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Graduate School of Management

Master in Management

DEVELOPING PROCESS FOR IMPLEMENTATION OF AN INDEX OF FAIRNESS

Master’s Thesis by the 2nd year student

Concentration — Master in Management

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**АННОТАЦИЯ**

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| --- | --- |
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| Название магистерской диссертации  | Формирование процесса для внедрения индекса добросовестности |
| Факультет | Высшая школа менеджмента |
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| Научный руководитель  | Сторчевой Максим Анатольевич |
| Описание цели, задач и основных результатов  | Одним из основных понятий данной работы является индекс добросовестности, метод оценки корпоративной социальной ответственности на основе опроса мнений заинтересованных сторон. Целью данной работы является разработка процесса внедрения индекса добросовестности в практику компаний. Эмпирическое исследование работы рассматривает возможные выгоды, потребности и опасения компаний при оценке корпоративной социальной ответственности данным методом. Методом сбора информации является серия интервью с экспертами-представителями компании с целью выявления факторов, влияющих на внедрение оценки добросовестности. Анализ собранных данных позволил рассмотреть закономерности в предполагаемых выгодах, потребностях и опасениях со стороны компаний, и составить сводную таблицу понятий по трем группам. На основе исследования был разработан процесс внедрения индекса добросовестности, который является главным результатом данной работы. |
| Ключевые слова  | Корпоративная социальная ответственность, этика бизнеса, заинтересованные стороны |

**ABSTRACT**

|  |  |
| --- | --- |
| Master Student's Name  | Aleksandra Krupskaia |
| Master Thesis Title  | Developing process for implementation of an Index of Fairness |
| Faculty  | Graduate School of Management |
| Main field of study  | International Management |
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| Description of the goal, tasks and main results  | One of the main concepts of the present study is the Index of Fairness, which is a method for evaluation of corporate social responsibility based on the stakeholders’ perception. The goal of the present study is development of a process for implementing the Index of Fairness in business practice. The empirical research is focused on potential benefits, needs and concerns in companies that are associated with measuring corporate social responsibility using the aforementioned method. The data collection method is a series of semi-structured interviews with expert company representatives that is aimed at determining the factors that might influence fairness evaluation. The analysis of data collected allows for reviewing various patterns in potential benefits, needs and concerns, and to compile a holistic list of concepts in three categories. On the basis of the research, a process for implementation for the Index of Fairness was developed, and it is considered the main result of the present work. |
| Keywords | Corporate social responsibility, business ethics, stakeholder theory |

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# Introduction

In the last decades, the concept of corporate social responsibility has been gaining more and more attention from both academics and business practitioners. A fair and conscious behavior of a company towards all its stakeholders is now seen as an inherent characteristic of a company’s business. At the same time, proactive behavior, being it environmental attitudes, participating in solving social problems or a responsible attitude towards company’s employees and paying attention to build diversity, is now more and more seen as a possible competitive advantage. Consumers learn to give their preference to products that are produced with sustainability in mind, cruelty-free and eco-labeled products. Employees search for employers with positive reputation, those to be fair and make employees proud to work in a company, and the companies are eager to provide volunteering and charity opportunities to employees, improving their employer brand. Shareholders tend to make more responsible choices regarding investments, using SRI (socially responsible investing) measures for their decisions. A conscious behavior of a company therefore becomes not just a source of competitive advantage, but moreover, for some cases, a significant factor in a company’s survival and overall successful performance.

However, while becoming a more mainstream concept, CSR remains a field research full of opportunities, struggles and arguments. Even though the term CSR itself originated in 1970s, until now there is no agreed-on definition for the term, a problem that we will review in the following section. Besides the academic un-agreement on how to define the term itself, or possibly because of it, there have been alternative concepts emerging, which frequently represent different approaches to the same issue. Even though this abundance of concepts can make an academic text more precise and detailed, it also complicates the discussion, can possibly impede researchers’ ability to have fruitful and impactful results, and limit the understanding of the academic work for business practitioners, if they lack expertise in the specific field of studies.

Another common and yet not fully discovered topic in the academic literature on CSR is the measurement of it. As with the definition, the researchers have been continuously proposing ways to measure corporate social responsibility, however, until now there is no universal process of measuring CSR. The existence of such commonly used instruments as sustainability and reputational indices is helpful, however, these databases are only appropriate for a portion of possible research goals, and can hardly be considered a universal practical basis for research. Corporate social performance of a firm can be measured through multiple ways, including survey-based methods, content analysis of company’s reports etc. Another complex issue is related to the measurement of CSR is its relations to the financial performance of a company, which by one group of researchers is commonly perceived as just one part of general socially responsible performance, whereas others claim it to be a separate component of company’s business.

While the measurement techniques are still a point of vigorous discussion, one notion CSR researchers agree on is the importance of a universal measure. Measurement is claimed to be a way to be taken seriously, it is a necessary component of any research on the topic. One of the main issues arising is the possibility to compare companies on the basis of their CSR, especially those of different industries, sizes and countries. Any of the mentioned factors can affect the nature of company’s CSR significantly: industry affects the use of natural resources, social factors of company’s business, the overall type of relationship with the society, multinationals or big national corporations have more opportunities to affect such dimensions as their environmental performance or create impactful social program, but often are put on more responsibility then SMEs, though recently there have been more and more literature on small-medium companies’ CSR emerging.

The Index of Fairness, which is one of the central concept of the represent work, is a measurement of CSR and company’s business ethics, that is solemn based on stakeholders’ perception of the company. This method and its advantages over other existing methods are described in the present work. As the index is a concept developed and tested in the academic environment, but aimed for the businesses in the first place, there is a requirement of developing implementation framework for the measurement, that would be based on research data, providing guidelines for informed process development.

While CSR practices are gaining more and more attention globally, especially in US and Europe, in particular Scandinavian countries like Sweden and Denmark, the discourse of CSR in the Russian context is only starting to emerge, and the peculiarities of Russian business practices and traditions make the integration of CSR into day-to-day practice difficult for companies (Shmelev 2011). We believe that Russian academic works should at the first place aim to help businesses to learn about CSR’s principles, benefits of pursuing them, and ways to integrate them fully into practice. Our study’s aim is to describe the reputational benefits that a business can gain from assessing and reevaluating its corporate social performance.

# Chapter 1. CSR Concept and Its Measurement

This chapter will be devoted to reviewing the theoretical works and empirical research previously done on the measurement of corporate social responsibility. The first section reviews the evolution of the CSR concept and discusses the relation between corporate social responsibility and stakeholder theory. The next sections are aimed at reviewing existing measurement methods, its advantages and disadvantages. Lastly, we introduce the concept of the Index of Fairness.

## CSR concept evolution

Corporate social responsibility has been attracting more attention as a field of studies in the last decades. As an indirect evidence on it, the number of academic articles on the keyword “corporate social responsibility” on the topic in the last fifteen years is almost five times as big as of the previous period of the same length.[[1]](#footnote-1) However, currently there is no agreement among researchers on the correct definition of the term. Moreover, there is a wide range of alternative names for the same concept or, more correctly, a variety of sister-concepts of CSR: corporate social performance, sustainability, corporate citizenship, corporate consciousness, triple bottom line etc. Saying that, we should underline that there is no evident agreement among researchers of whether these concepts differ significantly, and some authors even complain about the common academic misuse of some of the terms (Montiel and Delgado-Ceballos 2014, Valente 2012). However, we will mostly focus on the primary concept of CSR and its development over time. The reason for this decision is that CSR is the original term, accepted and easily understood among the whole community of responsible business researchers, and this term seems to us the most capacious.

In order to fully understand the concept of CSR, its various structural frameworks and its image in the perception of researchers and business practitioners, we will first briefly review the history of the concept, putting special emphasis to those factors that we find the most crucial for our research (Clarkson 1995).

Traditionally, the only responsibility burden a company was caring was the economic responsibility to its shareholders, and the only goal the company had to accomplish was to be profitable. However, from the beginning of the XX century, the notion of business being able to contribute to resolving more general society problems was emerging, and the discussion on the extent to which business as a key economic player should take on this responsibilities was starting.

The decade of 1950s was the time when the concept of CSR broadened and developed into a basis for future research. One of the crucial papers to mention as the starting point for CSR studies is the book “Social responsibilities of the businessman” written in 1953 by Howard R. Bowen, which first stated the idea of company’s social responsibility (SR). Bowen defines CSR as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.” (Bowen 2013). Even though the book and the concept in it were yet to be evolved, Bowen is claimed to be the Father of Modern Corporate Social Responsibility (Carroll 1999), and his work became a rationale for American scholars studying social and global problems and their relations to business. Joseph W. McGuire and Keith Davis are another two notable researchers of the next decade, 1960s, whose main merits are arguably the first attempts to lay out a rationale for businesses to act responsively, including long-run financial incentives. According to McGuire, there were four approaches to a company’s involvement in CSR: traditional (one that doesn’t attribute any role to CSR in general), enlightened (underlining the fact that CSR benefits company’s profits), responsible (the rationale for CSR implementation is that it is “the right thing to do”), and confused (contemplating CSR as an ethical practice, but expecting it to increase profits simultaneously) (McGuire in (Wood 2010)). This search of convincing reasons for business to make effort and sometimes even sacrifice their profit in order to fulfill society’s requirements and expectations remains a point, where many researches on CSR lead.

1970th has been a time when the study of CSR started to spread, and the first attempts to lay out a measurement for company’s responsible performance occur in the same period. A perfect illustration for the progress is the report prepared by The Committee for Economic Development in 1971 and 1979, the main purpose of which was to motivate companies to engage in solving social problems beyond the incremental for any business provision of goods, services and jobs (Wood 2010). One of the crucial concepts that emerged during this decade is the three-dimensional framework by Carroll (A. B. Carroll 1979) that became a foundation for many theoretical and practical studies of social corporate performance. This model includes responsibility categories, responsiveness levels and possible social issues involved. The crucial section of the study are the identified four categories of possible corporate responsibilities: economic responsibility of producing demanded goods and services and operating profitably, legal responsibility of operating under laws and regulations in effect, ethical responsibility to operate according to those norms not reflected in the regulations but still expected from business by society, and discretional responsibility or, more correctly, expectations, that vary from ethical in that they are those each individual evaluates independently, and are completely voluntary for businesses to fulfill. Carroll also provides four types of company’s strategy modes in corporate social responsiveness: reactive, defensive, accommodative and proactive, a list that we consider self-explanatory. The list of social issues involved is a subject to change, it varies depending on the case, in Carroll’s it includes such units as shareholders, consumerism, environment etc. As mentioned, this framework evolved in both later papers of Carroll himself as well as studies of other scholars (A. B. Carroll 1991) (Aupperle, Carroll and Hathfield 1985) (Wartick and Cochran 1985). Carroll’s model was also a basis for Wood’s more detailed and adjusted model of CSP (Wood,1991). Carroll’s pyramid of responsibilities is here revised and formulated in a different way, the researcher also defines main parts of responsible performance as principles, processes and outcomes of all the activities of a company, and builds her analysis on these three constituents.

At the same period, Milton Friedman states in his book “Capitalism and Freedom” another approach to social responsibility of business in opposition to the common perception, famously claiming that the only responsibility of business is increasing its profits. His doctrine is based on the principles of capitalism, and he claims that any social responsibility should be put on individuals, and businesses trying to solve social problems using their resources in fact hurt shareholders’ value, thus violating their primary financial responsibility (Friedman 2009).

A somewhat opposite approach to CSR is based on Edward Freeman’s stakeholder theory developed for strategic management. Prior to Freeman’s work, the idea of CSR as a business’ multidimensional responsibility to its consumers, employees, suppliers, society etc. was expressed by Jones (Jones 1980). The theory identifies all possible individuals and organizations that may influence and be influenced by the company’s activities, and states that a company is responsible to meet the expectations of all its stakeholders. Even though the theory itself was not developed as a CSR framework, it became a valuable addition to this field, with many researchers building their perception of CSR on the stakeholder theory. One of the issues that the stakeholder theory highlights in the CSR field is the continuous effort of researchers to define the relationship between financial or economic performance of a company and its CSR practices. Applying stakeholder approach to CSR challenges the mere intention to separate economic and social performance, underlining that such view is arbitrary and providing an alternative view to them as one undividable concept (Harrison and Freeman 1999). While on one hand stakeholder approach to CSR is providing a very holistic view on businesses’ responsibilities towards stakeholders and the difference between the latter with the corporate social performance per se. However, while CSR can be generally perceived as a theoretical basis for managing company’s relationship with all its stakeholders, Clarkson attributes the difficulties in defining CSR and CSP to the confusion existing in the discussion: it is necessary to separate the notions of stakeholder issues, and purely social issues, those that apply to the society’s expectations of business, and those that are the object of CSR (Clarkson 1995).

Nevertheless, with all its limitations the stakeholder theory is one of the most popular instruments to base the measurement of CSR on, since it reflects in the most direct way CSR success of a company.

## Measuring Social Corporate Performance

Measurement of corporate social responsibility is a cornerstone of modern literature of the field. It is hard to overestimate the importance of development of a correct measurement technique to the future advancement of the research field, as well as to the companies operating according to the CSR principles. Moreover, the alignment between research benefits and business interest can prove to be problematic, since those measurements developed for businesses can be inapplicable for research and vice versa. A reliable measure can enable companies to better track their CSR performance, its possible influence on financial performance, employee turnover, consumer loyalty and other business success indicators. For researchers, one of the many implications would be to be able to compare companies across geographical regions, sizes and industries, as well as study correlation between CSR policies and other indicators of company’s success. The mere perception of the CSR as a concept varies across the planet and among individuals, and producing a tangible measure out of the theoretical concept existing now is crucial.

There are multiple ways to build a typology for existing CSR measurement methods: for example, it is possible to identify measurement groups based on the theory behind the methods, as well as the dimensions of corporate social responsibility that are accessed. The theoretical literature provides examples of reviews and assessments of various measurement methods (Kumar, et al. 2013) (Wood 2010). We have chosen to describe the various methodologies depending on what source of data they use. We have identified three major possible data collection sources. The first is self-reported data, we include in this group those researches that base their studies on the content analysis of various sustainability reporting initiatives. The second approach is using any kind of expert opinion, that is not associated with the company directly: CSR experts, consultants and evaluators. This group mainly includes those studies that are based on databases and rankings for CSR and sustainability. The third group is concerned with stakeholder approach, in particular – consumer perception of CSR. As CSR studies and stakeholder theory have incremental relationship, that we discussed earlier, and CSR is commonly perceived as the ability of company to meet the expectations and fulfill the needs of its various stakeholders, this data source can provide valuable insights, and as ethical approach to customers may play a significant role in consumer loyalty, this data proves to be useful for businesses.

Each of the three possible data sources has its advantages and limitations, and researchers resort to various approaches and techniques of data gathering and analysis, that we are discussing in the following sections.

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| Data source | Advantages | Disadvantages |
| Self-reported data | Easy to accessDirect source of informationHolistic view of CSR activities | Possible incentives to overreport/underreportNo unified standard for reportingNo unified regulations |
| Expert opinion | No need for proximityUnbiased dataEasy to compare | Limited number of companies possible to assessReliability of data in question |
| Stakeholders | Reflects CSR perception by stakeholdersPresumably unbiased data | Lack of expertise for evaluationDifficulty in defining appropriate stakeholder listComplexity of data gathering process |

Table 1. The advantages and disadvantages of various CSR data sources

### Self-reported data

Since the measurement of corporate responsible performance is becoming an important issue for companies, reporting the data on this issue has become a rather popular activity among companies. Some components of CSP, such as environmental activities of a company, can be presented in Annual Financial Reports. These practices have been among the first to be implemented for companies eager to inform their stakeholders about their approach to sustainability. For shareholders and other external stakeholders, annual financial reports are the main source of information about a company, documents to be studied in the first place, therefore reports represent an easy and direct way of reporting any CSR activities. The sustainability reporting characteristics in the frame of regular financial reports as a reliable source of information for measuring CSR has however its limitations. An exhaustive review of advantages and disadvantages of using self-reported disclosures as a data source for evaluating CSR is presented by Abbott and Monsen (Abbott and Monsen 1979). They underline, that companies have reasons to over report their impactful activities in order to gain positive image, while on the other hand having incentives to underreport due to shareholders’ possible reluctance to justify company’s expenses on CSR. Another problem of this method in general is that the information on CSR provided in annual reports is not necessarily structured to a unified standards, which limits significantly the content analysis capacity even among those firms that do report their activities in financial reports.

However, since the time when the Abbott and Monsen’s study was published, sustainability reporting has grown from a section in annual reports mainly, to issuing separate document, using commonly accepted guidelines and standards. This practice has evolved from environmental reporting in the course of the last couple of decades, and more and more companies adopt it, as it has proven to be a way of engaging both internal and external stakeholders, inform investors, improve the overall image of the company etc. The examination of self-disclosed data such as annual reports, website information and environmental reporting can be coded and used in CSR measurements used for research objectives (Rahman and Post 2012). The CSR reporting can be both mandatory and voluntary, thus in many cases the company has a possibility to decide on the guidelines and the structure of the report, as well as on the extent to which the information is disclosed. The popularity of the reports varies a lot across the countries, and is more often seen in big corporations then in SMEs, the one noticeable example being Sweden, where the sustainability reporting is very popular practice, and is mandatory using Global Reporting Initiative guidelines for state-owned companies. An analysis of sustainability reporting across Europe shows inconsistency of quality of reports, depending on such factors as guidelines used, spread of reporting and other factors (Habek and Wolniak 2016). GRI guidelines are the most commonly accepted standard for sustainability reporting, issued by an independent organization providing several standards for companies willing to provide public non-financial reports. The reports have a multi-stakeholder and multidimensional approach, which allows for providing a holistic picture in terms of different aspects of CSR, however, they are a subject to criticism due to its lack of strict unified standard, and therefore lack of comparability and possibly credibility (Hedberg and Malmborg 2003).

For some companies, especially depending on the industry, reporting particular elements of their corporate social responsibility is mandatory. For example, environmental reporting is a common business practice, and although it only represents one dimension of CSR and thus cannot be accepted as a holistic evaluation, nonetheless these documents can also serve as a meaningful tool in evaluating environmental performance and the hidden injustices in company’s behavior (Ash and Boyce 2011).

In Russia, in particular, national corporations are starting to get actively involved in CSR. Uralsib bank was the first Russian company to report their CSR activities by Global Reporting Initiative guidelines, and was soon followed by Sberbank, Gazprom, Megafon, Rosneft, Russian Railways, Severstal Group and other market leaders and corporations. The list can be continued with Russian subsidiaries of international companies, for example, Citibank, Coca-Cola Hellenic, Intel and Nestle. Smaller companies, such as Vodokanal of Saint Petersburg are also adopting the practice of socially responsible reporting. As of April 2017, 133 companies out of GRI Reporting list have stated their location as the Russian Federation.

### Data based on expert opinion

Another method of measuring CSR is based on the opinion of external experts, their evaluations and opinion of company’s sustainability and overall corporate social performance. This group includes all kinds of sustainability rakings and evaluations made by external consultants and experts.

Evaluations of this type are frequently used by responsible investors and mutual funds, as well as reviewed and analyzed by academics. There are some major advantages of these sources of data that we find worth mentioning. First of all, the availability of evaluations and rankings plays an important role in the applicability of such measurements. While other methods require the researcher to be in a certain proximity to a company in order to evaluate it, using expert opinion as a data source doesn’t. Secondly, the evaluations performed by an outsider for the company are more likely to be unbiased, since for an expert there is no evident inceptive to either overestimate or underestimate company’s performance or its position among competitors. Moreover, such indices and rankings allow for an easy comparison and provide feasible material for both researchers and stakeholders. There are however disadvantages to the expert approach. First of all, the method has a limitation regarding the number of companies possible to assess, and those are usually multinationals or big national corporations, which makes the analysis of such data one-sided. Moreover, the reliability of databases, the transparency of the assessment, and the validity of criteria assessments and the generalization techniques present some arguable characteristics of the SRI indices methodologies (Grigoris 2016).

The growth of Socially Responsible Investing industry has boosted the emergence of various sustainability indices in the last two decades, however overall it is a fairly new phenomenon, and the building of such indices takes different concepts and theories as the base. For example, Dow Jones Sustainable Index is based on Triple Bottom Line, where economic, social and environmental factors are assigned weightings and then evaluated for each company, whereas KLD Index relies on a list of ten categories of company’s responsible performance that was defined by KLD researchers themselves. All this indices have as their main aim the interest of socially responsible investors, therefore the measurement of CSR is not their primary goal, however, it still is one of the main constituents of their companies’ classifications, and their resources and possibility to provide evaluations on bigger lists of companies makes them a valuable source of data for CSR researchers as well. A list of various global and local CSR indices, analysis of their data gathering methodologies as well as some concerns regarding rankings’ reliability and applicability are presented in an overview by Marquez and Fombrun (Marquez and Fombrun 2005). He also underlines some ambiguity behind the data used in these indices: such as on one hand companies are motivated to provide data through the benefits of increased reputations with being presented in rankings, while on the other hand many companies complain about costs of gathering the data for rankings, as well as the lack of transparency behind the analysis of data. Another issue that affects the reliability rankings significantly is the exact indicators the evaluation process is based on, for example, for environmental indicators the evaluation of a company varies significantly depending on whether the experts are screening the companies through their environmental policies or toxic release and regulatory compliance (Delmas and Blass 2010).

One of the earliest of such indices is the Domini 400 Index, issued by KLD Research & Analytics. KLD data regards 10 categories of company’s corporate social responsibility, namely Community Relations, Employee Relations, Environment, Military Contracting, Nuclear Power, Product Liability, South African involvement, Women and Minority Issues and "other”. Each category contains issues, such as “Diversity”, “Employee relations” or “Human rights”, and for each issue the company receives a qualitative score representing concerns and strengths for the company. KLD data is also one of the most commonly used in empirical research in the CSR field. Its validity and reliability therefore is constantly assessed, and while the rankings prove to provide some valuable insights, they are also found to present a somewhat distorted image of company’s performance. The data analysis is constructed in a way that it better reflects higher performances and achievements, while partly neglecting the data regarding the failures, such as increased toxic release amounts or regulation violations (Sharfman 1996) (Chatterji, Levine and Toffel 2009).

Assessing such indices as DJSI, KLD Domini 400 or Fortune Reputational Ranking can be further complicated due to its global nature and the difficulties of gathering additional statistics on the companies presented in them, even if the data gathering and analysis process is fully transparent. They are the main focus for empirical studies, both for standalone rankings, and comparisons of various evaluations attempting to assess their methodologies, strengths, weaknesses and overall reliability. For a more local approach, researchers refer to regional rankings, such as ARESE ratings, that use a similar analysis method as KLD, with some changes to it, that are found to be a valuable adjustments, making ARESE data more “fine-tuned” (Igalens and Gond 2005).

### Single stakeholder data

Stakeholder theory is very closely linked with the concept of CSR, as mentioned earlier. One of the commonly used approaches to CSR as an activity is that business is responsible for meeting the expectations of all its stakeholders. This includes all possible dimensions of CSR, including financial being perceived as just one of the dimensions, and a shareholders in line with other stakeholders. The economic responsibility was added to the original three-dimensional corporate social responsibility first by Wartick and Cochran (Wartick and Cochran 1985). The division of the world into purely “social” and “economical” issues has a fairly arbitrary character, that can cause obstacles in reflecting real world situations in the academic research (Harrison and Freeman 1999).

As with other methods we have reviewed, the data received from stakeholders of a company has its advantages and its limitations. The characteristics of such measurement highly depend on the exact approach taken by the researcher, however, we will describe the common features. Arguably the most important advantage of stakeholder-based data for CSR measurement is its ability to reflect the CSR perception and reputation of the company. As one of the crucial components of the CSR concept is the expectations of stakeholders and the company’s way to fulfill them, logically asking stakeholder about a company’s performance is the most direct way to fully understand the outcome and through it the performance itself. Another advantage of this type of data is again the fact that most of the stakeholders don’t have a direct incentive to provide biased information. Obviously, this statement doesn’t refer to any and every case, but compared to the first methodology that we described, the self-reported data, the stakeholder approach represents to some extent a more reliable measurement. On the other hand, unlike the external experts, stakeholders don’t always have neither an expertise nor an exhaustive source of information to evaluate a company’s corporate social performance. This causes complexity in the development of methodology for gathering the data from stakeholders, while keeping it reliable, representative and feasible to analyze. Moreover, reaching to all the groups of stakeholders for a company and having a sufficient representation of them has not been easy for simple technical reasons, such as distributing surveys and analyzing results coming from groups with varying and sometimes overlapping interests. We can say, however, that the development of technology, modern internet presence and transparency has made the researchers’ and company’s job easier, eliminating the technical difficulties and reducing dramatically the resources requirements for such an assessment. Another difficulty that researchers using this approach face is the complex nature of a company’s stakeholders themselves. Depending on the industry, region and other characteristics of a company, both the list of stakeholders and their negotiation power, influence and dependence can vary significantly, thus forcing adjustments of methodologies.

With the basis of Carroll’s CSR model and Wartick and Cochran’s addition to it, Clarkson is among the first to propose a method of measuring corporate social performance through surveying the groups of stakeholders of a company (Clarkson 1995). Following Freeman in his theoretical grounds, Clarkson divides stakeholders into two groups: primary stakeholders, whose continuous participation is a necessary condition of company’s survival, and secondary stakeholders, those who can affect the company or be affected by its activities, though not taking direct participation in transactions with the company. The first group is usually limited to shareholders, investors or owners, employees, customers, and suppliers. The second group includes media, governmental institutions and other groups with special interest in company’s business. Though secondary stakeholders can potentially have a significant influence on company’s business, Clarkson decides to limit the data gathering on the primary group. The most appropriate measurement of CSR when surveying stakeholders is found to be the “stakeholder satisfaction”. Clarkson’s assumptions and the measurement model proposed underline the importance of balancing the fulfillment of different stakeholders’ interest for the company’s survival and success, and it is the statement upon which CSR states as a strategic choice.

One of the questions arising from integrating the stakeholders theory with corporate social responsibility is the actual influence of the satisfaction of stakeholders that the company can achieve on the company’s results and overall performance. This issue is especially interesting for consumers, since the level of CSR and responsible behavior of company can vary a lot with geography and industries, moreover, this problem is a cross-sectional scientific question, researching which requires a certain level of expertise in such disciplines as psychology. An extensive discussion on the consumer perception of corporate social responsibility (CPCSR) is presented by Oberseder et al. (Oberseder, et al. 2014). In this paper, the influence of consumers’ perception of CSR on sales and profit is reviewed, the main constructs of CSR are defined as customers, employees and environment, and an extensive scale for further research is developed through a series of in-depth interviews. An assumption of significant difference in consumers’ perception of CSR has also been done with a study of CSR specifically focused on the Spanish banking industry (Perez and Bosque 2013), and though there was no empirical evidence of such difference presented, common sense and real life evidence allow to believe the authors’ opinion on this subject to be correct. Giacalone et al. go further in psychological aspects of CSR, providing a link between consumer sensitivity to CSR (CSCSR) and constructs of positive psychology, defined as hope, gratitude, spirituality and generality (Giacalone, Paul and Jurkiewicz 2005). They further confirm a correlation between the existence of positive psychology constructs and the decisions for responsible investing. Attempts of proposing and validity testing of a scale for assessing CPCSR have been made for selected industries, however, the industry-related and regional limitations don’t allow for further generalization of the scales (Fatma, Rahman and Khan 2016).

Stakeholder measurements are among the most common with multiple scales and approaches developed in the last two decades. Among the researches made, the list of stakeholders is relatively stable, reflecting the primary stakeholders determined as crucial actors and evaluators for CSR by Clarkson. An attempt of determining the factors that make a company a good corporate citizens through surveying five stakeholder groups, namely community, consumers, employees, investors and suppliers, resulted in a scale of 20 principles of corporate citizenship that were further grouped according to Wood’s works into three categories of ethical business behavior, stakeholder commitment and environmental commitment, with 15 out of 20 factors belonging to stakeholder relationship (Davenport 2000). This research confirms two ideas expressed earlier: first, the proximity of various terms in the field of CSR, such as stakeholder relationship and corporate citizenship, and secondly the importance of stakeholder relations per se for the overall CSR performance of a company.

### The concept of Index of Fairness

As an alternative to the three types of measurements described above, the Index of Fairness has been developed and tested in the previous literature on the companies of various scope and industries (Afanasyev and Storchenoy 2010) (Afanasyev 2016). As the concept is the central one for the present research, we will provide a short review of the index in this section.

The concept of the Index of Fairness is based on the notion of corporate social responsibility as a company’s ability to meet the expectations of all its stakeholders. Its differentiating characteristic is that it doesn’t include objective metrics of CSR such as the remuneration level, the amount of social investments, product quality indicators etc. This kind of markers are a good indicator for assessing CSR of a company, and without doubt a useful tool. However, it seems impossible to merge all the possible objective indicators of CSR into one system, due to the almost infinite number of possible indicators, their varying nature and their complexity. For any company the selection of the most appropriate indicators would be different, which also makes the comparison practically impossible. Instead, the Index of Fairness is constructed thorough evaluations of all the crucial groups of stakeholders. The main assumption for such an approach is the rational behavior from all the business actors. This makes the Index an easy solution for a problem of measuring CSR: stakeholders’ perception of company’s fairness is taken as a basis, which can provide both objective data and an easy approach for achieving the result – a single numerical indicator for corporate social responsibility. Another advantage of the index is the fact that it has a potential of providing the information, crucial for business, namely the perception of the company on the market, which provides an insight into company’s image.

One of the main characteristics of the Index is its ability to provide comparative analysis for different types companies, therefore one universal list of stakeholder groups is taken as potential research subjects. In order to evaluate the fairness of company’s behavior, the stakeholders should be involved in transactions with the company of interest on a regular basis, therefore only primary stakeholders are suitable. Government is excluded from the list due to several reasons: first, the inequality of the relative power in government-company relationship in most cases, secondly, the mandatory character of any regulations established by the government, which makes the assessment of “unfair” behavior practically impossible, since it would mean the government’s admission of its own failure. Another group excluded from the research subjects list is the owners or investors, it is done for the sake of the universal applicability of the Index. For small and medium enterprises, the case is usually that the owners also execute the management function, which makes their evaluation of company’s fairness irrelevant.

The final list constitutes five groups of primary stakeholders:

* Employees
* Customers
* Suppliers
* Local community
* Competitors

Another question is the relevance of the respondents from the local community, as well as the definition of such per se. It might potentially cause problems for comparisons, since while for some companies, such as chemical manufacturing or restaurants, the perception of the local community is crucial, for others it can be problematic to even find representatives of the local community that are aware of the company’s operations enough to take part in the evaluation. The role of the local community in a construct of such indicator as the presented Index of Fairness remains a potential topic for a separate research. However, for now we decide to leave the local community in the list because firstly, we don’t see any incentive for this stakeholder to provide biased data unlike the case of owner and government, and secondly the presence of local community is crucial for assessing the fairness of companies operating in the industries mentioned above.

Three major steps for the evaluation are present:

1. Gathering contact information of relevant stakeholder groups
2. Creating a representative sample
3. Surveying the stakeholders in order to collect the evaluations.

The contact information of stakeholders is received from a company that is evaluated. Sanctions that result in decrease of the numerical indicator of the Index of Fairness are proposed in case the company hides a case of unfair behavior towards its stakeholders and it is revealed.

The proposed sample design is a random sample of 10 respondents for each stakeholder. The number is perceived as a big enough indicator to provide heterogeneous result, while at the same time a small enough number that provides convenience, ability to gather data quickly and applicability to smaller businesses.

The respondents, representatives of every stakeholder group of the five mentioned, answer questions on different factors of fair behavior, evaluating company’s fairness by a 10-digit Likert scale. In order to prevent the bias of different perception of the term “fairness” and ensure homogeneous responses, the respondents get a definition of the concept prior to answering the question.

Prior to the Index calculation, different weighting can be allocated to different stakeholders or stakeholder representatives. The decision is made by the researcher taking into account the following factors: the high/low market dependency of stakeholder and the high/low vulnerability of stakeholder. The proposed weightings are from 2 for high to 1 for low accordingly for each of the two factors. Another factor taken into account is the intensity of the interaction between company and stakeholder, in other words, what is the regularity of the transactions. The logic behind such decision is that with more transactions the chance of spotting a case of unfair behavior from the company increases, therefore the evaluation of a stakeholder who has more experience with the company should be assigned a bigger weighting.

The further method for calculating Index of Fairness is a two-step calculation. First, the weighted average evaluation for each stakeholder group is calculated according to the following formula:

$\overbar{F\_{j}}=\frac{\sum\_{i=1}^{m}F\_{ji\*n\_{i}}}{\sum\_{i=1}^{m}n\_{i}}$*,*

where $\overbar{F\_{j}}$ stands for the weighted evaluation for stakeholder group *j*,

*m* stands for the amount of staheholder group representatives surveyed,

$n\_{i}$ stands for the frequency of transactions between the stakeholder and the company

$F\_{ji}$ – stands for the evaluation of fairness by the representative *i* of stakeholder group *j.*

Secondly, all five outcome evaluations are used for calculating one single Index:

$FB\_{akme}=\frac{\sum\_{j=1}^{5}\overbar{F\_{j}}(k\_{j}l\_{j})}{\sum\_{j=1}^{5}(k\_{j}l\_{j})}$*,*

where $FB\_{akme}$ is the final Index of Fairness,

*j* is the identification number for the stakeholder group (1 to 5),

$k\_{j}$ is the indicator of the stakeholder's market dependency (1 to 2),

$l\_{j}$ stands for the indicator of vulnerability (1 to 2),

$\overbar{F\_{j}}$ stands for the weighted evaluation for stakeholder group *j*.

The resulting Index of Fairness is published on a website, and can be used for company evaluation, comparisons etc.

The framework described has been tested in the period of 2012-2016 with various companies, using different survey approaches.

### Research background

The Index of Fairness is a construction for creating an index that would measure corporate social responsibilities based on the stakeholders’ perception of the extent to which company’s behavior towards its stakeholders is fair. Groups of main stakeholders of a company, such as employees, consumers, suppliers and other are surveyed, in order to assess how they evaluate the fairness of the company. The result is quantified and a weighted average is calculated, representing one single measure able to reflect company’s CSR performance. As mentioned, the Index was developed as an evaluation to be used by businesses in the first place, however, the implications of the concept at the moment are usually built on basis of research goals and processes.

The main purpose of the Index is to provide a universal measurement applicable to both large corporations and SMEs, regardless of industry and region, promoting responsible business in Russia and providing an assessable tool for implementing CSR in the country’s realities. An index of this type, especially when calculated for a large amount of companies, can serve a wide range of goals, from informing a conscious consumer and potentially providing a feedback instrument to competitive positioning of a company and an assistance in strategic planning.

The Index is intended to be developed as a separate online platform, and integrated into a social media-like website for responsible business and entrepreneurship. As the Index of Fairness is a complex and multidimensional construct with a variety of different goals, it requires a developed framework for effective implementation.

### Research gap

The types of CSR measurements discussed in the literature review are quite various, and account for different functions and have their advantages and disadvantages. The Index of Fairness described in the last part, represents a measurement that meets all the criteria of Godfrey and Hatch for a measurement of XXI century: it is a multi-industry measurement, that congregates various activities into a single score that allows for comparison among companies and in time-series (Godfrey and Hatch 2007). The score has been used as a methodology for academic assessment of CSR activities in Russian companies, however, as stated in the index descriptions (Afanasyev 2016), the metric has been developed initially to serve corporate responsible businesses, and needs to be used in practice. The proposition of technological solution is described as a project executed through an online platform with several functions, such as operating the information and calculating and publishing the index, feedback possibility etc.

However, the implementation of such measures that are based on the external evaluation instead of internal reporting, is proved to be problematic, since businesses have their concerns for these activities. There is little to no theoretical or empirical research on the possibility of introducing a CSR index of that sort in the practice for companies. As Weber states, “Another area for future research is the integration of the CSR impact assessment into strategic management to support the full implementation of CSR strategies within companies” (Weber 2008). This would also contribute to a stronger focus of companies on several stakeholders.

### Research goal

The research goal identified for this work can be formulated as development of an appropriate process for implementation of the Index of Fairness by companies. We attempt to build a framework that fulfil company’s needs and ensure an efficient solution for company’s concerns. This goal requires answering several research questions formulated in the following section.

### Research questions

The goal of the research is to develop a process for implementing the Index of Fairness for companies.

In order to fulfil the overarching goal stated, several concepts need to be investigated. As the concepts have not been described extensively yet, we pursue a strategy of exploratory qualitative research. We formulate several questions that are to be answered in order to fulfil the research goal:

* How can a company benefit from implementing CSR measurement?
* What needs are associated with the implementation of CSR measurement in an organization?
* What concerns can prevent the company from measuring their CSR activities and ethical behavior?

The questions stated imply an exploratory qualitative research, and the nature of the questions together with the previous research done on the topic dictate the choice of the methodology and sampling strategy. The research design, the methods and sampling chosen will be reviewed in the following sections.

# Chapter 2. Methodology

## Research design

As stated in the previous sections, the main objectives of the present research include determining the key needs, benefits and concerns for businesses when implementing Index of Fairness in their strategic planning and CSR activities. According to this, a final implementation process is to be developed.

According to Yin (Yin 2011), qualitative research has five defining features: it allows for studying real-world conditions, represents views and perceptions of participants, covers contextual conditions of participants’ lives, contributes insights into existing or emerging concepts and strives to explore multiple sources instead of a single one. Qualitative research methods have been recognized as a way to explore the unknown concepts or develop a deeper understanding towards real-life situations as opposed to quantitative in which the focus is on testing hypotheses stated by the researcher in advance.

The primary goal of collecting qualitative data for this research is to gather as much information as possible, to be able to extract most crucial insights, while simultaneously having a possibility to classify and systemize the data. In the present research, the goal implies exploring current situation through searching for insights in existing concepts, with a focus on real-life situations.

The semi-structured interviews were chosen as a method based on the combination of opportunity for comparative analysis and flexibility that this method offers. Due to its nature, semi-structured interviews allow for easy comparison among the outcomes of different interview, since the main topics and issues to be covered are described in the interview guide. At the same time, semi-structured interviews provide a researcher with a degree of flexibility which allows to follow the natural flow of the interview and to explore the relevant concepts that might arise. Bryman (Bryman 2012) underlines the attractiveness of the flexibility in the semi-structured interviewing, and the emphasis on the causal links and the relative importance of events, patterns and concepts that the interviewee expresses. For out case, this focus of semi-structured interview method is particularly useful for distinguishing the common concerns, needs and potential benefits in order to ensure the universal character of the final implementation process of the metric.

The open-ended questions of interviews are aimed at gathering textual data, that must later be analyzed in order to generate conclusions. The analysis of qualitative data varies significantly from that of quantitative data, and has a less structured and more cyclical character. Yin (Yin 2011) suggests five general steps for analyzing qualitative data: during the Compiling phase, the primary data is sorted into a database with certain order, the second Disassembling phase includes further breaking the compiled data into smaller fragments, and may include coding the data, the Reassembling procedure, together with the previous one, is a repetitive reorganizing the data into patterns and sequences, during the Interpretive phase, a new narrative is derived and presented, using tabular representation forms where possible, and lastly, the Concluding phase is the one of drawing conclusions and presenting findings and fields for future research. The first three phases are claimed to be a preparation for the crucial Interpretive phase, and sometimes present a challenge for researchers, who tend to overdo the first three steps. In order to avoid this, we make an assumption regarding the Compiling phase at the stage of developing the Interview guide, through structuring our topics in a way of representing the research questions regarding benefits, needs and concerns.



Figure 1. Five steps of analyzing qualitative data. Source: Yin 2011

## Sample

In general, the size of sample in qualitative research is usually not directly linked to the size of population, and cannot be determined according to the requirement for representativity. Rather, the size is defined through the range of meanings acquired, and the number of interviews should not exceed the point of saturation (Edwards and Holland 2013).

The research is aimed to determine the factors that would allow to build a suitable process for different kinds of companies. Due to that, the population of the research is very large. One of the possible limitations of qualitative research is the data’s ability to be generalized, a problem that we partly account for by choosing the sample using the non-probability purposeful sampling method. This method is one of the most common for semi-structured interviews. In order to get a better understanding of the concepts of interest, we interview individuals with expert knowledge in the field, in our case we define experts as employees at the positions that imply responsibility for public relations, corporate social responsibility, stakeholder relations, HR or marketing, depending on the organizational structure of the company. In order to ensure effective analysis identifying the common patterns across variations, we use the purposive, maximum variation sampling. Choosing the sample size in qualitative research is an ambiguous process, that is not regulated by such strict guidelines as one of quantitative analysis. The main factors that determine the sample size in qualitative research are the information richness of the problem, the variation needed, time and resources available to the researcher (Patton 2002).

We ensure variation in three different factors: first, the industry, which is one of the defining factors of the role of the reputational issues in company’s business, second, the size, the factor affecting the scope of corporate social responsibility and sustainability activities, and lastly the country of origin of a company, which determines the traditions, values and the organizational culture overall.

|  |  |  |  |
| --- | --- | --- | --- |
| Respondent | Industry | Size | Country of origin |
| 1 | Book retail | Ca. 2000 of core employees | Russian federation |
| 2 | IT software in logistics and database management | 21 employees | Russian Federation |
| 3 | Packaging manufacturing  | 29000 (200 for local subsidiary) employees | Australia |
| 4 | Audit and consulting | 2000 for regional subsidiary | USA |
| 5 | International logistics and custom services | 45-50 employees | Russian Federation |
| 6 | Food manufacturing and FMCG | Over 2000 for regional subsidiary | USA |
| 7 | Engineering services and maintenance | Over 200 | Finland |
| 8 | Internet technologies | Around 8000 | Russian Federation |

Table 2. The characteristics of the companies interviewed

## Interview guide development

In qualitative research method, the hypotheses are usually not stated, instead notions and ideas are explored by the researcher in an attempt to find new information and new insights. However, in developing the interview guide, we need to base our questions on particular assumptions. Below, we list the assumption regarding three categories mentioned. We base our assumed benefits on the analysis of literature in the field, since most of the possible benefits include some sort of assumed correlations between CSR perception and other indicators of company’s success. Needs and concerns are based on a general assumption of companies’ and individuals’ rational behavior, common sense and general observation of business operations, organizational structures of potential respondent companies, as well as their existing CSR practices, and the different options that have been tested for the Index of Fairness.

### Benefits

Evaluation of fairness is an instrument that is aimed at helping business understand and therefore manage its reputation. Relatively good corporate reputation has a positive effect on long-term financial success, and due to the fact that its replication is not easy makes a sustainable source of a competitive advantage (Roberts and Dowling 2002). Therefore, the role of reputation and, more specifically, the role of the ethical reputational component, is one of the objects of our research. The overlapping character of the concepts of corporate responsibility and corporate reputation are presented through investigation of the respective models by Hillenbrand and Money (Hillenbrand and Money 2007), however, our goal is to examine the attitude towards this statement that exists in companies.

The relations between CSR strategy and company’s performance is another topic that has been widely researched in the last decades. Through consumer perception and building consumer awareness, CSR can affect widely the marketing and sales strategy, and even the financial performance of a company. For example, Berman et al. examined the influence of stakeholder orientation and financial performance, using KLD database for CSR activities as the measure for stakeholder relations of the company, their findings only confirmed the positive effects of two out of five stakeholder groups, namely customers and employees (Berman, et al. 1999). The effect of CSR on financial success is claimed to be hard to measure and the evidence is sometimes controversial, therefore we need to discover if the companies expect such instrument as the Index of Fairness to influence their strategies and performance. However, even for companies that base their strategic development on CSR goals as well as others, these two components are found to be separated and CSR is not incorporated with overall business strategic development, but instead substitutes a separate issue, according to a study examining British and Turkish companies (Duman, Giritli and McDermott 2016). While the results themselves seem quite generalizable for this study, at least in relation to possible regional limitations, it is interesting to see if the situation in the Russian companies is of the same nature.

Other aspects, such as innovative capabilities, are found to have correlation with CSR performance as well (Wagner 2010).

The Index of Fairness is constructed in the way that it analyzes the perception of both external and internal stakeholders. Implementing such an index in itself is a message for company’s employees’ that it follows ethical principles, and the possible improvement made as a consequence of this process can strengthen the employer brand. Through CSR image the perception of employees’ cultural fit is increased, and the employee loyalty and attachment to the company reflects this change (Lee, Park and Lee 2013). The possibility of improving the employer brand thereby is a potential benefit.

We assume the use of the Index of Fairness in two ways: as an internal analytical tool and as published measurement. If the company is concerned with its CSR perception, it may benefit from approaching the same metric for its corporate stakeholders, especially the evaluation of suppliers, in order to build a socially responsible supply chain.

### Needs

The calculation of Index of Fairness is based on surveying the representatives of stakeholders, and originally five key stakeholder groups were identified: consumers, employees, suppliers, competitors and local community. However, we recognize that several factors can influence this list for each company. For example, for B2B small and medium enterprises local community is, firstly, hard to define, and secondly, might not have any significant influence power on company’s operations. We also need to establish the general need of companies in tracking their stakeholder relations and the current situation. This information will give us insights regarding the priorities companies put on their stakeholders and the tools and functions necessary for the most useful outcome.

The process of index implementation includes a series of operations, such as gathering the data about stakeholders, uploading the data to the platform and in general working with the platform, reporting the result etc. In some companies it will most probably be done by CSR or ethics department, however, some organizational structures don’t include such functions, therefore we need to define, which employees could naturally include these functions in their work. Besides that, we need to determine, what resources would the implementation require from companies of different type, and try and decrease the use of those, keeping the implementation process holistic.

The development of the online platform and the support of calculations and all the operations associated with implementing the Index of Fairness on regional or national way can be done on the basis of universities and educational institutions, social responsibility funds and NGOs, with governmental support or on the resources of companies only. These details are not the object of our study, however, to establish an appropriate process for companies, it is necessary to understand what financial support can be realistically used on such an evaluation and what means of payment would be the most feasible.

Another question that arises is whether additional services such as detailed analysis of the outcome, stakeholder relations and business ethics consulting would generate additional value and could be a sufficient incentive for a company to adopt the Index of Fairness.

The evaluation of company’s fairness can represent not only a source of information for internal control and development, but also a basis for competitive positioning, therefore it is important to understand, what kind of comparison, for example, regional or by industry, the companies find the most valuable.

### Concerns

The confidentiality of the contact information provided for surveying the stakeholder representatives is the first concern arising when trying to develop an implementation process for Index of Fairness. Data gathering should be done with the sensitivity of data in mind, and at the same time ensure an objective sample of company’s stakeholders. Various ways of combining these two problems exist, and the goal is to determine which are the most suitable way that would decrease company’s concerns regarding it.

The second concern that arises is the objectivity of data itself. The index itself doesn’t aim to provide an objective evaluation of company’s fairness, but it gives a solid measure of the company’s performance perception. However, to ensure that, the samples of stakeholders need to be constructed in a way that any representative, including potentially unsatisfied ones, has a chance to be surveyed. This again raises the question of an optimal data gathering process.

Business ethics is a sensitive subject, and depending on the value of the index, publishing a measure of this kind might have negative consequences on company’s reputation. As mentioned earlier, the index can be used both internally only and externally, for rankings and public presentation. Determining the concerns regarding the disclosure of the index and ensuring this concerns are overcome is a crucial part of developing an implementation process.

The three sections become the ground for building the interview guide, which will help identify if the assumptions are correct, prioritize the units in all three categories and, in general, determine the attitude of companies towards the evaluation of the perception of their fairness. At the beginning of the interview, the interviewee is provided a short description of the Index of Fairness, the goals and objectives of the interview and the confidentiality policy. Since the information on ethical behavior of companies can be considered as sensitive in terms of business reputation, we decide to not include the name of companies or interviewees in the study.

1. Interview goal: We are developing an implementation tool and process for evaluating the fairness of companies, and more broadly their relations with stakeholders. For this aim, we conduct interviews with companies to figure out their benefits, needs and concerns regarding this process.
2. Interview structure: The interview is semi-structured, consists of four parts: general information, second is determining the benefits for a company from implementation of an Index of Fairness, then an evaluation of needs and concerns related to index implementation. The information provided will become a basis for developing an implementation process (a series of instructions) for implementation of the metric. The answers may be quoted, though no names of interviewees will be mentioned. Any information at any point of the interview can be claimed confidential. The interview will take 40-60 minutes.
3. General information
* What is the main business of the company?
* When was the company founded? (a short overview of the history)
* How many employees the company has?
* What is the company’s market share/competitive position?
* Who are the stakeholders of the company? How many are there in each group?
1. Benefits
* How important is the business reputation for the company? Do you perceive business ethics as a separate component in the reputation construct?
* How important is ethics/company’s fairness for you personally? For the owner? For your colleagues? (Would you prefer to work in a transparent and ethical company with smaller remuneration)
* What do you think, could a positive evaluation of company’s fairness affect the marketing strategy? Sales? Financial indicators? (Is it beneficial for the bottom line)
* Do you collect information about the fairness level of your stakeholders? Would you like to receive such information?
1. Needs
* Who are the crucial stakeholders for the company?
* Do you anyhow track the stakeholder relations currently? What tools do you use?
* If you would evaluate the fairness of company towards its stakeholders/ their perception of company’s behavior, who would be responsible for the operations related to this process (data gathering and uploading, interactions with the online platform, outcome reporting)? (a person in charge – options to mention would be marketing, strategy, business development, CSR department if existent)
* If such service would have a moderate fee, would you prefer a one-time payment or a subscription (for example, using the services unlimited for a year)? Are there any additional services you would like to receive?
* Would you be interested in any sort of methodological analysis of the outcome? Consulting in business ethics related to the Index?
* How interested would you be in an industry/region comparisons?
1. Concerns
* What if the most suitable/appropriate format the company could provide contact details of its stakeholders? Is such data especially sensitive for some particular stakeholder groups?
* How important is the confidentiality of the Index of Fairness value? Are there any conditions upon which the company could agree to publish the index on the platform? Would you publish a positive/arguable evaluation?
* Would you perceive the current evaluation process as reliable?
* Would you say that the index implementation could cause a change in company’s processes and practices/affect the operations?
1. Commentary/additional information
* Would you like to add something?

### Reliability and validity

Reliability and validity, accounting for the extent to which the research can be replicated and responds to the questions of the research, as well as reflects the real-life situations, are terms that come from the quantitative research methods, however, they are applicable to the qualitative research in a slightly different ways. Alternative terms to have been proposed in order to fit the nature of the qualitative research, such as Trustworthiness and Authenticity (Bryman 2012), as well as the framework of Credibility, Neutrality or Confirmability, Consistency or Dependability and Applicability or Transferability (Golafshani 2003). However, the alternative terms are generally used for the same purpose, as the more traditional reliability and validity, applied to qualitative research. We will shortly account for these characteristics.

We build the credibility of the study by most importantly keeping in mind factors that might occur in combination with qualitative studies due to the nature of research, for instance personal and interpretation biases as well as bias linked to sampling. A more comprehensive set of data can be achieved through an instrument that researchers use in order to increase the validity of data, namely data triangulation. Our research design doesn’t allow us to fully exploit all the possible sources of data, but we are using interviews, and publicly available data in order to build a holistic picture of the object of our research.

# Chapter 3. Interview analysis

The interviews we have conducted result in a lot of unsorted non-numerical data, which we decide to analyze using the five steps approach proposed by Yin (Yin 2011). We have executed the Compiling phase in the process of developing the interview guide, creating three main categories for further disassembling and restructuring the data. For further analysis, we construct a table of three information categories, and further classify the data into the associated concepts provided by the interviewees.

|  |  |
| --- | --- |
| Category | Associated concepts |
| Benefits | Customer loyalty, Employer brand, Reputation, Suppliers safety checks, Competition, Market positioning, Sustainable development, PR, Marketing, Competitions, Rankings, Image policy, Customer awareness, Responsibility trend, Benchmarking, Motivation for change, Trust, Leadership development |
| Needs | Critical mass, Pool of respondents, Repetitive estimation, Time-series, Trial period, Customized survey guide, Stakeholder weighting, Service subscription, Clear calculation methods, Survey transparency, Industry comparison, Competition data, Confidentiality of the index, Confidentiality of Contact Information, Concepts definitions |
| Concerns | Validity of sample, Sufficient sampling, Competition data, Low evaluation, Public evaluation, Confidentiality, Cost increase, Change of practices |

Table 3. Categories and concepts of qualitative data collected

Overall, the biggest challenge is generalizing the data from different industries and companies of different scope, as well as the organizational culture and the values. As the data proves, both the overall attitude towards the CSR itself and the measurement of it through the Index of Fairness varies depending on both these factors. However, some common points can be found.

## Benefits

The attitude towards CSR activities and business ethical behavior is in itself a non-measurable concept, however, our data assumes that the first factor to look at when trying to determine the demand for fairness evaluations, is the organizational culture of the company. The companies of Russian origin, both smaller companies that operate on markets with intensive competition, and market leaders, underline the fact that the mentality and the traditions of business in the country prevent initiatives of social or ecological impact to be well-received in the companies:

“…as it is in Russian companies, our top management doesn't really think in terms of stakeholders, or business ethics, it's still more about profit then anything else. It’s hard to convince top management to implement something when they cannot see the direct and preferably fast impact of bottom line”

According to one of our interviewees, the culture of Russian business, as he understands it, would also prevent the evaluation from being reliable, especially in competitive markets like the one the company operates in:

“I am not sure I would follow the rules and try to get an honest evaluation of my relationships with stakeholders. I mean, if the project is just done for me, then yes, it’s interesting, but If one company knows that their competitor is also participating in a project like this, I don’t believe the estimation would ever be honest. It’s kind of the Russian business culture, the mentality itself motivates you to brag, it’s quite acceptable.”

“Well, for example, if a company in the market tries to take away their competitors’ client, and they know the competitor personally, have contacts, it is considered ethical to notify them. But that only happens if there is some kind of personal relationship between managers, otherwise it’s perfectly normal to just sign a contract and take away the client. It is the way the business in the market operates, everyone does it.”

We have noticed a significant difference with companies of foreign origin when it comes to attitude towards CSR, however, we need to underline that the companies also differ in their histories and industries, therefore we do not claim a direct causal relationship, but emphasize the importance of the market structure, existence of corporate values and moral codes, and experience.

“Of course, we have an ethical leader, who is responsible for anything related to ethics. It includes anything: employee’s behaviour, any kind of relationship, if the internal communication responds to the standards of ethics, client relationship, even gathering and analysing any kind of data. It is a very important agenda in our day-to-day activities, we have trainings and workshops about ethics, we fill in research forms, we know who to contact in case someone spots unethical behaviour, and we include a paragraph about ethics in all of our contracts, with suppliers, for example.”

“Ethical behavior plays a crucial role, since we identify ourselves as a cmpany with a human face. It’s an issue of positioning, it’s our core strategy, and we would never act against it, or change it.”

Some of the respondents among big companies have indicated a strong correlation between the fairness of the company and the employer brand. In the industries, where the competition for the talent is intensive, CSR policies and corporate volunteering is becoming a source of competitive advantage.

“First of all, if we talk about ethics, in a formal understanding, no doubts, the candidates ask about the legal issues in relation to the process of remuneration and tax payments. Regarding other factors, for example, if the company contributes to society, I can confirm we also get these kind of questions. I cannot say every single candidate asks about our CSR, but firstly, it is an important part of our competitive positioning, if we can differentiate ourselves somehow from the competitors of the labor market due to the extensive CSR policies, and yes, we know that for some candidates it can be a valuable argument to choose us. Also, now, the more young professionals come to the company, the more they are interested, the more they think about what an employer can give them in terms of social impact opportunities.”

“Yes, of course, for any company reputation is important. For us, I think, the employer brand improvement is crucial, we want people to come and work for us, reputation is crucial in building this.”

 Our initial assumption was that employees would be one of the group mist interested in the fairness of a company, and at the same time the most informed one. The attitude towards company’s fairness, however, depends significantly on the type of the company and the market. For example, one of our interviewees, representative of a smaller company on a highly competitive market, has assumed low interest of employees in company’s behavior in anything beyond the legal issues:

“The market itself is not very fair, or, I would say, moral in general terms. The companies are pretty aggressively competing, and using any means possible to increase their margins, for example, when it includes price discrimination. And the managers’ income is highly dependent on the success of the company itself, so usually people in the industry would choose a predator company with a greater margins and profits to one operating totally ethically and morally.”

Regarding the reputational issues, none of the respondents hesitates in admitting that reputation is one of the crucial factors of managing a company, however, there is a lot of variation in describing the means of this influence, its perceived effects and the importance. Bigger companies, operating in international contexts, are more likely to perceive the ethics of the company as a component of the reputation itself, whereas according to our observation, smaller companies’ perception of reputation itself is interrelated with personal brand of company’s owner and top management.

“Reputation is definitely an important factor, and it influences the performance quite a lot. We do a lot for our reputation, we never fail to pay on time to any of our stakeholders, and we try to be as transparent as possible with our strategy and transactions, with everything.”

“Reputation affects the business directly, let’s say a change in reputation is directly reflected in company’s profits, in our field, where we have a very narrow market and the clients currently don’t have a great culture, in terms of paid software services, because they are used to just download software from torrents. So, selling expensive software is a field where everyone puts a lot of importance on reputation. So yes, we work with it, or let’s say we try to. But there isn’t any marketing department to track the loyalty, the indices, so data gathering is minimal, on a critical level. The work is more with clients’ feedback already, so if there are any complaints, we take actions. To prevent it – we just don’t have enough resources now yet, not really.”

“Well, we operate in a sector of professional services, so reputation is everything for us. I think, we care about reputation really a lot, moreover, we do auditing tasks, and that means there cannot be a flaw, we have to be absolutely objective, because our clients trust us for this.”

As the reputation is a broad concept, and the data proves that companies can understand reputation in a variety of ways, we have also asked narrower questions regarding the fair behavior of a company and its performance. A measurement of fairness of a company, if positive, can provide a valuable addition to overall image of the company, track customer loyalty and serve as a marketing instrument, increasing sales and therefore profit. Overall, the companies agree that an Index of Fairness can be used as a marketing instrument, however, as expected, the scope of the usage can be various.

“I am not sure if a consistent ethical behavior, and an evaluation of it, can contribute to the sales figures. I mean, if there is enough media attention to some of the ethical initiatives, it probably contributes, but to be honest, as a retail business, we cannot really measure the effect. Some scandal of any kind of violation would definitely be seen directly, a negative effect on most of the figures, even from the financial point of view.”

“Well, recently yes, it starts to affect the sales and marketing, for example. I would say that the overall trend is increasing the awareness, like we recognize that for the end consumer, ecological side of the production becomes more important. In general, the consumer relationship, the respect is built more with ethical behavior.”

“I cannot really give any exact figures, since I don't work with the financials on a daily basis, but of course, all our employees are familiar with company's performance, and are aware of any changes. The smallest ethical problems occurring are instantly reflected in the results, because our consumer expects a specific behavior from us.”

“Of course, CSR is used as a marketing tool. Again, for example, we offer CSR consulting services, it is a new interesting business trend that we would love to further develop. On the other hand, as quite a big company, we build our image policy on CSR policies, besides other components.”

Besides the benefits that the company could gain from implementing the Index of Fairness itself, we had an objective of determining, whether such information about other companies could influence company’s strategy. We were interested in current practices of stakeholder relationship tracking, and in the potential value of disclosed fairness information about company’s suppliers and customers, for example. This, however, was not indicated as an important factor. Interviewees underlined that they have their instruments of tracking stakeholder relationship, though mostly, and in some cases, exclusively, focusing on customers, and that information specifically on the fair behavior of their stakeholders wouldn’t provide a significant value. On the other hand, some interviewees underlined the importance of trust, and some emphasized that any kind of additional information is beneficial.

For example, two SMEs that we have interviewed, admitted they were not very interested in their suppliers or customers ethical behavior evaluation, beyond legal issues:

“Well, in our market our stakeholders’ reputation and ethics is not that important. We look at it when we can, but it’s more just curiosity, we don’t make decisions based on this information, since all the deals we make are pre-paid deals, so, well, if they don’t have good reputation – we don’t bear any responsibility for it. I mean, if this were our suppliers, or if our service could somehow be a part of their reporting, this information could influence us, of course. But we are a supplier that is not related to their like finance of tax systems, so if they pay and the deal is done, we don’t really analyze their reputation.”

Again, the difference between SMEs and global companies in terms of the attitude towards ethics of business seems to be drastic. For multinationals, where image and reputation play a critical role, as stated in interviews, the ethics of business is extracted to the whole value chain, and the regular checks of all contractors is a frequent activity.

“Every supplier has to pass quite an extensive security and safety check, and in general, we try to access if we can trust the supplier. If at some point the supplier, any of our contractors, is found to have some kind of cases that don’t reflect our standards, we won’t sign the agreement.”

 “It is an issue of reputation. We have a check system for our clients as well, meaning that, to put it in simple terms, we wouldn’t work with clients who we find unethical. It is expressed in slightly different terms, but that’s basically it. We don’t accept suppliers, clients, we don’t hire employees unless they meet our ethical standards. It is reflected on all levels.”

## Needs

The initial proposition of the Index of Fairness calculation implies surveying five stakeholder groups. However, the interviews show that the group of stakeholders relevant for a study of fairness perception varies from company to company. We can divide the stakeholders mentioned by our respondents into primary and secondary, in most cases the first group consists for customers, suppliers and employees. These stakeholders have been indicated as those of most interest and most easy to reach. In the case of IT companies interviewed, the definition of suppliers has been problematic, since the only suppliers the respondent could name was an internet supplier and hardware and office supplies vendors, and colleagues from neighbor industries. However, in the first case, the sizes of actors and their relative negotiation power is not comparable, and the influence of the company of interest on its suppliers is not significant enough to include them in the study. In the second, while executing supplier functions as, for example, providing services, the companies from neighbor industries are not perceived as suppliers either, but more as partners, and the interactions with them is not a frequent one, as the interviewee underlines.

“There aren’t really any suppliers. I mean, I could say the internet provider is our supplier, since there is a lot of outsourced work, and the quality of the internet provided is important for us, but still I don’t have any direct connection to them. I would really name MTS, for example, as a stakeholder, to be realistic.”

“I cannot really name suppliers as a stakeholder, because in IT we don't really have suppliers. We have colleagues, partners that would in some way provide telecommunication services, for example.”

Regarding the local community, all the respondents have found it difficult to determine the nature and influence of local community, including the manufacturing company. For this case, the awareness of local companies on the activities of the factory is claimed to be too low for conducting research on their ethical behavior, unless the representatives of local community have some other stake in the company. However, this option seems not viable, since in this case the responses cannot be perceived as valid.

The most interesting case is the attitude of companies towards the evaluation of competitors. On one hand, the identification of competitors and their amount has not been a problem for any of our respondents, however, the doubts in the possibility of an honest evaluation from this party have been expressed.

“We could provide competitors’ contacts too, we know our market quite well, but I don’t think they would be interested in helping us in any way, the environment in general in IT is quite aggressive. “

“We know our competitors quite well, there are about 150 firms in the region, and half of them we even know personally. But we don’t have any interaction with them, we exist in parallel. Besides, the competition in our sector is quite severe, and there aren’t really any ethical guidelines or standards as to what is ethical and what is not. It is based on personal relationship partly, but besides that – in a competitive market, I don’t think there is any point in asking the competitors about our company.”

“We are the leader of the market, I don’t know exact figures, but I believe we have over 50% of the market, and the other actors in the industry are much smaller. In terms of a fair competition I wouldn’t survey them, at least because the evaluation will be biased, and I don’t see proper ways to avoid that, to be honest.”

Another important point in our agenda is the organizational structure of respondents in relation to CSR. As our goal is to determine the best ways to include the usage of index into day to day practice, we need to determine, who in the company can be responsible for the operations associated with the process, such as building the contact lists of potential respondents, uploading them to the platform and reporting the results. Based on the interview data, for this the companies can be divided initially into two groups: those with ongoing CSR practice and those that don’t have it. For the first group, ethical and CSR leaders, CSR managers and development specialists were named as most appropriate positions for this task. For the second group, the organizational structure and the size of the company played the crucial role.

“The decision of using any metric of this kind is always taken on the top management level. If I was to evaluate the ethical behavior of the company, using an external index, as an executive, I would probably give the task of the interaction with the online platform to the office manager, and then review the results myself.”

However, an alternative approach was proposed by two companies of very different profiles. The respondents suggested that the most recent information about any stakeholder is kept in the departments that interact with the particular stakeholder the most, for example, HR department for employees, marketing and sales for customers, purchasing department for suppliers, or the managers responsible for the particular projects, which caused a notion of the data being gathered and the lists being built separately in different departments.

“It makes the most sense to ask the managers working with the carriers, shipping and transport companies to provide a list of them, the HR – to provide the list of employees, and then to construct the customers lists of the database of the managers working with particular clients.”

“Of course, we have the information regarding our stakeholders. If we were to make this evaluation, we would construct the lists depending on the departments: it makes the most sense, because the departments working with stakeholders definitely have the most relevant information”

For most of the respondents, the regular evaluation and dynamics seemed like a more valuable option than a one-time measurement, however, it was emphasized that the timeframe would depend a lot on the construct of the measurement itself: what factors are to be evaluated, what kind of questions are to be used. In general, the reputational issues and the perception of ethics does not seem like a fast-changing factor, therefore the anchor for the time period of the evaluation was one year, usually mot mentioned by the interviewer yet assumed by the respondents. The regularity is determined by two main factors: first, the most effective time period for tracking the dynamics and being able to identify the influence factors, improve and manage the evaluation, and on the other hand the costs of a frequent evaluation that need to be decreased to an effective balance.

“Well the periods depend on how dynamic is the metric itself, so if it changes every month, I would like to see my progress for every month. There might be correlations, even like dollar rate, for example, if it affects my remunerations, the index is affected too.”

“I don't think it is a component that is necessary to evaluate every 3 months, like we do with our customer loyalty surveys. On the other hand, it is important how it is built. For example, it could give more information if we could measure some of the factors that constitute the overall index. Yearly research might be too rare, some moments can slip away. For example, we have failed at some particular indicator, and we would like to know when and how exactly that happened. Let’s say, there was a case of unethical behavior on summer, it is important to know, what was done about it in autumn, winter. The crucial thing is that the measurement should reflect the reality, correlate with the real situation. If I understand the metrics, I can manage it, I can evaluate. But if it’s yearly, let’s say we had a evaluation of 3,7 last year – and the next year we get a 2,1. And it is practically impossible to track, what caused such a change.”

 “Since it does not seem like a frequently changing parameter, it makes the most sense to make this evaluations once every 2-3 years. Anyways, not more often than yearly, definitely. I don’t see a point in making the index evaluation a subscriptive service”

The issues related to the regularity of the evaluation is the right method of payment for the services associated with the calculation of the index. The right pricing policy of the index is not possible to determine yet, since there are too many unknown factors, however, the calculation will most probably require some kind of payment due to the costs of such factors as data collection and storage, report generation, possible survey customization etc. This raises the question of the payment methods: we intended to explore the possibilities the companies perceive as most viable. The majority of the respondents found the subscription model for the online platform the most viable, as it provides a possibility to use the service multiple times over a certain period of time, providing time-series data and possibly industry comparative rankings. The one exception in the data is the company that stated the longest time period between evaluations: 2-3 years. For this objectives, as mentioned in the quote above, the subscription model turned out to be gratuitous.

“Subscription and repetitive evaluation, that is crucial. We need to compare ourselves, to see the position. I think, the need for the tool itself would depend strongly on the industry the company operates in.”

“A simple prolonged access to the service is a good idea. A subscription for a moderate money, for let’s say a year, would be a perfect option”

As predicted, an isolated evaluation of company’s fairness in its relationship with the stakeholders didn’t seem like an attractive option for the respondents, instead the index was perceived as a basis for a more complex set of information and services that could be provided in order to build the interest of businesses in using the index. One of the valuable additions is the possibility to compare the company’s evaluation with its competitors, the industry as a whole, or even the broader markets. Regional comparisons or comparisons in any other groups were not identified as relevant. Some of the respondents underlined that such information can be used as a basis for positioning in the industry on various levels and one of the sources for competitive advantage, therefore being able to level to the index can be crucial. Comparing the measurement to the industry’s equivalent evaluations, or the average indicator, was indicated as a valuable addition by 4 out of 8 respondents.

“Definitely, comparing ourselves to the industry, in a broad sense. Comparison to direct competitors wouldn’t be as interesting, we don’t have that many and it wouldn’t be representative.”

However, we can see another trend: for the big companies, those that have CSR policies and corporate volunteering initiatives already incorporated, the comparison itself was not indicated as a main point of interest. In contrast, while acknowledging that CSR can be a useful tool in such business activities as employer brand management and marketing, they emphasized that it is not an area of competing, and rather a motivation for collaboration with other companies.

“We have some great CSR projects that we use in contests. The goal is to share the best practices, to inspire other companies to do something and for the image objectives. However, if we talk about CSR, we shouldn’t talk about competition, but rather how everyone can contribute, and how we can make the world a better place. So, we communicate a lot, we share the cases. The issue is less of a competitive nature, because we share a goal. When we think of CSR, collaboration is the best strategy.”

“I would be more interested in using the measurements for the internal development, not that much for comparisons.”

“I don't think we would want a comparison, because social initiatives are something that should come from the heart, and not in an effort to fulfill some KPIs. As soon as we start comparing ourselves, organizing competitions and rankings, it disrupts the natural process. It is important to understand, how could this index support the natural way of doing things, and not disrupt.”

However, the author of the last quote also identifies an important factor, that some other respondents share: the fact that comparisons and rankings can be viewed not as a competition in itself, but rather as a motivator for companies to improve their CSR practices, and for the market in general to become more ethical.

“It would be great, if companies would compete in the CSR area, but it’s a question of how to organize such competition.”

One of the most important sides of our research was to understand how to make the Index of Fairness more attractive for the business. During the discussion, it was several times revealed that in order to improve the ethics practices and consequently the indicator itself, expert help in a form of methodological analysis of the indexes constructs and CSR consulting services could create additional demand for the index. The respondents indicated an interest in such additional services, with an exception of a company that provides CSR consulting as part of their business and therefore has extensive internal resources for such processes, and another big company that underlined that it would rather rely on internal resources:

“If the index is guaranteed to be an objective measurement, reflecting the real-life situation, that makes it interesting, but it also raises the question of what can be done to that kind of rankings. If a company that makes this research would help companies providing some practical recommendations – that would possibly be quite popular.”

“It is important to understand what is included in the measurement. And you should be prepared for us asking what should we do next, some practical things. What could be done to improve certain parameters. If I do some kind of research, I’m interested in improving something, broaden the horizon, and imagine further steps. And an expert consultation could be very useful.”

One of the companies that expressed strong interest in constant process of improvement for its ethical standards, also put an emphasize on the in-depth data presentation. For the respondent, the index represented an opportunity to receive expensive feedback, and the most effective way of performing this function is to provide both the statistical data and the final evaluation, while leaving the possibility for textual testimonials from stakeholders.

“For the overall growth and for a better understanding of our areas for improvement, which, I'm sure, we don't lack, Index of Fairness is an interesting instrument. It would also be great to communicate with some of the respondents, for example. It would be important to receive some kind of transcripts, not just the statistical information, but extensive feedback.”

## Concerns

Initially, during the phase of interview guide development, three main directions for determining companies’ concerns were identified. First, as the calculation of the Index of Fairness implies surveying stakeholders, contact information of such has to be uploaded to the online platform. However, as the platform is external to the companies, it raises a problem of both technical and ethical matter.

Regarding the technical issues, the majority of the companies have denied that collecting information about the three stakeholder groups they are most interested in, namely customers, employees and suppliers, can be a problem. Several solutions for creating the most complete database were proposed: for example, extracting the lists from the databases of associated departments, downloading the databases from internal IT systems such as 1C etc. Four out of eight respondents also confirmed that constructing a list of competitors can be done easily, though underlining that this estimation must be very carefully controlled, since the competitiveness might affect the objectivity of the survey answers:

“We could give their contacts too, we know our competitors, but I don’t think they would be interested in helping us in any way, the environment in general in IT is quite aggressive.”

The main condition that, according to the respondents, would make the contact information collection appropriate and viable, is that the stakeholders should be notified in advance that a research of the company’s ethics is being carried out. Depending on the industry, the interactions of the company with its stakeholders etc., the scope of such notifications can vary, since the perception of the sensitivity of data is different.

“We have all the lists, but it depends on what the questions are, for example. I think our clients would be very interested in answering such surveys, clients would be willing to talk about the quality and all that. In our sector, we can give such data, it’s IT and clients generally react positively on quality checks and evaluations of any kind.”

“Well, technically it’s very easy, we have the lists for all our stakeholders, but we would need to notify them that such an evaluation is being done, otherwise if someone calls, for example, and asks questions on behalf of our company, our stakeholders would probably think it’s some kind of fraud.”

“It's not that easy. Regarding the clients, the information is very confidential, and it's a question of business ethics just as well. We would have to talk to each client individually, otherwise problems might emerge. It is important, how would you introduce such an index.

In general, clearly, it’s easier to make an evaluation internally.”

A second concern expressed during interviewing is strongly related to the first one. Though most of the companies confirmed that uploading the information is a simple step, they raised a question for the next phase, namely gathering a sufficient sample. As the index was perceived as quite a narrow measurement, evaluating just one of the many aspects of a company’s business behavior, the respondents have expressed doubts that such a survey, especially for just one distinctive company, could be filled by a sufficient number of respondents.

“I would generally discuss the data collection in more details. By now, I don’t see a possibility of gathering relevant data from all groups of stakeholders. We have an experience of working with external providers and researchers, that do evaluations of employer brand – but they do it not just for us, but for many companies, and then we just acquire a detailed report about our position. This way, they can gather enough information.”

“Well this is a very practical question: how would you gather the information, what is the motivation for people to respond. Let’s say, we have contact information of over 200000 of our customers. Let’s say, you are doing a research, surveying people via phone. I would assume, that only a specific kind of people would respond, so is it relevant information? The question is, how can you ensure that.”

 “We have quite a relaxed working environment, for example, when a new technology is introduced, such as an internal social media, a corporate messenger, if it’s not convenient, employees simply won’t use it. There is an autocracy method, to just make people use it, but we don’t have that. Therefore, is the product is not interesting, even if we upload the contact data, it will be difficult to gather the responses. It all depends on how you present the evaluation.”

We have already underlined that the business ethics is a sensitive area for any company, and the information should be treated carefully. One of the concerns that we identified was the confidentiality of evaluations and rankings. On one hand, publishing the evaluation of company’s fairness is a way to increase awareness and competition on the matter, on the other hand, keeping the evaluation confidential can ensure more objective results, easier data collection etc.

Our objective in interviewing was to determine if the disclosure of final evaluation was a point of concern with companies and to identify the conditions under which the companies would agree to publish the index. Most of the evidence on this factor reveal that a high position compared to other companies would ensure publishing the index: there have been several cases of leadership definition mentioned in this context, therefore this particular factor, as we assume, is quite an objective one:

“It depends on the quantity and quality of the companies measuring index, on how it is presented in media, and so on. Assuming we are one of the top 50 companies in the world, then it’s great, we would publish it. If top 50 in Saint Petersburg, that’s not as flattering. If we are one of the top 50 companies in the city area, where let’s say there are 60 companies, what is the point to publish it.”

“Deliberately, we would only publish the information if our evaluation is among the highest 20% on the market. Otherwise – the index might be good for internal use, but we wouldn’t show it to public, for sure.”

“It depends on my market position with this index. I mean, we could only publish it if we are the market leaders and we take the defensive strategy. Yes, in this case I would make the index as high as possible and I would publish it. But if the index is lower then the average, I wouldn’t publish it even if the company is the market leader.”

However, further investigation has also shown that our assumption about the confidentiality concern was not as obvious as it was initially believed. For half of the respondents, an opportunity to work on the index and to improve the indicator represented a viable solution for the confidentiality problem:

“On the other hand, if I needed to publish the index, I would just first make sure it’s high enough. So, I would look closely at the components of the index, find something I can increase easily, and then I would try to change it like fast, and I would publish it afterwards.”

“I think, we would publish it. I would include it in our marketing materials, the documents we present for tenders. Mentioning that the company is participating in a research of this kind, evaluation of business’ ethics, would be interesting. It must be used as a marketing tool, definitely. It could also give some external motivation to change some practices, which is always good. And we should then be prepared for our potential clients, for example, to ask, what our evaluation is. For this matter, it would be good to have relevant information, the most recent index.”

Companies have also underlined, that the construct of the index itself is an important factor in this decision, for example, it was mentioned that as long as the company is confident about the objectivity and reliability of the evaluation, they are ready to publish it:

 “… So, if these two questions will be answered, and we will be sure that the index is an objective evaluation, I don't see any problem in disclosing the information. Whatever the evaluation is, it’s in our interests, since we want the society to perceive us as a transparent company.”

The last concern we have discussed was the possible influence of business fairness evaluation on company’s operations. We were trying to identify if the necessity of changing and restructuring some practices detected through the integration of the index could become a point of concern. However, while emphasizing that the balance of costs and benefits for the outcome was crucial for companies in making decision of whether to implement a measurement, a signal for change was more of a benefit then a concern and that identifying weak places in the relationship with stakeholders was one of the reasons to potentially use the index in the first place:

“If something is too low, if we are behind in some of the components, trying to pretend that everything is going well is not the best strategy. As soon as you become static, you die, so there is no concern that the index can force us to change something. Moreover, I can easily imagine what components could turn out to be far from ideal, and it’s obviously a vulnerability for a company, but that just means that if we can do something better, we should put more effort. You have to admit your vulnerability and work on it.”

In general, for the respondents, the most concerns associated to the index were related to the construct of the index itself, the process of information gathering and the ways of making the measurement objective and transparent. However, the details of calculating the index itself, as well as the construct of the survey guide and the scale, is not the focus of our work, and requires a separate in-depth research.

# Chapter 4. Process for implementation of the Index of Fairness

Based on the interviews results analysis of benefits, needs and concerns in implementing a CSR measurement tool, we develop an implication model for the Index of Fairness. We adopt some of the principles of the literature on performance measurement management and the IT metrics implementation recommendations, such as evolutionary approach, metrics goals and objectives, focusing on involving all possibly interested parties in the process (Iversen and Kautz 2000) (Bourne, et al. 2000).

We first identify the general goals, the actors in the process and the stages, and then destruct the stages into steps to be followed by the actors in order to implement the index successfully.

The Index of Fairness that was described below is a metric that is aimed at helping both the business and the academic community in measuring CSR in companies through identifying stakeholder perception of companies. It is based on the notion that fulfilling stakeholder needs is the objective of an ethical company, however the main problem is balancing those needs that might be in conflict, therefore constructing a measure that would assess different stakeholders’ perception of company’s fairness towards them is a viable method for measuring the ethics of business.

Initially, the Index of Fairness was developed as a tool for businesses to assess and develop their practice, though used in exclusively for research objectives and as testing projects up to this moment. The goals of the framework for implementation are therefore as follows:

* To build a basis for companies’ engagement
* To ensure useful and relevant for business measurement of the company's fairness
* To minimize the resources needed for measuring the Index of Fairness
* To provide guidelines for data collection for the Index of Fairness
* To establish recommendations for publishing the Index of Fairness
* To describe the additional services that might be required by the companies

The concept of the Index of Fairness proposes using an online platform that ensures confidentiality of stakeholders’ contact data, created a sample and performs the calculation of the index. The actors for the process are: the researcher, i. e. the external to the organization actor that interacts with the platform and constructs the report based on the data collected, and the manager, i. e. the internal actor responsible for the decision making on the initial phase and the collection of the contact data. In some cases, according to the interviews, it is hard to define a single responsible person, and the information is collected across departments, in this case an internal index owner, or a single contact, is determined.

The stages of the index implementation process are described below.

## Proposition stage

Before approaching the company for the measurement of Index of Fairness, target companies should be identified. Based on interviewing the managers, we assume that measuring the Index of Fairness for SMEs at this stage is not a viable option, due to several reasons. First of all, for smaller companies that we have interviewed (20 and 50 employees), the concept of business ethics and the associated reputational factors seem to be based on personal relationship and not a subject to a statistical analysis. Secondly, for the companies of this scope, measuring stakeholder relationship is more viable through anecdotal evidence, since in most cases the quantity of their stakeholders allows this to be done through regular customer and employee feedback, as well as negotiation processes with suppliers. This, however, is a subject to the limitation we had in our study, since both SMEs interviewed are operating in B2B business, which limits the amount of their customers to a certain amount. Thirdly, the resources available for such evaluations in smaller companies have been identified as scarce in both cases, and the data from our research proves that the demand for ethics assessment is not high enough, since this component of the business does not have the relevance necessary for a separate assessment.

Taking the described factors into account, we believe that the researchers should approach bigger companies, whose size and organizational structure don’t always allow for transparent and visible relationship with stakeholders.

As the second step after identifying the target audience, we propose the researcher to develop a proposition for the companies. The proposition should include the description of the Index of Fairness itself, as well as the description of the platform. Besides that, we believe that the proposition should include a list of possible benefits of the index, such as the assessment of the employer brand factors, the relationship of CSR and financial performance, the possible usage of Index of Fairness in marketing materials, the opportunity to compare the indicator to the industry average, the possibility of competitive positioning through the index etc. This is aimed at clear communication of possible implications and benefits that a company can have from applying the Index of Fairness. As the index is implemented, cases of successful measurements should be described in the proposition as well. The proposition can be general or customized for a particular company, and is then sent to a CSR manager, ethical leader or, if such position doesn’t exist in the company’s organizational structure, to either an HR director or a public relations manager.

## Information gathering and calculation stage

After the company expresses the interest in measuring the Index of Fairness, the second stage begins. The researcher contacts the person identified as the owner of the index in the company. The interaction with the company goes through this person. As the researcher is in this case a service provider for the company, the parties sign a contract. Concluding from the research done, the companies are most interested in a repetitive measurement, therefore the most relevant method of payment identified is a one year trial measurement with a possibility to prolong the contract. The trial period will give an opportunity to evaluate the relevance of the index and to test its reliability, without bearing the concern of disclosing the data that might not be beneficial for companies. One of the important paragraphs should describe the policy for the confidentiality of the contact information, however, the legal issues associated with this factor should be further investigated.

The first step to building the index calculation is identifying the relevant stakeholders. Initially, five stakeholder groups were suggested in the Index of Fairness concept: customers, suppliers, employees, competitors and local community. However, the research has shown that the competitors’ evaluation puts the indicator’s objectivity under risk, therefore we propose to exclude it. Regarding the local community, the identification of the respondents for this stakeholder group require additional resources and frequently cannot be done internally, therefore we propose to survey the representatives of local community for selective industries only. The third stakeholder group that was identified as problematic is suppliers, for IT industry in particular. As a solution for this concern, we propose to gather the data on all the external partners of companies, that are not solemnly clients, instead of suppliers in case of evaluating an IT company.

As the stakeholders are identified, the process of survey guide development for each stakeholder group initiates. There are two main factors to be taken into account: the demand of companies for detailed and thought-through components, and the necessity for across-industry comparability of the index. Based on these two factors, we propose for the surveys to be developed for each industry individually.

When the stakeholder list and the survey guides are agreed upon, the step of gathering the contact information starts. For most companies, notifying the stakeholders about the research is necessary, therefore before the surveying starts, emails to the full lists of stakeholders should be sent with a short description of the evaluation, the goals of the surveying and the possibility that the stakeholder will receive an invitation to fill the survey. For suppliers, customers and employees, the contact information is gathered internally to the company, either from a centralized database or across departments. A function of syncing the online platform database to the business software such as 1C, Oracle or SAP programs is recommended, since it will ensure simple upload of the data and full lists of stakeholder representatives.

When the contact information and the survey guides are uploaded to the platform, the calculation step is done automatically. The platform send out the emails with invitation to fill in the survey, and as soon as enough respondents have done that, calculates the indices for each stakeholder and the weighted average evaluation. As proposed by two of the interviewee, an alternative to evaluating one company at the time is to construct a measurement for several companies that would be sent out simultaneously. That would allow for resource minimization and possibly more detailed comparative data, however, it might violate the results as in this case the respondent is comparing the companies rather than focusing on the relationship with one company.

## Reporting and publishing stage

The next stage after the data is collected by the platform is constructing a report for the company. The researcher analyses the parameters and statistics provided by the online platform, identifies the weak point of the company and provides recommendation for further policies to solve the problems identified. Depending on the issue, it can be marketing or HR tools, new policies or metrics, and even cases of initiatives implemented in other companies. Besides the results for the evaluation and recommendations to be applied, the report should include comparative metrics: the industry, the closest competitors and the companies with similar profiles that were evaluated previously, depending on the possibility for each of the categories.

For the trial period, the company can choose whether to make the final index publicly visible on the online platform or confidential. In case he company chooses to publish its evaluation, only the final evaluation is published, since it would ensure the usage of the index as a CSR measurement by the external parties while at the same time keeping companies’ data confidential and not disclosing its weak points, which is stated by some of the interviewees to be strategically important for companies ready to implement measurement of this kind. Regarding the confidentiality, our data suggests that if given a period to work on the parameters evaluated and improve the indicator, the companies of the target group that we identifies, namely bigger companies, would generally allow the index to be public. Moreover, the interview results suggest that most companies perceive ethical behavior in business as a necessary condition for a long-term sustainable development. Therefore, for the evaluations following the first one, we believe that making the Index of Fairness public will increase its reliability, serve the general awareness regarding the business ethics, increase competition in the area and therefore increase the motivation for companies to act more consciously towards their stakeholders.

The second evaluation after the trial period is made in the period from one quarter to one year. One if the options derived from the analysis of the interview results, is to conduct the ethics research in parallel with any other regular marketing research a company is doing, being it customer satisfaction, employee loyalty or any other research. It will provide opportunity to check for the parameters affecting the stakeholders’ perception of the company’s fairness, which has been indicated as one of the possible benefits for companies’ business.

As a result of the process described, the company receives the report of all the components affecting its perception by the stakeholders, as well as the recommendation for further improvement of its ethics practices and possible initiatives to be implemented. For the consumer, the representative of a company or an external researcher, the online platform would provide average evaluations calculated according to the parameters requested, such as the industry, the region or the size of the company. Our data suggests that those three parameters are the most relevant for the analysis, however, the assumption doesn’t exclude using other characteristics.

The described process results in a repetitive, independent from the company’s insiders evaluation, that can be shown on the index online platform, as well as used for company’s business objectives. The platform represents a source of information for companies, as well as consumers, serves the awareness of business ethics and creates a basis for further analysis and research.

The visual representation of the process of implementation for the Index of Fairness is presented in the form of a flowchart, with identification of the necessary documents and data. The three phases of the process are color-coded.



Figure 2. Process for implementation of the Index of Fairness

# Chapter 5. Discussion and conclusions

## Main Findings

The goal of this research was to develop a process for implementation of Index of Fairness, that would enable business to use the measurement for assessing their ethical behavior, managing the relationship with stakeholders and track the dynamics. In order to fulfil this goal, we formulated three main research questions that we answered through interviewing expert representatives from various companies:

* How can a company benefit from implementing CSR measurement?
* What needs are associated with the implementation of CSR measurement in an organization?
* What concerns can prevent the company from measuring their CSR activities and ethical behavior?

The textual data collected was coded into general categories and associated concepts. The data was analyzed using five step analysis: Compiling, Disassembling, Reassembling, Interpreting and Concluding. This analysis resulted in a description of identified differences and similarities among companies of different scopes and profiles, patterns and common features were determined. The analysis outcomes, citations and conclusions are presented in Chapter 3. Based on the conclusions derived from the data, we have identified the goals, actors and stages of implementing the Index of Fairness in companies. The general process for implementation of the index, its actors, phases description and proposed steps are presented in Chapter 4. The process is aimed at building the interest for measuring CSR and business ethics in companies, ensuring an easy and safe data collection and evaluation processes and providing companies with relevant and useful information, as well as tools for strategic development of stakeholder relationship and solution propositions. The general framework needs to be tested and further developed in more details according to the future research, in various areas such as HR management, technological solutions suitable for the objectives stated, legal issues of data confidentiality etc.

The measurement itself is unique in a way that it provides an external evaluation of CSR activities of a company, while having a potential of serving business objectives. Index of Fairness, if successfully adopted by a critical mass of companies, can increase awareness of business ethics in the community, serve a motivation for companies to behave in a more fair way, as well as provide material for academic research in the corporate social responsibility field. However, due to such factors as the sensitivity of ethical behavior information, the amount of potential respondents, the competitive positioning etc., the Index of Fairness represents a tool that requires careful examination and detailed implementation techniques. We believe that the process proposed in the present work can ensure the mutual usefulness of the measurement and enable companies to successfully evaluate their ethical behavior, implement fair practices and develop the relations with stakeholders.

## Theoretical contribution

In order to identify the benefits, needs and concerns of companies for constructing the process for implementation of CSR measurement, we have collected evidence from 8 companies regarding all the three categories mentioned. For the collected data and the analysis executed, there are several theoretical implications to be mentioned.

First of all, the data itself can be used in future research of the constructs, as well as any research related to the attitude of companies towards CSR measurement. The quotes presented are evidence of various factors and issues to be further examined. The coding of data enabled us to create a list of concepts for each of the major categories mentioned. These concepts belong to various areas of research in the management field. The data of the present work provides a viable basis for examination of the concepts in more details.

Secondly, we have provided an evidence of an interest of companies in CSR measurements, as well as a description of similarities and common patterns in needs and concerns regarding implementing CSR measurements in business. The constructs described in the present research can be used as framework basis for CSR discourse, especially in the context of companies operating in Russia.

Thirdly, we have identified the patterns and the similarities in the attitudes of companies towards CSR measurements. With further mentioned limitations, we can conclude that examination of two directions regarding the CSR attitudes and practices is necessary: the correlation of attitude and country of origin, or a comparison of Russian and non-Russian companies, and an examination of SMEs in CSR in particular. Though the concept of corporate social responsibility might be misleading in the sense that it is traditionally applied to corporations and big enterprises, the ethics of business is a factor that is present in any company’s operations.

While providing a wide basis for future research, our study has its significant limitations, and the nature of qualitative data in itself represents a limitation for usage as a secondary data for academic research proposes.

## Managerial implications

Due to the practical focus of our research, the resulting stages for implementation of CSR index, the steps to be taken, the actors and documents identified represent the managerial implication themselves. Though we acknowledge that the process described is a general one, and the usage of it especially on the early stages will require a series of tests, further detalization according to the companies of interest and technical and legal conditions, it represents a framework that can serve as a basic tool for further managerial work. The process implies the formulation of benefits for the business in measuring CSR, and responds to the identified needs and concerns of the implementation of such measurement. As the data for the three concepts was examined closely, and the particular components were prioritized in according to, first, the amount of respondents mentioning the components, and secondly, the importance and relevance that was assumed for the components by the interviewees, the final process developed in the study is adjusted in a way as to be possible for using for companies of different profiles, in accordance to the goals of the study.

## Limitations and directions for future research

The research presented in the paper is of a general nature with a practical implication focus, which causes a set of limitations necessary to mention.

First of all, the methodology of the research, while being suitable for formulation of unexplored concepts and insights, causes a limitation for generalization. Qualitative textual data collected provides evidence into the real-life situation in companies and helps identifying such constructs as overall attitude towards business ethics, benefits that companies seek in assessing their relationship with stakeholders, needs and concerns that are associated with measuring the fairness of companies. While the insights derived from the interview results can present a basis for conclusions, we find it necessary to underline that these conclusions cannot be generalized with confidence, therefore further research of quantitative nature in order to investigate the matters more in-depth are necessary.

Secondly, the sample compiled presents another limitation for generalization. The companies interviewed are of various sizes and operate in various industries, however, they are all present in Saint Petersburg, and the interviewees are all representatives of this region. Therefore, a possibility of regional cultural bias should be considered. While we believe that the evidence present can be generalized to other regions of the country, we assume that a significant difference will be present if the same research were to be conducted in other countries. Besides that, only one out of seven companies interviewed operates in a pure b2c business. Since one of the main concepts of our research is the stakeholder theory, we believe that the difference between a direct interaction with the end consumer and the operations in b2b industries should be taken into account, especially in the evidence related to such factors as contact information confidentiality, the usage of the index in marketing and sales and overall benefits that are relevant for companies from measuring the fairness. We believe that a further research of b2c companies should be conducted, and the process presented in Chapter 4 for the implementation of Index of Fairness can possibly be adjusted to the peculiarities of b2c business based on the results of the potential study.

Based on the research design, we believe that it is necessary to underline the importance of personal bias in interviewing. The respondents chosen were the experts in the field, either CSR or ethics managers, or public relations and human resource managers for bigger companies, and executive directors for smaller companies. While in the second case, the overall attitude towards the measurement was mostly related to the nature of business, and can be generally characterized as more critical, for the case of bigger companies it was not the case in most interviews. While we believe that the experts can provide a general image of the company correctly, we must account for the bias towards assessing CSR in respondents for whom it represents their professional field, since it naturally is their area of interest. Therefore, we believe that the overall demand for the measurement requires further investigation.

Lastly, the focus of the research was to provide an overarching situation description, therefore it included an extensive set of concepts, factors and components. We have looked in such various fields as employer brand strategy and its relations to business ethics, influence of CSR on marketing, sales and financial indicators, confidentiality of information on various levels, organizational structure of companies etc. The scope of our work and the time and methodology limitations prevented a more detailed analysis of the aforementioned factors, since it requires a set of cross-discipline analysis. In general, we perceive the present study as one of the consecutive works in a bigger research aiming at building a CSR measurement based on stakeholder fairness perception. Therefore, the evidence presented in the present research can be considered the components that we identify as the directions for future detailed investigation.

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