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# Accountability and sustainability of Estonian local governments: An analysis of legal acts

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This case study examines the challenges of the legal area of Estonia in supporting the corporate social responsibility and sustainability of local government by analyzing the main legal acts regulating the activities of this level of government. Both qualitative and quantitative content analyses were used. As a result of the study an original model describing sustainability orientation within the bodies of legal acts was designed. Taken together, the findings of the study suggest an actual and ever-growing role for public sector management in fostering social capital and promoting sustainability reporting within private, public and third sector organizations.

**JEL Classifications:** H83, M14, Q56; **UDC:** 352

**Keywords:** CSR (corporate social responsibility), local government, public sector management, social capital, sustainability reporting, value creation

## Introduction

Recent studies (Lim and Tsutsui, 2012; Kooskora and Vau, 2011; Carroll et al., 2010; Googins et al., 2009; Hansen and Reichwald, 2009) confirm that organizations that performed according to their core values and principles were significantly less affected by the recession and were able to restore their business easier than those who cut corners or neglected ethics and/or responsibility in their activities. Therefore it can be argued that ethical and responsible behaviour is a key to sustainable performance and helps organizations to survive and succeed in turbulent times.

In public sector governance, accountability and transparency are two core principles (Lee, 2008; Armstrong, 2005; OECD, 2002). One of the most important dimensions of accountability is financial accountability, which is fulfilled through the provision of financial information so that citizens can see how their taxes are being spent (Pina et al., 2007). However, government activities should not only be evaluated from a financial perspective, because they are non-profit entities driven by the objective of providing public services (Lee, 2008).

Kolk (2008) argues that the increased call for transparency comes from two different angles which show some potential convergence in terms of topics and audiences: accountability requirements in the context of corporate governance, which expand to staff-related, ethical aspects; and sustainability reporting, which has broadened from the environment alone to social and financial issues.

In this paper, the suitability of the legal acts of Estonia in introducing the principles of corporate social responsibility and sustainability (including sustainability reporting to the management of local government) is studied. There is no data on studies in Estonia or other countries focussing on value orientation within the bodies of the legal acts of the management of public organizations, although there are several studies devoted to the assessment of the effectiveness of particular legal acts in some areas of sustainability (see, for example, Dernbach and Mintz, 2011), and at least one study has compared the

implementation possibilities of national sustainable development acts in two countries (see Lee and Bückmann, 2004).

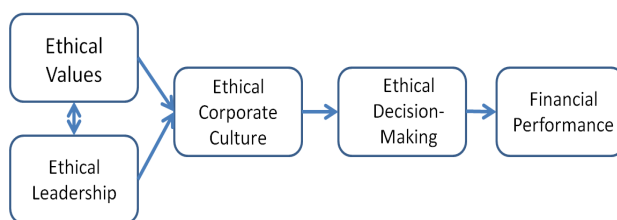
The paper is set forth as follows. First, the theoretical background of the study is introduced, providing the main concepts and standpoints related to the study. The next section is devoted to the empirical study, and in the last section a discussion and concluding summary is offered.

## Theoretical background

### Values

The findings of Schwartz (2009) prove that ethical values serve an important purpose with respect to establishing ethical corporate culture, ethical decision-making and leading to better financial performance (see Figure 1). However, the existence of values is necessary but insufficient in establishing ethical corporate culture – ethical leadership is also necessary (Schwartz, 2009).

FIGURE 1. RELATIONSHIPS BETWEEN VALUES, LEADERSHIP, CULTURE AND PERFORMANCE AS COMPILED BY THE AUTHOR



Source: Schwartz (2009).

The significance of values is also highlighted in the modern meaning of management accounting, which is defined as a value-adding, continuous improvement process of planning, designing, measuring and operating both non-financial and financial information systems which guides management action, motivates behaviour and supports and creates the cultural values needed to achieve an organisation's strategic, tactical and operating objectives (Atkinson et al., 2007).

### Corporate Social Responsibility (CSR)

The concept of CSR does not have a generally understood meaning. The European Union defines CSR as a concept whereby companies integrate social and environmental concerns into their business operations and in their interaction with their stakeholders on a voluntary basis (European Commission, 2001, p.6). The stakeholder approach was introduced by Freeman (1984), who emphasized the idea of ethical balance between the interests of the firm and stakeholders from a perspective of strategic management.

The renewed EU strategy 2011-2014 for corporate social responsibility puts forward a new definition of CSR as “the responsibility of enterprises for their impacts on society” (European Commission, 2011, p.6). The strategy states (European Commission, 2011, p.6):

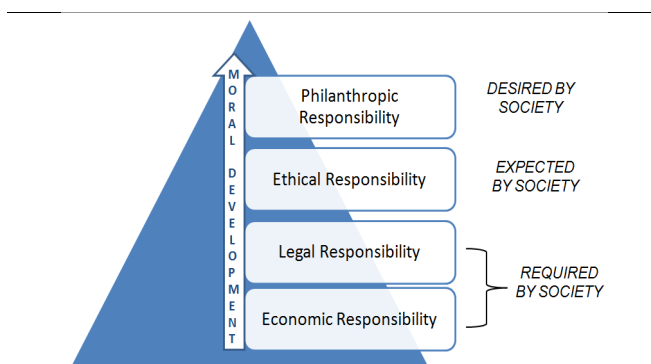
“To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

- maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
- identifying, preventing and mitigating their possible adverse impacts.”

These principles are in harmony with the viewpoints of McElhaney, who has developed and uses her definition of strategic corporate social responsibility as “a business strategy that is integrated with core business objectives and core competencies of the firm and from the outset is designed to create business value and positive social change, and is embedded in day-to-day business culture and operations” (McElhaney, 2008, p.5). McElhaney asserts that while in the past the trend in engagement in CSR was focused on risk mitigation, the current trend is value creation: companies view CSR as part of their value- and opportunity-creating strategies for sustainable development (McElhaney, 2008, pp. 9-10).

One of the most cited authors on corporate social responsibility, Archie B. Carroll, divides corporate social responsibilities into a four-level pyramid of economic, legal, ethical and philanthropic responsibilities (Carroll, 1991). According to Crane and Matten (2004, p.43), these levels can be seen as the stages of moral development of a company (see Figure 2). Crane and Matten (2004, pp.46-47) showed that all four CSR dimensions play a role in the European context.

FIGURE 2. CARROLL'S PYRAMID OF CSR AS A MODEL OF MORAL DEVELOPMENT AS COMPILED BY THE AUTHOR



Sources: Carroll (1991), Crane and Matten (2004).

The empirical study of Shum and Yam (2010) based on the model of Carroll demonstrates that corporations can be led to engage in more voluntary CSR activities when appropriate legal and ethical controls are in place.

In addition, some authors confirm the importance of Carroll's legal dimension of CSR by showing that CSR can be imposed by law and regulations (Matten and Moon, 2008; Moon and Vogel, 2008; Windsor, 2001). Franzoni (2009) and McNabb et al. (2010) also stress that although CSR remains voluntary, the need for public authorities to play a greater role in the strategies of promotion and use of responsible corporate practices is ever more pressing.

## Sustainability and sustainable development

Waas et al. (2011) do not distinguish in meaning between sustainable development and sustainability. Here I am in agreement with them: in this paper I also use these terms synonymously.

In addition, Waas et al. (2011) argue that while science is crucial for sustainable development, it cannot resolve the basic question of what is sustainable and what is not. So there is a large degree of arbitrariness in the concept's interpretation, and there are probably as many views and definitions as people dealing with the issue, each with their own focus, suiting the particular view of the stakeholder concerned (Waas et al., 2011).

In this section, I select the 11 most cited indicators of sustainability based on literature (see Table 1).

TABLE 1. OVERVIEW OF THE MOST CITED SUSTAINABILITY INDICATORS AND THEIR SOURCES AS COMPILED BY THE AUTHOR

No.	Sustainability indicators	Sources
1-3	Economic, ecological and social sustainability (the TBL or 'triple bottom line')	Waas et al. (2011), Smith and Sharicz (2011), Whitmarsh and Nykvist (2008), Turmpenny (2008), Gibson (2006), Elkington (1998)
4	Stakeholder involvement	Waas et al. (2011), Smith and Sharicz (2011), Turmpenny (2008), Benn (2007), Wheeler et al. (2003)
5	Holistic systems thinking	Waas et al. (2011), Smith and Sharicz (2011), Weaver and Jordan (2008), Hoexter (2006), Wilson et al. (2006)
6	Cultural sustainability	Pennington and More (2011), Waas et al. (2011), Smith and Sharicz (2011), Jeanrenaud (2007), CEMAT (2003)
7	Ethical sustainability	Pennington and More (2011), Waas et al. (2011), Smith and Sharicz (2011), Doppelt (2010), O'Riordan (2008), Hoexter (2006)
8	Measurement of targets and results	Waas et al. (2011), Smith and Sharicz (2011), Searcy (2009), Edwards (2009), Meadows (1998)
9	Linking and balancing of global and local	Waas et al. (2011), Smith and Sharicz (2011), Hoexter (2006), Wilson et al. (2006)
10	Technological innovation	Waas et al. (2011), Smith and Sharicz (2011), Nejati et al. (2010), Lacy et al. (2009), Lönnqvist et al. (2009), Geertshuis (2009), Commission of the European Communities (2009), Chen et al. (2008), Tàbara et al. (2008), Whitmarsh and Nykvist (2008), Yuen (2007), Council of the European Union (2006), Heidmets (2004)
11	Social innovation	Smith and Sharicz (2011), Nejati et al. (2010), Lacy et al. (2009), Lönnqvist et al. (2009), Geertshuis (2009), Commission of the European Communities (2009), Chen et al. (2008), Tàbara et al. (2008), Tuinstra et al. (2008), Yuen (2007), Council of the European Union (2006), Heidmets (2004)

First and foremost, sustainability and CSR require a balanced approach along the triple bottom line – environmental, economic and social performance – and the interests of stakeholders to be taken into account. This is why many researchers stress that CSR provides a starting point for any organization in moving towards sustainability (Smith and Sharicz, 2011; Doppelt, 2010; Alange and Steiber, 2009; Benn, 2007; Berkhout, 2005).

In the Ljubljana declaration, the 13th European Conference of Ministers responsible for Regional Planning introduced a fourth dimension: that of cultural sustainability (see CEMAT, 2003).

Culture as one of the key elements of developing sustainability is also highlighted by Smith and Sharicz (2011), who maintain that in this context researchers mainly concentrate on the development of competencies and knowledge related to sustainability adoption, and

talk little about the cultural characteristics that nurture such attributes or how employees at all levels become motivated practitioners of a sustainability philosophy.

Many authors (see Table 1) find that the managing of these main sustainability dimensions requires the translation of qualities and skills into managerial behaviours such as holistic systems thinking, balancing global and local perspectives, and ethical leadership (including transparency, trust, fairness and equity).

Although the famous quote “what gets measured, gets managed” from management guru Peter Drucker refers to the importance of measurement, it also highlights the technical aspect of management. In contrast to this opinion, many analysts feel that social and behavioural factors play an equally important role in management accounting and control systems beside technical factors (Silvola, 2005; Burns et al., 2003; Bhimani and Roberts, 2004; Mendoza and Bescos, 2001). Thereby in the last decade, this phrase has been revised and modified, for example, to “What gets measured, generally gets done” (Otley, 2003, p.319) or “What gets measured, sometimes gets managed” (Catasus et al., 2007, p.515). Thus, the following quote from Donella Meadows, one of the pioneers of sustainability, can be recalled suggesting the social and cultural factor of measurement (Meadows, 1998, p.12): “The indicators arise from value judgements (we measure what we care about) and they create value judgements (we care about what we measure).” Meadows (1998, p.27) maintained that both qualitative and quantitative indicators are essential: “If we guide our decisions only by quantitative indicators and not qualitative ones, we will produce a world of quantity without quality.”

Several authors and institutions claim that technological and social innovation are an essential strategic resource for any organization in achieving long-term success and sustainability. For example, the Reviewed Sustainable Strategy of the European Union indicates that education is a prerequisite for promoting behavioural changes and providing all citizens with the key competences needed to achieve sustainable development (Council of the European Union, 2006, p.22), while the Review of the European Union Strategy for Sustainable Development asserts that education and training build the critical foundation for sustainable development (Commission of the European Communities, 2009, p.13). In addition, both of these documents signal that research and development (R&D) plays an important and multifaceted role in sustainability (Council of the European Union, 2006, p.23; Commission of the European Communities, 2009, p.13).

## Social capital

According to Keeley (2007, pp.105-106), social capital is linked with human capital and they feed into each other. In other words, social capital promotes the development of human capital and human capital promotes the development of social capital, although the mechanics of the process are complex (Keeley, 2007, pp.105-106). Human capital consists of individual knowledge, skills, experience, health and ethical entitlements that enhance the potential for effective individual action (Becker, 1964; Schultz, 1961). Social capital consists of shared knowledge and related organizational networks that enhance the potential for effective individual and collective action in human social systems (McElroy et al., 2006; Putnam, 2000; Coleman, 1990).

Hence, human and social capital must be taken into account as crucial aspects of sustainable development (Šlaus and Jacobs, 2011; McCallum and O'Connell, 2009; Lauristin, 2011 & 2006; Lauristin and Terk, 2009; Raudsepp and Heidmets, 2005; Grootaert, 1998). Unfortunately, measuring human and social capital is very difficult, as Kaevats (2004) demonstrated.

The results of Dakhli and De Clercq (2004) based on a study in 59 countries confirm the positive relationship between human capital and innovation, as well as between social capital and innovation, although the latter relationship is weaker.

Moreover, Jamali et al. (2011) argue that social capital predicts the dynamics of social innovation and value creation.

Pratchett (1998, p.208) claims: “Local government, as the institution of democracy closest to local communities, has a vital role to play not only in behaving democratically, but also in engendering and enhancing democratic practices and consciousness among all its citizens. In short there is significant social capital to be gained from engaging citizens in the governance of their own communities.”

## Empirical case study

### Background

Historically, Estonia was ruled by Denmark, Germany, Sweden and Russia for hundreds of years. As Uluots ([1933] 2004, p.56) indicated, the local (Estonian) authorities dating from the 13th century have been the cornerstones of the existence of the modern Estonian state and nation.

Tõnnisson (2006) showed that local governments also played an important role in the first period of independence in Estonia (1918-1940), but during the following 50 years of Soviet occupation lost their role as the “pillar of democracy”, which is often the case in totalitarian systems (Drechsler, 2000). In this period, local governments were directly under the control of the Communist Party, and in this environment all publicly presented values, attitudes and beliefs had to reflect the views of the party (Roostalu and Kadak, 2011; Roostalu and Kooskora, 2010; Paavle, 2009; Veskimägi, 2005). After Estonia regained its independence, local-level governments were the first to be transformed according to democratic principles (Tõnnisson, 2006; Kettunen and Kungla, 2005).

Tõnnisson (2006) has found that the development of traditional democracy in Estonia has been similar to that of other post-communist countries: characterised by rapid institutional development and the slower development of civil society.

Several authors underscore weak social dialogue in Estonia resulting from a young democracy (Lauristin, 2011; Reinsalu, 2009; Lauristin and Terk, 2009; Seeder, 2003; Lauristin and Vihalemm, 1997). According to many scientists (Habermas, [1962] 1989; Dahlgren, 2003 & 2005; Barber, 1984; Fuchs, 2008; Reinsalu, 2009), it is discussing issues that is the foundation of strong civil society and practices.

The Legatum Prosperity Index 2009 indicates that the level of social capital in Estonia is extremely low – Estonia was ranked 94th of 104 countries around the world (Legatum Prosperity Index, 2009). Generally, it has been suggested that the low level of social capital in post-communist countries is related to the legacy of their past, post-communist transformation processes and backwardness in social development (Parts 2009, p.96). Firstly, transition produces uncertainty, which leads to lower generalized trust and does not create a good environment for mutual trust among people and for the rebuilding of social ties and networks of cooperation; secondly, the post-communist transition resulted in a rapid destruction of dominant values and habits, and in such a situation, opportunism developed quickly, which reduces the level of social capital (Parts 2009, p.96).

Additionally, Grootaert (1998) asserts that the macro environment can undo the effect of local-level social capital and, for example, that migration can damage social capital. As a footprint of Soviet occupation, Estonia's small society (ca 1.3 million people) is multicultural: besides the Estonian majority, around one third of the population is Russian-speaking, while in the capital the ratio amounts to half (see, for example,

Raudsepp and Heidmets, 2005). Moreover, thousands of Estonian people left their country, and their fears were justified – in total, 87,035 civilians (including children and the elderly) were deported, arrested or murdered between 1940 and 1990 based on the political motives of the Soviet occupying forces (see Õunapuu, 2007, p.71).

## Purpose, scope and methodology

The objective of this case study was to determine the level of readiness of Estonia's legal acts in supporting corporate social responsibility and the sustainability of local government or, in other words, the level of sustainability orientation of these legal acts.

The electronic database of the legal acts of Estonia includes over 100 acts in which the keyword 'local government' is used (see the website of the Ministry of Justice, i.a.). Thus, there was a great need to concentrate on essential issues and not all details. In this way, four fields of activity of local government or groups of legal acts and a sample including 19 legal acts were selected (see also Appendix, Table 3):

1. acts describing general managerial issues and tasks of local governments at the Estonian and European levels (3 legal acts);
2. acts providing a framework for the strategic management of public organizations or so-called 'acts of strategic tasks' (7 legal acts);
3. acts establishing accounting and reporting tasks for the public sector (7 legal acts, including 3 acts aimed directly at local governments); and
4. acts of ethical tasks (2 legal acts for the public service and officials).

The 11 sustainability indicators mentioned previously were included in the content model (see Table 1 and Table 3). Additionally, as only some of these acts include direct requirements for CSR and sustainability, qualitative content analysis was used in addition to quantitative analysis for the interpretation of the texts.

A three-value scale was used (0, 0.5 and 1), where 0 refers to no indicator, 0.5 refers to a partly (or weakly) represented indicator and 1 refers to a fully represented indicator. A short commentary must be given regarding the 6th indicator, which describes the holistic system of sustainability: here 1 point was awarded if all of the previous five indicators reflecting economic, environmental, social and cultural sustainability and stakeholder involvement were fully presented or close to it (i.e. their total score was 4.5 or 5), and 0.5 points if the sum of the scores of the first five was 3, 3.5 or 4.

## Results

One of the most significant findings to emerge from this study was that there is an extremely weak representation of social and technological innovation, ethics, holistic systems thinking and stakeholder involvement in legal acts regulating the activities of Estonia's local governments (see Figure 3).

The level of cultural sustainability (being crucial to Estonia as a very small nation) is weak compared to the levels of the dimensions of the triple bottom line and linking local and global (see again Figure 3). This result is supported by Professor Kaevats, who has warned that we have ruthlessly exploited our main advantages in competition - people and culture - without any sufficient investments in these advantages (Kaevats, 2004).

It appears that on average, the acts of general and strategic tasks of local government have a satisfying level of sustainability orientation while that of the acts of accounting and reporting tasks and of ethical tasks is weak (see Table 2).

The following are remarks and examples by group.



### Group 1

In the acts of general tasks, four main sustainability dimensions and holistic system thinking are in an excellent balance (equally 83%). Here is also the highest stakeholder involvement (100%), which is very weak in the other groups.

FIGURE 3. TOTAL PERFORMANCE OF EACH SUSTAINABILITY INDICATOR

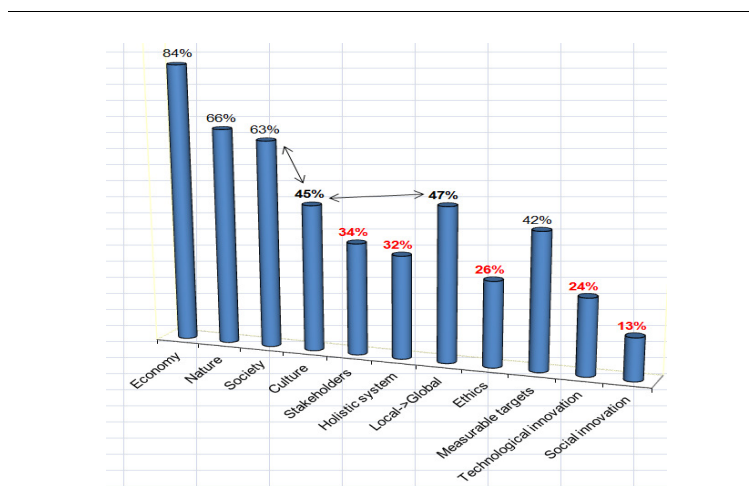


TABLE 2. AVERAGE RESULTS PER ACT IN THE FOUR GROUPS OF LEGAL ACTS

Average results per act	Economy	Nature	Society	Culture	Stakeholders	Holistic system	Local->Global	Ethics	Measurable targets	Technological innovation	Social innovation	Total
Acts of general tasks	83%	83%	83%	83%	100%	83%	67%	17%	0%	0%	17%	56%
Acts of strategic tasks	79%	93%	71%	57%	50%	43%	71%	36%	57%	50%	21%	57%
Acts of accounting tasks	100%	50%	50%	29%	0%	7%	29%	14%	43%	14%	7%	31%
Acts of ethical tasks	50%	0%	50%	0%	0%	0%	0%	50%	50%	0%	0%	18%

According to the Ljubljana Declaration, the Local Government Organization Act states that a rural municipality or city shall have a development plan “which, in a balanced manner, takes into account the long-term directions and the need for the development of the economic, social, cultural and natural environment and on the basis of which the development of different fields of life are integrated and coordinated” (see Local Government Organization Act, § 37).

The European Charter of Local Self-Governments is one of the few acts in which the need for human capital development as part of social innovation is presented: “The conditions of the service of local government employees shall be such as to permit the recruitment of high-quality staff on the basis of merit and competence; to this end

adequate training opportunities, remuneration and career prospects shall be provided” (see European Charter, article 6).

Mäeltsemees, the most acknowledged expert on local government sector issues in Estonia, has found that local self-government is thoroughly and well regulated by the Constitution of the Republic of Estonia compared to the constitutions of other countries; foreign experts have also remarked on this (Mäeltsemees, 2006). Thus, instead of some legal acts being separately devoted to individual tasks, the constitution was added to this group and, for example, its preamble says that the Estonian state “is a pledge to present and future generations for their social progress and welfare, which shall guarantee the preservation of the Estonian nation, language and culture through the ages” (see the Constitution of the Republic of Estonia).

#### *Group 2*

In the acts of strategic tasks, the lead positions in the environmental dimension (93%), linking local and global, measurability (even better than in acts of accounting and reporting!) and both innovations were ascertained.

The Estonian National Strategy on Sustainable Development Sustainable Estonia 21 (SE21) can be characterised as the act with the best sustainability orientation in the sample (100%). This act, drafted by leading Estonian scientists, was approved by the Riigikogu (the Estonian parliament) in 2005. Here the following citation will be given to illustrate the outstanding level of this act (see SE21, p. 75):

“Considering the fact that a knowledge society is inherently an innovative arrangement of social and state life, social innovation needs significantly more support, for instance through the creation of social innovation incubators aimed at encouraging the formation of socially (and developmentally) oriented citizen associations and third and private sector initiatives oriented to the development of the knowledge society.”

At the same time, the Act of Sustainable Development passed as early as 1995 only focused on the environmental dimension (see Appendix).

#### *Group 3*

The acts of accounting and reporting tasks are distinguished with an extremely strong economic orientation (100%), while in all other indicators the scores are weak.

In this group, the Official Statistics Act was highly assessed (68%). The act states (see Official Statistics Act, §1): “Official statistics aim to reflect the condition and changes of the society and provide the society with the information relevant from the viewpoint of demographic, social, economic and environmental developments, including drawing up development plans and making prognoses, designing different policies, conducting scientific and applied research and taking knowledge-based decisions.”

It should be said that without the Official Statistics Act the average results in the group of the acts of accounting and reporting tasks fell rapidly. For example, the score of the Current Reporting Requirement for the Unities of Local Governments was the lowest of the sample (1.5 out of 11 points or 14%). The biggest problem is that public sector accounting is accrual-based while its budgeting remains cash-based, which means that there is no comparability. In 1994, Mäeltsemees also found that the legal acts regulating the affairs of local government were unsystematic, sometimes even contradictory, and often declarative (Mäeltsemees, 1994).

Additionally, Arumäe (2008) maintained that the Financial Management Act for Local Governments would obstruct private-public partnerships projects which in turn would retard the development of local governments.

#### *Group 4*

In the smallest group (only 2 legal acts were found for this issue), the Anti-corruption Act and Public Service Act obtained equally just 2 points out of 11: thus they are not effective tools for promoting ethics, CSR and sustainability. There are several cases of corruption

scandals among higher officials of local government and ministries as well as judges in Estonia supporting this result. The Public Service Code of Ethics as an annex to the Public Service Act was criticised by Eintalu (2007); based on the research of the Government Office (Lagerspetz et al., 2006), every 4th official has not read it at all and only 16% of officials have used it in their work. Such requirements as “an official shall be polite” (see Public Service Code of Ethics, clause 17) seem rather pointless in this age of officials.

In brief, although the average results in sustainability orientation were not high (see Table 2), there are some good examples in each group of legal acts, excluding the group of acts of ethical tasks.

## Discussion and conclusions

Corporate social responsibility and sustainability are becoming prominent features of business and society literature, addressing topics of business ethics, corporate social performance, global corporate citizenship and stakeholder management.

According to Carroll (1991), law is seen as minimal ethical behaviour for moral managers, and obeying the law of host countries as well as international law is one of the key factors in corporate social performance.

In this case study, the level of suitability and readiness of the legal area of the management of Estonia's local government in supporting corporate social responsibility and sustainability was investigated.

The results of the study show that although the acts of strategic tasks support sustainable development, there is no integration of these principles in the acts of everyday reporting and motivation of officials.

Arnsfeld et al. (2011) maintained that the integration of sustainability into company management accounting could only be successful if it was closely connected with performance measurement. Although the scope of management accounting has significantly broadened, now including financial and non-financial measures (Kadak, 2011; Brignall and Modell, 2000; Kaplan and Norton, 1996), the accounting and reporting in the Estonian public sector (including local governments) based on legal acts concentrates only on financial measures.

Moreover, Gray et al. (1996) and Cornwall et al. (2000) point out that accountability involves two different (but linked) responsibilities: the duty to undertake certain action, and the duty to account for these actions. The study of Roostalu and Kadak (2011) indicated that as early as the 1930s, Tallinn City Government displayed a high level of ethical behaviour and CSR orientation, and that its budget policy was directed towards well-being and support for the community as a whole, especially its most vulnerable members. The accountability of the local government of Estonia was suppressed by the Soviet occupation, but today the city's accountability is increasing once more (Roostalu and Kadak, 2011). Although there have been and continue to be a number of good actions, reporting about such actions remains weak (see also Roostalu and Kadak, 2011; Roostalu and Kooskora, 2010). As Raju (2011) pointed out, the lack of accounting and reporting leaves no room for feedback apart from auditing, which may turn out to be the Achilles heel in the implementation of the concept of CSR.

Arnsfeld et al. (2011) stress that the interplay of management accounting and sustainability will create a basis for communication for the internal and external stakeholders of an organisation. Within the public sector, the existence and importance of a wider set of stakeholders has long been accepted, but the need for fund-granting bodies to be held accountable to taxpayers has kept the primary focus on financial information (Brignall and Modell, 2000). On the other hand, the study of Kadak and Roostalu (2012) showed that the managers of Tallinn City Government are interested in improving performance

measurement and having sustainability indicators, and they believe that management accounting of local government should support the compiling of sustainability reports.

Raudsepp and Heidmets (2005) maintained that the topic of sustainable development should be included in the curriculum of higher education (for technical and social science disciplines). They stressed (Raudsepp and Heidmets, 2005): “The notion of sustainable development should be transformed from a slogan into a realistic principle of action by providing concrete examples of successful cases as appropriate role models, by connecting the principles of sustainability with real life circumstances and choices – being more concrete and clearer.”

This case study also indicates that there is a great need for the development of human and social capital and for the establishment of sustainability reporting as a form of communication in regard to concrete activities in the field of CSR and sustainability. In short, the study draws attention to the challenges facing public sector management in the new decade.

This research has used primarily qualitative methodology. Each research strategy has its advantages and limitations. The advantage of the chosen strategy is that it provides deeper investigation. According to Feagin et al. (1991), a case study is the ideal methodology when a holistic, in-depth investigation is needed. The limitation of this strategy is connected with content model-making. Namely, as content analysis always includes subjective moments, there is no absolute truth in making such models. As there is no data about papers presenting such content models, this paper can aspire to originality in its modelling. In addition, as was mentioned previously, since there is no information about studies analysing how sustainability and CSR are reflected by the legal acts of the management of public organizations, this paper can also aspire to originality in its topic.

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- European Charter of Local Self-Governments. (<https://www.riigiteataja.ee/akt/13104622>)
- Local Government Organization Act. (<http://www.legaltext.ee/text/en/X2009K6.htm>)
- National Development Plan for Raising Competitiveness of Estonia.  
(<http://www.riigikantselei.ee/?id=74186>)
- The Accounting Act. (<https://www.riigiteataja.ee/akt/116112010012>)
- The Act on Sustainable Development. (<https://www.riigiteataja.ee/akt/874359>)
- The Anti-corruption Act. (<https://www.riigiteataja.ee/akt/810694>)
- The Constitution of the Republic of Estonia. (<http://www.just.ee/43731>)
- The Current Reporting Requirement for Unities of Local Governments.  
(<https://www.riigiteataja.ee/akt/703170>)
- The Financial Management Act for Local Governments.  
(<https://www.riigiteataja.ee/akt/13361493>)
- The Official Statistics Act. (<https://www.riigiteataja.ee/akt/13338093>)
- The Planning Act. (<https://www.riigiteataja.ee/akt/13328539>)
- The Public Information Act. (<https://www.riigiteataja.ee/akt/122032011009>)
- The Public Service Act.  
(<http://www.legaltext.ee/et/andmebaas/tekst.asp?loc=text&dok=X0002K9&keel=en&pg=1&ptyyp=RT&tyyp=X&query=Avaliku+teenistuse+seadus>)
- The Rural Municipality and City Budgets Act. (<https://www.riigiteataja.ee/akt/693368>)
- The State Budget Act. (<https://www.riigiteataja.ee/akt/13338093>)
- The State Budget Act 2011-2014. ([http://www.valitsus.ee/failid/RES\\_2011\\_2014.pdf](http://www.valitsus.ee/failid/RES_2011_2014.pdf))
- The State Audit Office Act. (<https://www.riigiteataja.ee/akt/27763>)

## Appendix

TABLE 3. THE SUSTAINABILITY CONTENT MODEL

Classification	ACT	Economy	Nature	Society	Culture	Stakeholders	Holistic system	Local->Global	Ethics	Measurable targets	Technological innovation	Social innovation	Total sum for each act
1-1	European Charter of Local Self-Governments	0.5	0.5	0.5	0.5	1	0.5	1				0.5	5
1-2	Local Government Organisation Act	1	1	1	1	1	1	0.5	0.5				7
1-3	The Constitution of the Republic of Estonia	1	1	1	1	1	1	0.5					6.5
2-1	Act on Sustainable Development	1	1			0.5	0	1					3.5
2-2	National Development Plan of the Sustainable Estonia 21	1	1	1	1	1	1	1	1	1	1	1	11
2-3	Planning Act	0.5	1	0.5	0.5	0.5	0.5	0.5	0.5				4.5
2-4	Public Information Act	0.5	0.5	1		0.5	0		0.5		0.5	0.5	4
2-5	National Development Plan for Raising Competitiveness of Estonia	1	1	1	1	0.5	0.5	1		1	1		8
2-6	State Budget Act 2011-2014	1	1	1	1		0.5	0.5		1	0.5		6.5
2-7	Estonian Environmental Strategy 2030	0.5	1	0.5	0.5	0.5	0.5	1	0.5	1	0.5		6.5
3-1	Accounting Act	1	0.5	0.5			0	0.5	0.5	0.5			3.5
3-2	State Budget Act	1	0.5	0.5			0	0.5					2.5
3-3	Rural Municipality and City Budgets Act	1	0.5	0.5			0						2
3-4	Current Reporting Requirement for Unities of Local Governments	1					0			0.5			1.5
3-5	Financial Management Act for Local Governments	1	0.5	0.5	0.5		0	0.5		0.5			3.5
3-6	Official Statistics Act	1	1	1	1		0.5	0.5		1	1	0.5	7.5
3-7	State Audit Office Act	1	0.5	0.5	0.5		0		0.5	0.5			3.5
4-1	Public Service Act	0.5		0.5			0		0.5	0.5			2
4-2	Anti-corruption Act	0.5		0.5			0		0.5	0.5			2
	Total sum for each indicator	16	12.5	12	8.5	6.5	6	9	5	8	4.5	2.5	