as well as diverse stakeholders' perceptions. Ethics auditing can be an empowering tool that links job security to personal decisions about right behaviour by all workers, from the most junior clerk to the CEO.

Approaches to auditing differ somewhat internationally. In North America, in the publicly-known audits, the focus is 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 process standards and verification. In this approach, continuous improvement standards and a financial audit model are key.

A state-of-the-art social or ethics audit has six key components, each of which is described here. Taken together, they represent a significant enhancement upon either an employee attitudinal or opinion ("climate survey") study, or an organizational review. These components apply to business, government, and non-governmental organizations.

### 1. Values-Based Standard Setting

Whose goals and aspirations are being measured? Is it the corporation's alone, through its mission and mandate? Or is it stakeholders, including staff, shareholders, regulators, clients, and the general public? Or is it institutional standards in terms of the law, industry association standards, and codes of business practice? The answer is: All three. The values, positions and expectations of each and every group are important.

A social audit is not about whether the company satisfies its existing mission or mandate. Rather, an effective audit carefully establishes and documents the idealized characteristics of an ethically-tuned organization. For a bank or trust company, for example, what are the characteristics of an ethically-ideal or leading-edge financial institution? These audit standard statements address all aspects of ethical governance, production processes, community responsibility, client or customer service, and the like. They are the basis for not only auditing behaviour but also regeneration of missions and mandates.

## 2. Document Review

A social audit requires an in-depth review of the manual of administration, the corporate code of ethics, Board minutes, and corporate policies in terms of business practices, conflict of interest, harassment, privacy, and the like. The emphasis here is to rigorously establish what are the corporation's current policies. Do they conform to the organization's self-professed mandates. Do Board decisions and policy directives "walk the talk"?

The document review is not concerned with examining motives (why we do what we do) or rationales (why we say we do what we do). Rather, the focus is on directions taken, choices taken, and observable behaviour.

## 3. Benchmarking

The audit team must be able to compare the organization's performance to other agencies or businesses of a comparable size and mandate. Benchmarking offers rigorous, quantifiable comparisons of behaviour across a broad range of internal and external operational practices. Such comparisons help answer questions like: Are there policies or programs that are missing? Does the organization have the same staff policies, environmental management systems, quality assurance, and whistle-blower protection practices as does its peers?

Effective benchmarking should help reveal ethical risks in the marketplace. For example, is the company vulnerable in terms of child labour, competition, environmental risk, and other issues? How can the organization report accurately and meaningfully about stakeholder concerns involving social, ethical, environmental and financial performance?

## 4. Environmental Scan

We live in a period of corporate transformation. A not-for-profit's core mandate may be undercut by a "sea change" in health care, food technology, or reorganization of social services. A company's core business practices may need to undergo a technology-driven fundamental reorganization. To address these transformative possibilities, a social audit robustly examines macro-scale social, political, economic and technological changes.

This environmental scan is not about the natural environment. Rather, it addresses macro-

changes in climate, nationalism, technology, international trade policy, and other factors that will transform the very organization of the business or agency under study.

## 5. Stakeholder Surveys

How satisfied are staff with the operations of the organization? What about shareholders, clients or customers? And what about regulators, suppliers, and the general public? Confidential surveys-- personal, mail and telephone-- can provide a useful measure of these multi-perspective attitudes. Such attitudes are important because they shape or reflect behaviours in terms of honesty, satisfaction, demands, expectations and tolerance for lack of trust, or quality.

This component of the audit bears some relationship to traditional "climate surveys" of employees' opinions. However, there are two differences. First, its scope is more wider. The attitudes of ex-employees or ex-members or clients, for example, may be as important as those of current staff. Second, research and reporting protocols are necessary for hearing oral testimony or deciding what to report when disclosure will violate the confidentiality of individual interviewees.

## 6. Action-Enabling Recommendations

A financial audit measures a company's financial systems. The ISO 14000 standards measures a company's environmental management systems. Neither, however, requires any ethical analysis about the sustainability of an enterprise, or action-oriented approaches to enhance the social utility of the organization's products and services. A social audit does not involve a re-audit of earlier financial audits.

Any serious social audit provides clear ethical or values-based analyses of the organization's strategy, its operations, and its internal and external communications. Recommendations must link the audit cycle into the planning mode of the organization. The social audit does not demand that all improvements be undertaken at once: rather, it ensures that nothing lies outside its scope. Recommendations should be action-oriented and numerous, as they touch on a variety of changes, some of which are immediate, while others are long range.

## 7. Disclosure and External Verification

Simon Zadek, of the Institute of Social and Ethical AccountAbility, is convinced that the full contents of audits must be disclosed. Quality of disclosure, in his analysis, is a function of openness, honesty, and making sure that the integrity of the auditors is not compromised. In other words, the audit must be externally verified and independent as well as be seen to be so. Many consulting practitioners argue that such an audit, if paid for by the company, should be the property of that company. The debate is actively underway.

## Conclusion

There are no guarantees that social audits will not go the way of an earlier management science tool called environmental audits: that is, a process from enormous interest, through uneven application, into waning interest after a few years. We watch with interest corporate applications of this emerging tool.

## Further Resources

There are a number of articles in The Corporate Ethics Monitor that analyze social and ethical accounting, auditing, assurance and reporting further.

These Reprints include

M08 Ethical Assurance Tools (1995) David Nitkin  
CO7 Ethics Tests and Ethics Audits (1993) Len Brooks  
CO3 Ethics Audits and Ethics Assurance (1996) David Nitkin  
T05 Sustainability Auditing (1997) David Nitkin  
Y03 Social Audits (2000) Howard Bogach and Larry Gordon

EthicScan believes it is the leading North American practitioner of integrated social, triple bottom line, and ethics audits. While public and independent verification of audits are ideal, most of the audits conducted in Canada are still proprietary, with only portions made publicly available. A copy of an international list of 225 audits as compiled by EthicScan and AccountAbility is available by [contacting EthicScan](#).