

Ethics audit as a marketing instrument and its potential for organic farming

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Abstract. Demand for organic foods is growing quickly but remains to be a relatively small segment of the food market. In order to increase the market share there is important role in an effective and smart marketing communication. According to many researches consumers are mostly interested in additional ethical attributes in organic food producing. Organic food farmers' ability to earn profit from experience marketing according ethical values in organic food production is rather weak. At the same time organic farming faces many significant ethical risks from unregulated area of organic food-production. Consumer trust in environmentally friendly or organic products is often being undermined by business scandals, unsubstantiated 'organic' claims and assessment practices. The current paper aims to improve ethics audit framework as a marketing instrument for organic farming companies in order to increase the trust between producers and consumers. This paper draws upon previous researches and adds new approach based on the needs of organic farming.

Key words: ethical values, organic producing, marketing communication, risk assessment.

INTRODUCTION

Organic farming and consumerism are both growing trends worldwide and have continued to expand during the last few years. Moral responsibility is an important buying motivation among various consumer groups (Shaw & Shiu, 2003; Carrigan et al., 2004). Ethical values and behaviour have played an essential role in the self-conception of organic agriculture from the very beginning (Browne et al., 2000; Lautermann et al., 2005). It is well known that there are several regulations governing organic farming. In addition to the regulations of the European Union (EC Reg. 2092/91), the Estonian Organic Farming Act provides for requirements not regulated by EU law, and the extent of supervision exercised over individuals operating in the area of organic farming, and liability in cases of the violation of the requirements established by such legislation. These are mainly a set of standards relating to the physical-technical terms of organic production and certification. Ethical values and corporate social responsibility, which go far beyond the production rules or beyond the systematic approach to organic agriculture, are mentioned neither in the EU Regulation nor in other local government regulations.

Many scientists (Maloni & Brown, 2006; Zander & Hamm, 2010) argue that increasingly more consumers are discontent with the consequences of globalisation on organic food provision: anonymous, uniform and replaceable organic food products. Consequently, a new demand for products produced under ethical standards going beyond the current organic standards seems to be emerging. A large number of studies indicate that consumers tend to be rather sceptical towards green product claims and organic food (Schlegelmilch et al., 1996; Bech-Larsen & Grunert, 2001; Aarset et al., 2004; Vermeir & Verbeke, 2006; D'Souza et al., 2007; Bray et al., 2011; Janssen & Hamm, 2011; Janssen & Hamm, 2012). Consumers do not only want the products to seem to be organic; they also want to know that these products are produced according to ethical values. At the same time, the producer and the farmers may earn a profit from well-communicated ethical values and social norms in organic food production. There are many consumers of organic food demanding evidence that additional ethical values are really included in the production, processing and retailing. Therefore, it seems an urgent task to gain experience about what communication strategies can be successful in implementing additional ethical values in the market for organic products (Leppiman, 2010a; Leppiman, 2010b; Zander & Hamm, 2010). Authors can assume that there are grey areas between regulation and consumer demand for ethical values according organic food consumption. Authors believe that abovementioned gap may include hidden risks for the producers and may decrease consumers trust. To avoid such threats using an ethics audit as a marketing instrument could be invaluable. Here it is necessary to say in advance that an ethics audit is not an additional regulatory tool, but it follows an advisory approach for farmers so they can avoid hidden ethical risks and promote better relationships between producers and costumers. Aforementioned is supported by studies of Başgöze and Tektaş (2012) who stated that trustworthy certification and control, and effective communication are the most important keys to further enhancement of consumer trust towards organic food consumption. 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 (Carmichael et al., 1998; Kaptein, 1998; Rosthorn, 2000; Morimoto et al., 2004; Bennet et al., 2006). The results of research carried out by Pivato et al. (2008) referred that trust is a key mediator capable of measuring and explaining the success or the failure of the organic food producing policies adopted by a company. The price of organic food products is usually higher than that of comparable non-organic alternatives. In such cases, the act of purchase is strongly dependent on the belief that the organic food is healthier and valuable. The business model of organic farms is more value-oriented then conventional farming. This is the reason, why organic food is more trust and value sensitive.

The ethics audit has been thoroughly researched by Muel Kaptein (1998) and later improved by authors (Rihma, 2012; Rihma et al., 2014).The aim of the authors here is to improve the ethics audit framework for the assessment of organic farming, especially in areas which are not covered by other official regulations. The research tasks of this paper are to explain what ethics audit is and how it will work in order to increase trust and transparency amongst the stakeholders. The paper also aims to explain how ethics audit model can be adjusted to organic farming companies. To fulfil these tasks, authors of this paper provide an overview of ethics auditing and explain how an ethics audit could work for organic farmers as a marketing instrument. Finally, a framework for an

improved ethics audit model for organic farming will be presented. The main methodological basis for the current paper is qualitative research. This paper draws upon previous researches and emerging ethical issues to develop an ethics audit model for organic farmers.

MATERIALS AND METHODS

Business can be understood as a system of how to create value for stakeholders. 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 (Carmichael et al., 1998).

An ethics audit, as Kaptein (1998) has said is like an ethics thermometer to measure the ‘health condition of organizational ethics’. Kaptein asserts that ethics audit 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 (ibid). According to the fact that previous ethics audits lack a risk assessment and analysis component the author improved ethics audit model do not merely improve the ethics climate, but risk assessment charts the likelihood and significance of the risks in addition (Rihma, 2012; Rihma, 2014). It is essential to keep in mind that after detecting ethical risks, it is necessary to evaluate and analyse the 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. In following Fig. 1 describes an improved model and the process of the ethics audit.

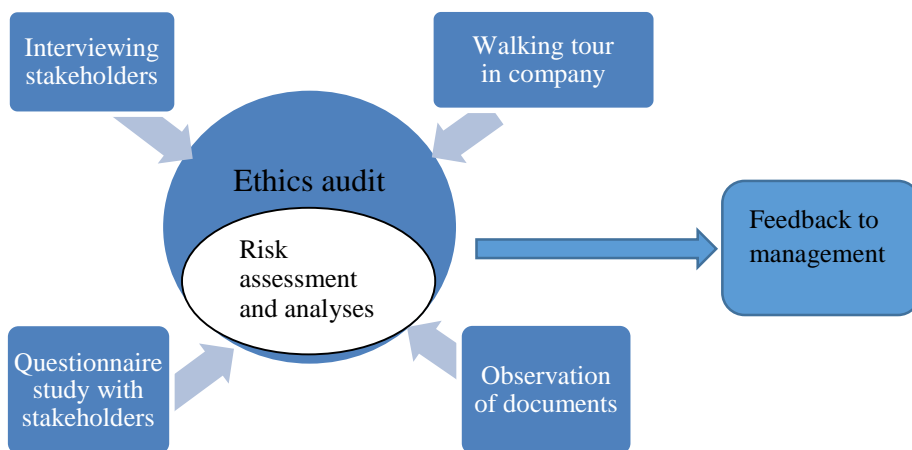


Figure 1. Model of the process of the ethics audit (Rihma, 2012; Rihma, 2014).

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

Auditing process is carried out by the external auditing committee. The auditing committee should be composed of at least three independent and independent experts. Hess (1999), Zerk (2006), Crane & Matten, (2007,) emphasize that independent and external monitoring of CSR-related disclosures by companies is essential for the credibility of CSR initiatives and for increasing consumers trust. Auditing committee has to avoid conflicts of interests with stakeholders.

The auditing process consists regularly from six stages:

First stage involves quantitative analyses through questionnaire to selected stakeholders groups (e.g. employees, shareholders, clients, suppliers, the community etc.) identified for the research depends on the company's interest and focus.

Second stage 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.

Third stage involves a focus-group interview with selected stakeholders.

Fourth stage elaborates conferring and solving ethical dilemmas. Story-telling and dilemmas specify attitudes which shape or reflect behaviours in terms of honesty, individual and corporate ethics, satisfaction, expectations and tolerance for lack of trust, or quality.

Fifth stage involves analysing and observing of documents (contracts, annual reports, internal documents, codes of conduct or values statements, regulations, rules etc.).

Sixth stage after collecting and analysing data, risk assessment and analyse will be done. Also feedback for the company's management will be compiled (Rihma, 2012).

Every risk that appeared will be placed on scale of 1–5 based on the likelihood of its occurrence. On the second scale of 1–10 according to its significance for the company will be marked. Since significance is considered more important than likelihood, it is scored highly. Subsequently, all potential risks are categorized and divided between four quadrants depending on level of significance and likelihood of occurrence (Rihma, 2014; Rihma et al., 2014).

An auditing report as feedback is a factual document, which takes the most important findings as the basis for an action plan. The feedback contains the company's description of the audit methodology and the interpretation of the data, while best practices and hidden ethical and IT related risks are pointed out. In the final report every risk will be supported with at least one example drawn from the facts identified in the auditing process. The feedback document is structured according to stakeholder groups: employees, managers, customers/consumers and shareholders.

The main methodological basis for the ethics audit is based on triangulation. Triangulation means that there are connections between different research methods and multiple theories (embedded theories) during auditing. Also multiple methods will be used in auditing process, including quantitative and qualitative approach (Denzin, 1988; Leppiman, 2010a). In auditing process for example, questionnaires, interviews, observations and monitoring are used. 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).

RESULTS AND DISCUSSION

Framework for ethics audit for an organic farming improved based on ethics audit model described above. Many fields of organic farming are regulated by the Organic Farming Act or other regulations but there are also some grey areas. For example, organic farming does not regulate in detail the requirements of the food processing (with some exceptional, for example: the prohibition of the use of ionizing radiation) or cleaning and disinfection. Another unregulated area is connected with the fact that one producer may also produce both organic and conventional foods. As illustrated by abovementioned, how can consumers be sure that the bought products, are indeed, organic and produced according to best practices? As it is said in the introductory part of the current article, most of the standards or regulations do not state values. Federation of Organic Agriculture Movements (IFOAM) has approved normative principles to identify organic agriculture:

- The principle of health.
- The ecological principle.
- The principle of fairness.
- The principle of care.

Trust is also very important aspect within the decision of purchasing organic food. Many researchers found out that the strongest influence on purchasing organic food were ethical concerns, followed by food safety and health (Michaelidou & Hassan, 2008; Tarkianen & Sundqvist, 2009). Ethics audit in an organic farm or food producer oftentimes indicate of possible risks associated to unethical instances, which in return may decrease the trust between consumers and producers. An ethics audit can help managers to quickly recognize potential adverse events, be more proactive and forward-looking, and establish proper risk responses. By using the ethics audit in organic farming, one can get an insight to the company and enable to develop tools to protect the business and consumers from hidden risks and ethical issues, which may usually stay unnoticed and may affect the company unexceptionally. On the other hand best practices identified during the audit are valuable marketing assets which build trust and indicate of highest ethical values in the production process. ‘Do something good and let others talk about it’ is probably the most effective way of communicating ethical values (Zander & Hamm, 2008). Communication and open dialog with potential consumers are therefore critical for the success of adding ethical values to organic offerings. The survey among organic small and medium sized farming enterprises in five European countries (Austria, Italy, German, Switzerland and United Kingdom) regarding additional ethical activities showed that a large range of different ethical arguments are realised but not always well communicated (Padel & Gössinger, 2008). According to Başgöze and Tektas (2012) majority of organic food consumers find it difficult to understand whether the product is ‘green’ or not. This approach is supported also by Zander and Hamm, who said that ‘the messages pinpointing the additional ethical benefits are also spread by third persons or organisations with a high credibility and reliability, such as consumer organisations or environmental organisations’.

The auditing model in the current framework involves elements from grey areas of organic farming such as: supply chain, process of the production, cleaning and disinfection, protecting and preventing diseases, working conditions, relationship with local community, communication and PR.

Table 1. Fields of auditing, stakeholders, target groups and methods of auditing

Field of auditing	Core stakeholders	Data/ sources	Methods of auditing
Corporate Governance			
Efficiency and profitability	Owners	Annual report, declared values, mission	Observation of documents
Health and sustainability of the environment.	Society, employees, consumers	International standards, compliance to regulations, values	Interviews, observation of documents
Working conditions	Employees	Cases of discrimination, inequality, remuneration, undeclared salary contracts, declared values	Questionnaires, interviews, Walking tour in company
Personal policies	Employees	Recruitment and dismissal procedures, Training plan, bonuses	Questionnaires, interviews, observation of documents
Marketing policies and consumer dimension			
Producing process: cleanliness	Consumers, employees	Policies and procedures of producing, compliance to regulations	Questionnaires, interviews, observation of documents, Walking tour in company
Producing process: Conventional* and organic food	Consumers, employees	Policies and procedures of producing, compliance to regulation	Questionnaires, interviews, observation of documents, Walking tour in company
Producing process: Disinfection, safety	Consumers, employees	Policies and procedures of producing	Questionnaires, interviews, observation of documents, Walking tour in company
Producing process: Protecting and preventing diseases	Employees, consumers, Local community	Plan for self-control, compliance to regulation	Questionnaires, interviews, observation of documents
Consumers perceptions, trust	Consumers	Complaints handling procedure	Questionnaires, focus-group interviews
Relationship with society, local community	Local community, consumers	Involvement in social activities, sponsorship. Fair trade policies	Interviews, observation of documents

*In case when one producer also produces both organic and conventional foods.

Principles to what draw attention in auditing process are worked out according to literature review (Maloni & Brown, 2006; Michaelidou & Hassan, 2008; Zander & Hamm, 2008; Tarkianen & Sundqvist, 2009; Leppiman & Same, 2011) and experiences of ethical auditing carried out by the authors previously. Table 1 gives a general

overview about the field of auditing, stakeholders and target groups of auditing and data sources, which auditors can use during the auditing process to collect information.

Indicators on assessing the specific field of ethics should be meaningful, significant, measurable and unpretentious. Indicators must tell to the auditors whether the company is making progress toward achieving ethical production and expectation of stakeholders. Compliance with relevant regulation is essential for auditing organic farming. However, the grey areas between regulation and real production process should not left without attention. For example, compliance with regard to auditing conventional food producer is not as important as auditing organic producer. According to Crane and Matten (2007) each organization needs a tailor-made approach towards stakeholder expectations and interests. When carrying out ethics audit, it is essential to take into account their nature, size, activities and location as well as capacities and other competitive in order to further improve their environmental and social performance in an innovative manner. Characteristics of auditing and surveys content should always be in correlation with the aim of auditing.

There are several reasons to implement auditing process and possibilities to take advantage of it.

Positive results of ethics audit will contribute to the disclosure of the marketing and communication process, helping to segregate themselves from other farmers. Ethics 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.

From the other side, ethics audit is definitely a new tool for establishing trust and relevant communication for stakeholders within the Estonian business context. The Estonian business community needs more public information about the benefits of implementing an ethics audit. The ethics audit can improve farmer's ability to build up a transparent marketing communication between consumers and producer. In this way, businesses can guarantee that their activities are visible to the consumer. More energy should be invested in communication efforts by building up close relationships to important non-governmental organisations and stakeholder groups which fit into the main ethical messages.

CONCLUSIONS

Many consumers of organic food are demanding evidence that additional ethical values are really included into production. Both literature review and the findings of other authors confirm that official regulations and acts of organic food producing do not draw attention to ethical values and social responsibility aspects. The aim of this paper was to introduce ethics audit model and improve this model for organic farming companies by adding specific field of relevant aspects of the organic food producing, which are not regulated by others regulations or which are essential to increase trust between consumers and producers. An ethics audit enables farmers' better to plan marketing communication.

From theoretical contribution is important to mention that new framework of the ethics audit model can be used as a systematic survey instrument and theory-based process for correlating real organic producing and consumers' expectations with the aim to increase consumers' trust and awareness of organic food advantages. The current paper also contributes in terms of planning marketing communication strategies through

an ethics audit. An ethics auditing can contribute in increasing the trust and transparency of companies among stakeholder.

Compiling the paper leads authors to another connected issue for the future research – what are the core values of organic farming companies and how these values support the main business activities. For the future, a trademark such as Approved Estonian Taste should be coined for ethical, organic farming, too – it is well known practice that a trademark will help consumers to orientate better in a diverse food-market.

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