



EKA University of Applied Science

Velga Vevere, Anna Svirina

**BUSINESS ETHICS
AND CORPORATE
SOCIAL
RESPONSIBILITY**

EKA UNIVERSITY OF APPLIED SCIENCE

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PREFACE

This book is developed within the framework of the International project „Online Master Programme for Circular Economy (CIRCECO)”. Project coordinator – European University – Skopje (R. of Macedonia), project partners – Zelena Infrastruktura, Green Infrastructure Ltd. (Croatia), Fakulteta za komercialne in poslovne vede (Slovenia) YES Foundation (Macedonia) and The University of Economics and Culture (Latvia). Project period – December 2017 – January 2020. CIRCECO is financed and supported by the European Commission, Erasmus + Programme, Key Action 2 – Strategic Partnership (grant agreement No. 2017-1-MK01-KA203-035392).

CIRCECO project’s specific goals are as follows:

- Circular Economy joint research – conducted in collaboration with participants from the business sector, researchers, experts, professionals and students in order to analyse economic indicators and potential benefits and risks of transitioning from linear to circular economy.
- Support and implement models for effective and practical learning through raising awareness and inspiring students to rethink the economic future from the viewpoint of circular economy; establish innovative educational practices and training platforms so as to speed up the transition from linear to circular economy; provide the latest information, insights, and views implemented in the Master Study Program for circular economy needed to accelerate the transition; foster innovation, creativity and entrepreneurial skills.
- The support and development of innovative business models focused on a renewable and self-sustainable economy, and employ innovations resulting from the circular economy and the cooperation with the business sector; implementation of a comprehensive business initiative for circular economy and support throughout the implementation stage; strengthening the knowledge-transfer infrastructure.
- Creating an Online platform, enabling the setting up and implementation of an on-line study programme, allowing students and staff to log in, upload and download learning materials, forum discussions, as well as providing an option for live consultations and lectures.
- Promoting the benefits of the innovative Online Master Study Programme for Circular Economy and raising awareness through relevant electronic and press media, in order to inform about the latest findings, reports and achievements in the field of circular economy and exchanging views of all interested parties.
- Increased awareness in the importance of circular economy, not only among the business sector, but for the wider audience as well.

The main goal of this book is to increase students' awareness about the role of Corporate Social Responsibility (CSR) in modern business environment, the significance of ethical decisions, and the impact of socially responsible business on society.

This book will help students to be acquainted with the terms and concepts around CSR and Business Ethics (BE), to understand the role of CSR in corporate governance and strategic management processes, as well as to generate ideas about their own research in CSR- or BE-related field.

The book "Business Ethics and Corporate Social Responsibility" consists of 12 chapters. Its structure was used as a basis for developing an online course with the same title within the framework of the project. The questions for individual studies at the end of each chapter will help students to systematize knowledge and to fulfil the tasks within the course.

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INTRODUCTION

Corporate social responsibility appears to be a rapidly developing topic over the past 40 years, which started with the debate raised by Austrian economic school representatives on whether an enterprise needs to have any social responsibility beyond paying salary (to provide employees living), taxes (to ensure government with the money to implement social projects) and dividends (to improve investors' well-being). Yet the mainstream research in corporate social responsibility indicated that participation in such activities leads to increased profits and better interaction with major enterprises' stakeholders.

Currently the majority of researchers agree that classical capitalism is unable to resolve social problems, so enterprises need to step in to improve well-being and correspondingly develop their image. Scholars have realized that Corporate Social Responsibility had changed corporate governance practices and led to realization of double goals achieved by corporations. This increased interest from the practitioners' side enhanced research in the field and led to incorporating the ideas of corporate social responsibility into management curricula in business schools worldwide.

At the current moment, corporate social responsibility was followed by an even more challenging concept, sustainable development. This concept required fulfilment of social, economic and environmental goals as a holistic result of organization's functioning and development.

Another important concept, related to corporate social responsibility, is business ethics. This one is becoming more and more popular among both scholars and practitioners with development of technology. Both Corporate Social Responsibility and Business Ethics concepts are well developed in existing literature, yet the difference between the two is not always defined to a final extent – moreover, both concepts seem to overlap. Though the two are not controversial, it seems necessary to draw the line in order to ensure more efficient managerial decisions by understanding whether Corporate Social Responsibility or business ethics related concepts are more relevant in the certain situation.

The above-mentioned concepts became the core issue of this book. We are aiming to explore the ideas of Corporate Social Responsibility and Business Ethics, to define their interactions and differences, and thus develop holistic understanding of the concept.

CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

Broadly defining the concept of Corporate Social Responsibility (CSR) we can state that it denotes the three-valent relation between employees, businesses and the state, or, in other words – the social partnership. In general, there are three models of CSR.

The first model (Belgium, the Netherlands, Finland, Sweden) — is characterized by active participation of the state on all levels – from the national to the individual. The crucial role is assigned to legal actions in the field of social protection of the population is employed to fight unemployment: reducing employee turnover, job creation, the implementation of regional social business projects. State agencies and local governments play an active role in the development of CSR. The second model (the U.S.A., Canada, Japan, Latin America, English-speaking Africa) – presupposes mostly the regulation on the enterprise level. The role of government in this case almost exclusively lies in the adoption of the relevant laws and regulations, guidelines and requirements. In the U.S.A. and Canada, for instance, the associations of entrepreneurs prefer not to interfere in the process of social and labour relations in the enterprise, but are actively involved in the legislative and political activities. Whereas the third model (Austria, Germany, France, partly UK) combines the features of the two previous versions. Namely, along with typically European attention of the state and society to the social activities of the organizations, there are elements of social programmes initiated by private companies (Madrakhimova, 2013).

The current processes of globalization and internationalization of business require coming to more or less common understanding of the concept of CSR and its application. One of such attempts is to be found in the European Commission's Green Paper (2001). We will turn to this document at the end of this chapter, still prior to this it could be worth to make a short detour in the historical development of the notion of CSR.

A special stress here is put on the adjective 'theoretical', since certain manifestations of social responsibility can be found much earlier – in the **18th century** in Adam Smith's seminal work *An Enquiry into the Nature and Causes of The Wealth of Nations* in which he stated that the needs and desire of the society could best be met by the free interaction of individuals and organizations in the marketplace. At the same time, he also recognized the role of honesty on the part of all parties involved (Smith, 1981). In the actual business practices, CSR can be found when Cadbury chocolate maker family introduced a social responsibility practice for the benefit of its workforce which included the medical department, pension fund education and employee training (Frank *et al.*, 2004). By the **early 19th century** industrialization and technological development led to the creation of new job opportunities and improvement of living standards. Hence, the focus of CSR activities was switched to protecting the environment, selling nutritious products and advocating healthy lifestyles, ensuring a safe and healthy workforce (Tripathi & Bains, 2013). The **beginning of the 20th century** marked the formation of the trade unions and

governments began to assume more responsibility for welfare and infrastructure, gradually introducing anti-trust legislation.

Historians of Corporate Social Responsibility generally agree that the concept of CSR itself emerged in the **1930s and 1940s**, but was it defined in **1953** with the publication of a book by Howard Bowen *Social Responsibility of Businessman* (Bowen, 1953). The main question in this book is the one that has not lost its urgency even today is: What responsibilities to society may businesspeople reasonably be expected to assume? He set forth an initial definition of the social responsibilities of businessmen as follows: CSR refers to 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 (Ibid.).

The late 1950s and 1960s saw a shift in attitudes towards government and business, numerous legislative acts were passed to protect consumer rights (Lee, 2008). The main topics that can be characterized as socially responsible were philanthropy, employee living and working condition improvement, customer relations, and stockholder relations.

In the late 1970s both the Organization of Economic Cooperation and Development (OECD), and the United Nations Centre on Transnational Corporations (UNCTC) began developing codes of conduct in an attempt to control different aspects of corporate globalization. The OECD *Guidelines for Multinational Enterprises* (OECD, 2011) included such aspects as accounting, tax payments, and operating in accordance with local laws.

The time period of the **1970s and 1980s** was characterized as an issues era, where companies began noticing specific societal, environmental and community concerns (Drucker, 1984). This caused the necessity of new empirical research in the field and development of new complementary concepts like as corporate social responsiveness, corporate social performance, public policy, business ethics, and stakeholder theory/management.

The 1990s marks the beginnings of the era of globalization, the collapse of the Soviet Union and the end of the Cold War, IT revolution and so on. Corporations considered relocating their operations in other business-friendly countries, that is, countries with lower environmental and social standards, and “looser” legislation (permitting child labour, longer working hours). Let us mention just one telltale example: the Nike company has been accused of using sweatshops producing goods in South Korea, Mainland China, and Taiwan, as well as employing children labour (up to 18 hours daily). Since then, the company has developed its social responsibility strategy, has paid attention to the sustainability issues, worked out the corporate codes of conduct (Nike, 2017). At the same time, this period witnessed some key developments such as the formation of the World Business Council for Sustainable Development, and the United Nations Global Compact (Simon *et al.*, 2011). In the field of theory the most significant proposal came in 1991, when a famous researcher Carroll redeveloped his framework of Corporate Social Responsibility and divided it into four levels in the form of a pyramid, which are: economic, legal, ethical and

philanthropic responsibility (Carroll, 1991). According to him, the firm should strive to make profit, obey the law, be ethical and be a good corporate citizen. In addition to that, the concept of the Triple Bottom Line (TBL) was developed that included three elements: profit, people, and planet (Savitz, 2014). The attention towards CSR has ever grown since 2000s and onwards, we can mention such initiatives as the Global Reporting Initiative (GRI), the UN Global Compact, the Principles for Responsible Investment (PRI), the redrafted Organization of Economic Cooperation and Development (OECD) guidelines for multinational enterprises, related to human rights and conditions for workers in factories in developing countries. The main themes compatible with CSR were the following: corporate social performance, business ethics, sustainability, and corporate citizenship.

Since the first decade of the 21st century some new initiatives have flourished among them the Corporate Responsibility Index (CRI); the Sustainability Index (SI); the Corruption Perception Index (CPI), etc. – tools that enable companies to effectively measure, monitor, report and improve their impacts on society and the environment. Another important aspect concerns the stakeholder involvement as it enables a shared understanding of the impact on industry operations with its stakeholders and the company. Schwartz and Carroll (2003) presented a three-domain approach to corporate social responsibility. The three-domain approach took Carroll’s above mentioned four categories of CSR and reduced them to three: economic, legal, and ethical. The major book on the business practices of CSR was published by P. Kotler and N. Lee (2005). The authors set out to demonstrate how the CSR approach establishes a new way of doing business that combines the success and the creation of value with a respectful and proactive attitude towards stakeholders. All the practices are were divides in six types of social initiatives: (1) cause promotion (increasing awareness and concern for social causes); (2) cause-related marketing; (3) corporate social marketing (behaviour change initiatives); (4) corporate philanthropy (contributing directly to causes); (5) community volunteering (employees donating time and talents to the community); and (6) socially responsible business practices (discretionary practices and investment to support causes). The main advantage of the given division lies in the fact that it takes into account both corporate and societal interests, that is, includes the corporate governance perspective (corporate image, corporate reputation, etc.). Table 1.1 summarizes the historical development of the CSR concept.

Table 1.1. Historical development of the theoretical concept of CSR (Source: Author’s according to Carroll *et al.*, 2018; Tripathi & Bains, 2013)

Years	Concepts and problems related to CSR
1950s	Accent on large businesses and managerial responsibilities; corporate managers as public trustees; the idea of balancing competing claims to corporate resources; the acceptance of philanthropy as a manifestation of business support for good causes
1960s	Consumer rights; criticism of corporatism; relationship between corporation and society; legislation, philanthropy, working conditions; personnel policies; customer relations; stockholder relations

1970s	Minority hiring; ecology (concern for environment); minority training; contributions to education; contributions to the arts; urban renewal; civil rights; corporate social performance; managerial approach; codes of conduct
1980s	Corporate social responsiveness, corporate social performance; public policy, business ethics, stakeholders' theory
1990s	Globalization; IT revolution; end of Cold War; environmental issues; role of NGOs; Global Reporting Initiative; Global Compact; Principles for Responsible Investment; corporate citizenship; sustainability
21st century	Tri-dimension model of CSR (reduction of four-level CSR pyramid); CSR as a way of doing business; 6 types of CSR; sustainability

Still, there is still no consensus on the definition for CSR (Dahlsrud, 2008). On various occasions, the notion of CSR has been used as a synonym for business ethics, associated solely with corporate philanthropy and/or related to environmental policy. Therefore, we propose, for the sake of learning, to stick to the explanation given in the European Commission's *Green Paper: Promoting a European Framework for Corporate Social Responsibility* of 2001. It describes CSR "as a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on voluntary basis" (COM, 2001). The definition stresses the main points, that CSR involves social and environmental issues of business strategies, and it is based on the principle of voluntarism. In addition, the definition stresses the role of the internal and external stakeholders and the respective issues, such as investing in human capital, health and safety, change management, corporate image and reputation, financial accountability, environmental safety, etc. In sum, we can say that the Green Paper strives to answer four main questions: (1) What is the role of CSR in corporate business strategies? (2) What are the best ways to establish and develop a process of structured dialogue between companies and their various stakeholders? (3) What should be the respective roles of the main actors? (4) What are the best means to develop, evaluate and ensure the effectiveness and reliability of CSR instruments?

Yet another aspect to be mentioned here is the one of the corporate social performance, that is, the ways how corporations react to the societal demands. Donna J. Wood (1991) admits that the basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes. When all three phenomena (institutional, organizational, and individual) are being distinguished, it is possible to stress the performative aspect of CSR.

The author proposes the following scheme: principles of corporate social responsibility comprise legitimacy (the institutional principle); public responsibility (the organizational principle); managerial discretion (the individual principle). This allows to identify specific channels through which the corporation interact with society, as well as socially responsible management practices.

The impact of CSR on the company competitiveness has been researched by M. Porter and M. Kramer in their article *The Competitive Advantage of Corporate Philanthropy* (2006). According to them, companies can use their social responsible practices to improve their competitive context (the quality of the local business environment) and long-term business prospects. According to them, the company's competitive context consists of four interrelated elements: factor conditions or the available inputs of production; demand conditions; the context for strategy and rivalry; and related and supporting industries. Identification of these factors show the realms, where the business and societal interests overlap, this allows for more context-focused approach, and hence – the increased competitiveness.

The similar problem is being brought about also by R. Dobrea and A. Gaman in their article *Aspects of the correlation between corporate social responsibility and competitiveness of organization* (2011). Summarizing vast amount of literature on the subject the authors have pinpointed three main approaches to CSR. (1) Addressing CSR as an obligation to the shareholders, activities designed to increase its profits so long as it stays within the rules of the game. This entails that maximizing profits for shareholders is the central concern of any organization, while socially responsible activities and initiatives are not the companies' concerns. (2) Addressing CSR as an obligation to all stakeholders in their diversity (interests of different social groups, directly or indirectly affected by the company activities). (3) Addressing CSR as an obligation to society as a whole. The authors find a positive correlation between corporate social responsibility and microeconomic competitiveness that leads to better economic performance. Although the main goal of the company is a profit production, their overall success in the contemporary business environment also depends on the compliance with its obligations to the stakeholders, social welfare and environmental protection. De Sousa Filho and others (2010) address the question of strategic CSR management. In their opinion, there are three types of social investment (altruistic, selfish and strategic); the strategic investment, in particular, creates better results for companies that try to simultaneously achieve the maximization of both profit and positive advantages to the society and local community. Besides that, the strategic management entails additional benefits for the company – enhanced reputation, positive image, attraction of well-qualified staff, differentiation of products, etc. It is mandatory that all these activities should be aligned with the corporate values and strategies.

All these approaches, however different, seek create and exploit win – win situations for enterprises and for society at large. CSR is increasingly recognized as being about having good business practices and its impacts are seen as contributing to an organization's reputation and performance. The latter is becoming more and more important as the value of business becomes more and more reliant on intangible elements. Despite the wide spectrum of approaches to CSR, there is general consensus on its main features:

- CSR is corporate behaviour that exceeds the solely legal requirements,
- CSR is a voluntarily adopted socially responsible business practice,

- CSR is intrinsically linked to the concept of sustainable development: businesses need to integrate the economic, social and environmental impact in their operations,
- CSR is not an optional addition to the core business activities, but rather – the fundamental way, how the things are done taking into account individual and societal interests, as well as concern for environmental issues.

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. What is your definition of Corporate Social Responsibility?
2. What is the main difference between the last century's CSR definitions and modern definitions of the concept?
3. What is common in all the definitions of CSR proposed by different researchers and organizations?

ELEMENTS AND DIMENSIONS OF CORPORATE SOCIAL RESPONSIBILITY

After reflecting on the historical developments and contemporary interpretations of the concept of CSR the point has been reached where the structure of the phenomenon in question, that is, its dimensions and/ or elements have to be discussed. Traditionally, companies have had one responsibility: to make a profit. But the concept of corporate social responsibility holds that companies should be responsible to more than just their owners. Corporate social responsibility holds that there are multiple dimensions that should affect a company's actions, although it is important to note that these dimensions can vary from industry to industry and they are dependent on conceptions of the CSR itself. Thus, in general, the various theories of CSR could be classified in four groups: *instrumental theories*, *political theories*, *integrative theories* and *ethical theories* (Garriga & Melé, 2004). Based on these theories, CSR is perceived as a consequence of how the relationship between business and society is understood (Table 2.1).

Table 2.1. Theories and issues in CSR (Author's according to Garriga & Mele, 2004)

Theories of CSR	Issues of CSR
<p>Instrumental theories, in which the corporation is seen only as an instrument of wealth creation, and its social activities as a tool to achieve economic results; increasing profit is the only social responsibility of business</p>	<p>Maximization of shareholder value as the supreme criterion for evaluating specific corporate social activities Social investments in a competitive context Natural resource-based view of the firm and dynamic capabilities. This approach maintains that the ability of a firm to perform better than its competitors depends on the unique interplay of human, organizational, and physical resources over time Disruptive innovation - products or services that do not have the same capabilities and qualities as those being used by customers in the mainstream markets and thus can be introduced only for new or less demanding applications among non-traditional customers, with low-cost production and adapted to local needs Cause related marketing, aimed principally at boosting company revenues and sales or enhancing customer relationships by associating the brand with the ethical or social responsibility dimension</p>
<p>Political theories in which the social power of corporation is emphasized, specifically in its relationship with society and its responsibility in the political arena associated with this power. This leads the</p>	<p>Corporate constitutionalism – business is a social institution and it must use power responsibly; the equation of social power responsibility has to be understood through the functional role of business and managers Integrative social contract theory - takes into account the socio-cultural context and also to integrate empirical and normative aspects of management. Social responsibilities come from consent on two levels: a theoretical macrosocial contract appealing to all rational contractors, and a real microsocial contract by members of numerous localized communities</p>

<p>corporation to accept social duties and rights or participate in certain social cooperation</p>	<p>Corporate citizenship theories and approaches on ‘corporate citizenship’ are focused on rights, responsibilities and possible partnerships of business in society</p>
<p>Integrative theories which consider that business ought to integrate social demands. They usually argue that business depends on society for its continuity and growth and even for the existence of business itself</p>	<p>Issues management. In this approach it is crucial to consider the gap between what the organization’s relevant publics expect its performance to be and the organization’s actual performance Principle of public responsibility. According to this view, if business adhered to the standards of performance in law and the existing public policy process, then it would be judged acceptably responsive in terms of social expectations Stakeholder management is oriented towards ‘stakeholders’ or people who affect or are affected by corporate policies and practices. Stakeholder management tries to integrate groups with a stake in the firm into managerial decision making Corporate social performance includes a search for social legitimacy, with processes for giving appropriate responses: environmental assessment, stakeholder management and issues management, and outcomes of corporate behaviour including social impacts, social programmes and social policies</p>
<p>Ethical theories understand that the relationship between business and society is embedded with ethical values. This leads to a vision of CSR from an ethical perspective and as a consequence, firms ought to accept social responsibilities as an ethical obligation above any other consideration</p>	<p>Normative stakeholder theory. Following this theory, a socially responsible firm requires simultaneous attention to the legitimate interests of all appropriate stakeholders and has to balance such a multiplicity of interests and not only the interests of the firm’s stockholders Human-rights-based approaches for corporate responsibility have been proposed. One of them is the UN Global Compact, which includes nine principles in the areas of human rights, labour and the environment Corporate sustainability is a custom-made process and each organization should choose its own specific ambition and approach regarding corporate sustainability. This should meet the organization’s aims and intentions, and be aligned with the organization strategy, as an appropriate response to the circumstances in which the organization operate The common good approach holds the common good of society as the referential value for CSR. This approach maintains that business, as with any other social group or individual in society, has to contribute to the common good, because it is a part of society</p>

In general, in all theories of CSR, discussed above, there are three main focal aspects: (1) meeting objectives that produce long-term profits, (2) using business power in a responsible way, (3) integrating social demand.

Carroll (1991) suggests that the social responsibility of an organization can be divided into four components: economic, legal, ethical, and philanthropic responsibilities. The four components could be depicted as a pyramid. The lower level of the pyramid

consists of the **economic responsibilities**, that is business affairs (profit making) in each given society. Companies should be motivated by profit and put the company's business in hand of consumers, investors and other stakeholders. Enterprises are aware that their survival in today's market depends on sacrifice short-term profits due to the positive effects in the future, which satisfy the owners and managers, not just as they used to maximize profits. Still, the customer's satisfaction and loyalty, as well as fair employee treatment are important factors (Gonzalez-Rodriguez, 2015). This dimension provides the economic indicators on the direct and indirect economic impact on communities through spending power and economic impact through business process; outsourcing, knowledge, innovation, social investments in employees and consumers; and taxes, tax incentives, wages, pensions and other benefits paid to employees. At the same time, rules and regulations are set for the business to operate within certain limits. Meeting these rules constitutes **the legal responsibilities** of the business. Legal dimension of CSR entails the compliance to the legal requirements and regulations. Many ethical and economic issues go to court or legislative debates, since the legislative acts set rules for responsible businesses activities. The legislative acts can be divided into laws that regulate competition, consumer protection laws, environmental laws and laws that promote safety and fairness. Nevertheless, these acts do not cover the full range of business responsibility towards the society. It happens for particular reasons: (1) laws can't cover all possible issues and topics that have arisen and will arise in business transactions (for example, privacy issues in digital marketing, genetically modified foods, etc.); (2) the laws often act belatedly in relation to new developments; (3) there is always possibility of the personal interests and political motivation behind the certain legislative acts (Carroll *et al.*, 2018). The third layer of the pyramid comprises the **ethical responsibilities**. Ethical dimension of CSR refers to behaviours and activities that are permitted or prohibited by organization members, community, society, even if they are not codified by law. Due to the fact that the laws are the essential, but often not sufficient aspect, the ethical dimension adds the missing value and normativity aspects. Ethical responsibilities embody the full scope of norms, standards, values, and expectations that reflect what consumers, employees, shareholders, and the community regard as fair, just, and consistent with respect for or protection of stakeholders' moral rights. **Philanthropic responsibilities** reflect current expectations of business by the public. The nature of these activities are voluntary or discretionary, guided only by business's desire to engage in social activities that are not mandated, not required by law, and not generally expected of business in an ethical sense. Such activities might include corporate giving, product and service donations, employee volunteerism, community development, and any other kind of voluntary use of the organization's resources and its employees with the community or other stakeholders. In sum, we can conclude that, first, the philanthropic dimension improves quality of live. Second, these responsibilities reduce the size of government involvement in charity offering help to people with legitimate needs. Third, the philanthropic responsibilities increase the staff leadership ability. Fourthly, the philanthropic dimension builds the staff moral principles. All four dimensions of this model can be summarized in the following table (Table 2.2).

Table 2.2. Understanding the Four Components of CSR (Source: Carroll *et al.*, 2018)

Type of Responsibility	Societal Expectation	Explanations
Economic responsibility	REQUIRED of business by society	Be profitable. Maximize sales, minimize costs. Make sound strategic decisions. Be attentive to dividend policy. Provide investors with adequate and attractive returns on their investments
Legal responsibility	REQUIRED of business by society	Obey all laws, adhere to all regulations. Environmental and consumer laws. Laws protecting employees. Fulfil all contractual obligations. Honour warranties and guarantees.
Ethical responsibility	EXPECTED of business by society	Obey all laws, adhere to all regulations. Environmental and consumer laws. Laws protecting employees. Fulfil all contractual obligations. Honour warranties and guarantees
Philanthropic responsibility	DESIRED/EXPECTED of business by society	Be a good corporate citizen. Give back. Make corporate contributions. Provide programmes supporting community—education, health or human services, culture and arts, and civic. Provide for community betterment. Engage in volunteerism

The four-part definition of CSR provides the structure or framework within which to identify and situate the different expectations that society has of business.

Criticism of Carroll’s pyramid. A number of scholars have criticized the classical Carroll’s model due to its obsolescence and lack of important aspects. Thus, Crane and others (2004) argue the model does not address conflicting obligations and how culture manifests itself. Different responsibilities play a different role in various countries due to religious and historic traditions Visser (2006), on his turn, applied Carroll’s model to the African context and noted that, just like in the European case, different layers of the model had varying significance. The main criticism regards the fact that the model lacks descriptive clarity. Carroll justified his hierarchy of responsibilities as an order of dependence and his empirical evidence implies yet another rationale, namely that it reflects the relative perceived importance assigned by managers. Quite similar criticism, i.e., regarding the hierarchical structure, is exercised by Baden (2016), who suggested a different ranking of the dimensions due to the increasing role business plays in the society (ethical, legal, economic and philanthropic responsibilities). At the same time Nalband and Kelabi (2014) suggests that Carroll was trying to establish an umbrella concept for the relationship between business and society, as the result he missed the recent developments in the field of sustainability that integrates the social, economic and environmental aspects. Despite this criticism, we can conclude that all misgivings of the model is due to the changing

economical environment, rather than the deficiency of the model itself. In what follows we will discuss several more models of CSR.

Five-dimensional conceptual model. In the recent research literature, there are described two new dimensions: volunteering dimension and stakeholder dimension, in addition to the economic, social and environmental ones (Arsic *et al.*, 2017; Dahlsrud, 2008; Slack, 2013). These five dimensions can be characterized in the following way. **The economic dimension** refers to the fact that companies should be motivated by profit and put the company's business in hand of consumers, investors and other stakeholders. **The social dimension** means being accountable for the social effects the company has on people - even indirectly. The basic objective of social dimension is that corporations should work for building up a better society as a whole and integrate social concerns in their business operations and consider the full scope of their impacts on communities. The company reports about CSR indicators is a current topic in recent years in the world and a growing number of researchers are dealing with this matter. Responsibility for employees, their needs and state of health is another important factor of this dimension, as well as the value which is generated through the activities of the CSR. **The stakeholder dimension** designates the need of companies to take responsibility for wider group of direct and indirect collaborators. They must take in account the whole supply chain and establish such level of collaboration that all unsustainable or socially irresponsible practices are detected and prevented. **The environmental dimension** means that business strategies should consider environmental protection and also investments in CSR and environmental reporting should be above mandatory (Wagner *et al.*, 2002; Kolk, 2016) despite the fact that the interests of different groups regarding environmental CSR are with significant level of variation. **The voluntariness dimension** means overcoming the minimum of prescribed standards related to product quality or safety, community support, support to charitable institutions, support to employees in social projects engagement through volunteering and establish corporate foundations.

Ten-dimensional conceptual model. Summing up different models and interpretations, Rahman (2011) creates a scale of ten most important dimensions of the CSR in the 21st century. The 21st century is the era of the CSR industry: corporations either have special CSR departments or they are outsourcing. Universities are holding CSR conferences and researcher are contributing to the new literature in the CSR field; there are publishers, who are printing CSR related books and journals; there are journalists, who are reporting on CSR issues in the newspapers. Currently the main dimensions are the following: (1) obligations to the society; (2) stakeholder involvement; (3) improving the quality of life; (4) economic development; (5) ethical business practice; (6) compliance to the law; (7) voluntariness; (8) human rights; (9) protection of environment; (10) transparency & accountability. Most of the dimensions have been discussed above, it is important to stress the importance of the latter aspect, that is, the one of transparency: the publication of significant results of the audit office, informing interested groups on the social impact, or social and environmental risk generated by the organization, offering information in the manner and through the appropriate and accessible channels, so that organizations ensure that their partners know and understand the

social impact caused by them and are therefore able to defend their rights and make informed decisions.

Commission of European Communities Green Paper *Promoting a European framework for Corporate Social Responsibility* (COM, 2001) is the policy document that delineates specific (internal and external) aspects of CSR. CSR extends beyond the corporation and involves a wide range of stakeholders in addition to employees and shareholders: business partners and suppliers, customers, public authorities and NGOs representing local communities, as well as the environment. The internal and external dimensions according to this document have been summarised in the table (Table 2.3).

Table 2.3. Internal and external dimensions of CSR (Source: COM, 2001)

Internal dimensions of CSR	
Human resource management	<p>Lifelong learning, empowerment of employees, better information throughout the company, better balance between work, family, and leisure, greater work force diversity, equal pay and career prospects for women, profit sharing and share ownership schemes, and concern for employability as well as job security</p> <p>Responsible recruitment practices, involving in particular non-discriminatory practices, could facilitate the recruitment of people from ethnic minorities, older workers, women and the long-term unemployed and people at disadvantage</p> <p>Contributing to a better definition of training needs through close partnership with local actors who design education and training programmes; supporting the transition from school to work for young people, for example by providing apprenticeship places; valuing learning, in particular in the Accreditation of Prior and Experiential Learning (APEL); and providing an environment which encourages lifelong learning by all employees</p>
Health and safety at work	<p>The trend of outsourcing work to contractors and suppliers makes companies more dependent on the safety and health performance of their contractors, especially those who are working within their own premises</p> <p>Additional ways of promoting health and safety, by using them as a criteria in procuring products and services from other companies and as a marketing element for promoting their products or services</p> <p>Occupational safety and health criteria have been included to varying degrees into existing certification schemes and labelling schemes for products and equipment.</p>
Adaptation to change	<p>Restructuring in a socially responsible manner means to balance and take into consideration the interests and concerns of all those who are affected by the changes and decisions</p> <p>This process should seek to safeguard employees' rights and enable them to undergo vocational retraining where necessary, to modernise production tools and processes in order to develop onsite activities, to mobilise public and private financing and to establish procedures for information, dialogue, cooperation and partnership</p>

	By engaging in local development and active labour market strategies through involvement in local employment and/or social inclusion partnerships, companies can lessen the social and local impact of large scale restructuring
Management of environmental impacts and natural resources	<p>Reducing the consumption of resources or reducing polluting emissions and waste</p> <p>Integrated Product Policy (IPP) is founded on the consideration of products' impacts throughout their life cycle, and involves business and other stakeholders in dialogue to find the most cost-effective approach</p> <p>Opportunities associated with improved environmental performance. The European Eco-Efficiency Initiative (EEEI), an initiative of the World Business Council for Sustainable Development and the European Partners for the Environment in partnership with the European Commission</p>
External dimensions of CSR	
Local communities	<p>Integration of companies in their local setting. Companies contribute to their communities, especially to local communities, by providing jobs, wages and benefits, and tax revenues. On the other hand companies depend on the health, stability, and prosperity of the communities in which they operate</p> <p>Interaction with local physical environment, avoidance of pollution, attracting of labour force, environmental education</p> <p>Involvement in community causes by means of provision of additional vocational training places, assisting environmental charities, recruitment of socially excluded people, provision of child-care facilities for employees, partnerships with communities, sponsoring of local sports and cultural events or donations to charitable activities</p> <p>The development of positive relations with the local community and thereby the accumulation of social capital is particularly relevant for non-local companies</p>
Business partners, suppliers and consumers	<p>By working closely with business partners, companies can reduce complexity and costs and increase quality. In the long run building relationships may result in fair prices, terms and expectations along with quality and reliable delivery</p> <p>Companies should be aware that their social performance can be affected as a result of the practices of their partners and suppliers throughout the whole supply chain. The effect of corporate social responsibility activities will not remain limited to the company itself, but will also touch upon their economic partners</p> <p>Promoting entrepreneurial initiatives in the region of their location</p> <p>Corporate venturing constitutes a further way for large companies to facilitate the development of new innovative enterprises</p> <p>Applying the principle of design for all (making products and services usable by as many people as possible including disabled consumers)</p>
Human rights	<p>CSR has a strong human rights dimension, particularly in relation to international operations and global supply chains</p> <p>Inclusion of corruption clause</p>

	<p>Codes of conducts. Codes of conduct should be applied at every level of the organisation and</p> <p>Production line. Full disclosure of information by companies is important, including to local communities, as part of an ongoing dialogue with them</p> <p>Impact of a company's activities on the human rights of its workers and local communities extends beyond issues of labour rights</p>
Global Environmental Concerns	<p>Pursuit the social responsibility internationally as well as in Europe, encourage of better environmental performance throughout their supply chain</p> <p>Participation in Global Compact</p>

CSR is a concept that denotes company's decision to contribute to a better society on the voluntary grounds. At present, the increasing number of countries recognize the significance and value of CSR both for the company (creating the competitive advantage) and stakeholders (all parties involved and impacted by the actions of the company).

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. What are the key dimensions of CSR concept?
2. Which model of CSR dimensions seems to be the most rational one?
3. What should be reflected in a non-financial report of a company regarding the CSR activities?

CORPORATE SOCIAL RESPONSIBILITY AS A COMPANY VALUE DRIVER

There has been significant interest and debate on the impact that a company's investments in Corporate Social Responsibility (CSR) practices and initiatives have on its market value. In this chapter the relevance of CSR practices and initiatives for companies will be discussed. While a number of research suggest that there is a positive link between the implementation of CSR practices and firm value, still doubts continue to persist due to the impact of effect of environmental factors such as the maturity of institutional systems and the efficiency of market mechanisms present in different countries and the variability in the institutional usage of CSR by firms. This chapter will discuss four sets of questions: (1) Value Driver Model; (2) CSR and business performance; (3) Correlation of CSR and competitiveness of companies; (4) CSR as value creator for consumers.

Value Driver Model

The Value Driver Model is a simple and direct approach companies can employ as key metrics in accessing the financial impact of their CSR strategies. For many companies sustainable business strategies are already yielding tangible financial benefits. Employing the Value Driver Model could be a first step on the path toward deepening investor interest in sustainability as a source of business value, whereas for the companies seeking to increase their financial increase the Value Driver Model can be used as motivational factor (Global Compact Lead, 2013). Many companies are also changing the way they operate by executing strategies that promote more efficient use of human and natural resources and thereby improve operating results.

The Value Driver Model, described in the document "The value driver model. A tool for communicating the business value of sustainability" (Global Compact Lead, 2013) takes into account three key factors of the company performance:

- 1) Sustainability-advantaged growth (S/G) - measuring a company's revenue volume and growth rate in comparison to their predecessors and/or competitors;
- 2) Sustainability-driven productivity (S/P) – measuring the financial impact on a company's cost structure;
- 3) Sustainability-related risk management (S/R) – measuring performance over time, paying a special attention to the risk assessment.

The purpose of this model is to offer a means of simplifying and highlighting such key impacts and to make it easier for a wide spectrum of observers to evaluate sustainability as a noteworthy source of value creation. The structure of the Value Driver Model is represented in the Figure 3.1.

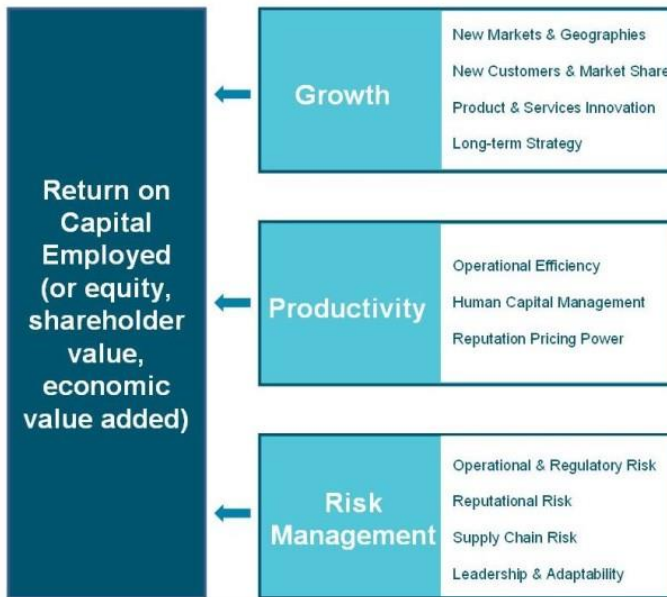


Figure 3.1. The Value Driver Model (Source: Global Compact Lead, 2013)

Sustainability-advantaged revenue growth depends upon variations of the following four key sub-components:

- Expanding market share based on enhanced demand for sustainability advantaged products,
- Sales growth on the basis of brand reputation,
- Creating and developing innovative sustainable products and services to meet customer needs while diminishing the negative social and environmental impact,
- Implementing a long-term strategy and plan, along with the required investments, to deliver sustainability-advantaged growth.

As a rule, investors want to know at least two essential facts about the company's sustainability advantaged revenue. (1) What is the current sustainability quality of revenue

or the absolute percentage of total sales accounted for by products or services designated as sustainability-advantaged either by the company itself or by a reliable third party? (2) What is the company's growth rate of sustainable products compared to the firm's overall growth rate? The productivity factor consists of operational efficiency, human and reputation capital management, and risks involved. This model allows seeing clearly the aspects of company's financial value and competitive advantages.

The sustainability-driven productivity advantage is rooted in three primary sources:

- Efficiency of operations resulting in cost savings and better use of natural resources.
- Human resource management to reduce costs in attracting and retaining best specialists, as well as increased worker productivity due to skills and safety training, and inclusive and equitable work environments.
- Enhancement of product and service value on the basis of sustainable approach.

Like sustainability-advantaged growth and sustainability-driven productivity, sustainability-related risk management provides investors with a few critical, measurable data points that reflect management's best assessment of exposure to risks that could imperil key business objectives. The main risk factors to be taken into account are the following:

- Operational and regulatory risks – related to day-to-day business operations, licencing, environmental impact (pollution and toxic emissions), operating standards.
- Supply chain risks are related to supply of reliable, environmentally sound produce and services according to company codes and international standards.
- Reputational risks – negative media coverage, negative legal judgements, etc., that can be avoided by proactive policies and corporate communication (Global Compact Lead, 2013).

CSR and business performance

During the last three decades, numerous theoretical and empirical research analysing and discussing the existing relationship between CSR and company performance have been published. In sum, in the theoretical literature there exist three main approaches regarding relationship between CSR and business performance, they can be characterized as the negative, the neutral and the positive ones (Maldonado-Guzman *et al.*, 2016).

Researchers advocating the negative relationship state that implementation costs of CSR are too high compared with the results obtained (Oh & Park, 2015; Lopez *et al.*, 2007). Other group of authors argues that the relationship between CSR and company performance is rather insignificant on the basis that it is not clear whether this relationship exists at all (Curran & Moran, 2007; Garcia-Castro *et al.*, 2010). Still, the majority of the researchers define that the adoption of CSR activities carried out by companies allows them to increase their level of performance (Mishra & Suar, 2010; Doh *et al.*, 2010; Callan & Thomas, 2009). They admit that there is a delicate interplay among different factors.

Business Performance can be characterized by attributes, for example, such as 'well' or 'poor', depending on the expectations of the individual analysing the data he or she has chosen to examine in order to gain insight into the state the company is in at

a given moment. In order to understand the concept of business performance it is proposed to use the model developed by Kaufman and Olaru (2012) (Figure 3.2).

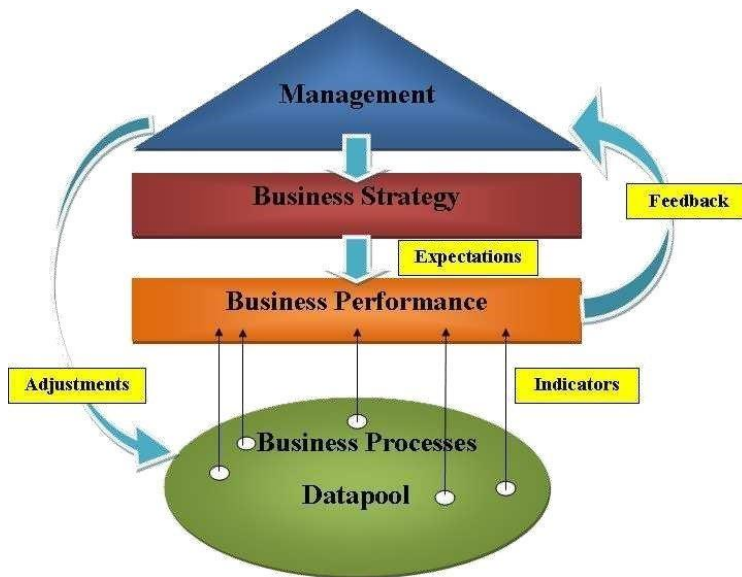


Figure 3.2. Business Performance in Business Architecture (Source: Kaufman & Olaru, 2012)

Figure 3.2 displays the Business Performance of a company in relation to its management, business strategy and company's processes. On one hand, there is a top-down relation – Business performance must meet or exceed the expectations of the leadership. On the other hand, the bottom-up relation shows the management if expectations are met and gives vital information about necessary adjustments to the business processes that need to be made. The figure shows that both, top-down and bottom-up are of the equal importance. They include approaches such as Total Quality Management (TQM) and Management by-strategies.

In order to correlate two phenomena, i.e., the ones of the Business performance and CSR, the use of the EFQM Excellence model is being proposed. EFQM is an abbreviation of the non-profit organization *European Foundation for Quality Management* and was founded in 1988. The intent of establishing this foundation was to provide for a European version of an excellent quality award based on the philosophy of Total Quality Management (Kaufman & Serban, 2011). Figure 3.3 shows the newest version of the model. In order to measure and compare business performance, eight criteria have been set up by the EFQM and grouped into two main categories: Enablers and Results. Enablers represent factors that help companies achieve their desired results. On the results side, not only classical key results like market share and growth, turnover and profit are evaluated, but also soft factors like

the impact of the business processes on its own people, on the customers, and on society. This model help companies to evaluate their progress.

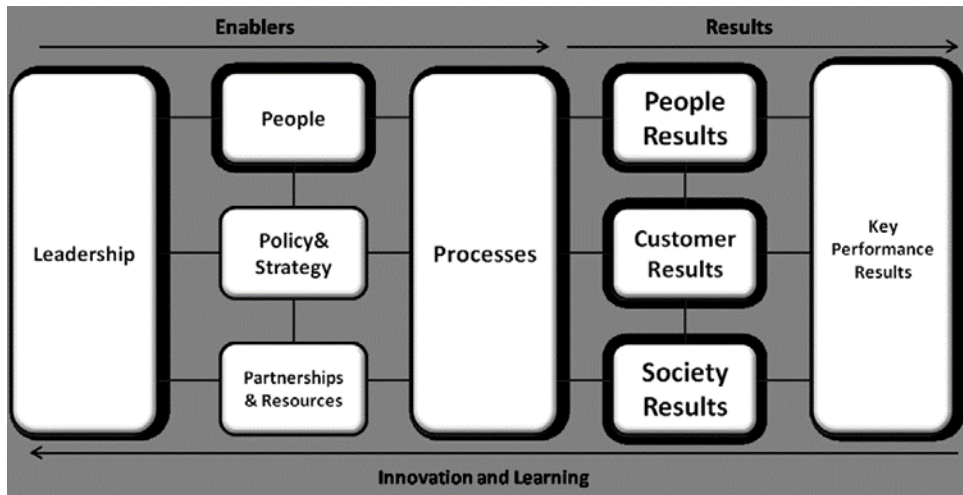


Figure 3.3. The EFQM 2010 model (Source: Kaufman & Serban, 2011)

The EFQM model provides a framework for the measurement of CSR activities and their influence on Business Performance, in the sense that the model provides guidelines regarding how much weight should be given to different 'enablers' and 'results' criteria within the overall performance measurement. One of the indicators to be measured, for example, is changes in stakeholder satisfaction levels due to investments in CSR.

There is an extensive literature examining the relationship between the company's financial performance and its socially responsible activities. This body of work is clearly transdisciplinary, with much of it published in accounting, management, and business ethics journals, using methods that vary widely in approach and degree of sophistication. Some investigations use just one measurement criterion, such as emissions reduction or charitable donations, other research employ an aggregate measure or index of various CSR indicators. There exists a theoretical model that views the relation through Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) prism. To be more specific, this causal direction rests upon the theory that the firm's investment in socially responsible behaviour, such as pollution reduction efforts or energy-saving technologies, has a measurable effect on its financial performance. According to Callan and others (2009), this model is represented by the following general function:

$$CFP_i = f(CSP_i, X, Z),$$

where:

- CFP_i is a measure of firm i's financial performance,
- CSP_i is a measure of firm i's socially responsible performance,
- X is a vector of control variables, which includes firm i's financial characteristics,
- Z is a vector of variables that identify the industry in which firm i operates.

Among the firm-level control factors are measures of firm size, risk, capital expenditures, advertising expenditures, and investment in R & D. The authors admit that the industry classifications influence the CSP-CFP relation as well. It has to be concluded though that there exists a time gap between the socially responsible performance and its effect on company finances. Hence, the theoretical model expands to the following:

$$CFP_{it} = f(CSP_{it-1}, Size_{it}, Capital_{it}, Risk_{it}, RD_{it}, Adv_{it}, Z_{it}),$$

where:

- CFP_{it} is a measure of firm i's financial performance in time period t,
- CSP_{it-1} is a measure of firm i's socially responsible performance in time period t-1,
- Size_{it} captures firm i's corporate size in time period t,
- Capital_{it} is a measure of firm i's capital spending in time period t,
- Risk_{it} is a measure of firm i's risk posture in time period t,
- RD_{it} is a measure of firm i's investment in R & D in time period t,
- Adv_{it} measures firm i's spending on advertising in time period t,
- Z_{it} is a vector of variables capturing the industry in which firm i operates in time period t.

The established positive CSP-CFP relation proves that company's social responsibility and profitability goals are compatible, that is, company can financially measurably benefit, if social activities are being recognized by the relevant stakeholders.

CSR and company's competitive advantage

There are many attempts to define the relation between CSR and company competitiveness. The impact of CSR on the competitive advantage may be divided into five different elements which intersect one another: reputation and brand strengthening; more efficient operations; improved financial performance; increase in sales and consumer loyalty and increased ability to attract and retain high-quality employees (Ljuboevic *et al.*, 2012).

According to Porter and Kramer (2006), the competitive context can be divided into four broad areas:

- The quantity and quality of available business inputs;
- Policies that protect intellectual property, ensure transparency, safeguard against corruption, and encourage investment;

- The size and particularity of the local demand;
- The support industries and infrastructure.

Figure 3.4 depicts the elements of the competitive context and social dimensions of the external environment.

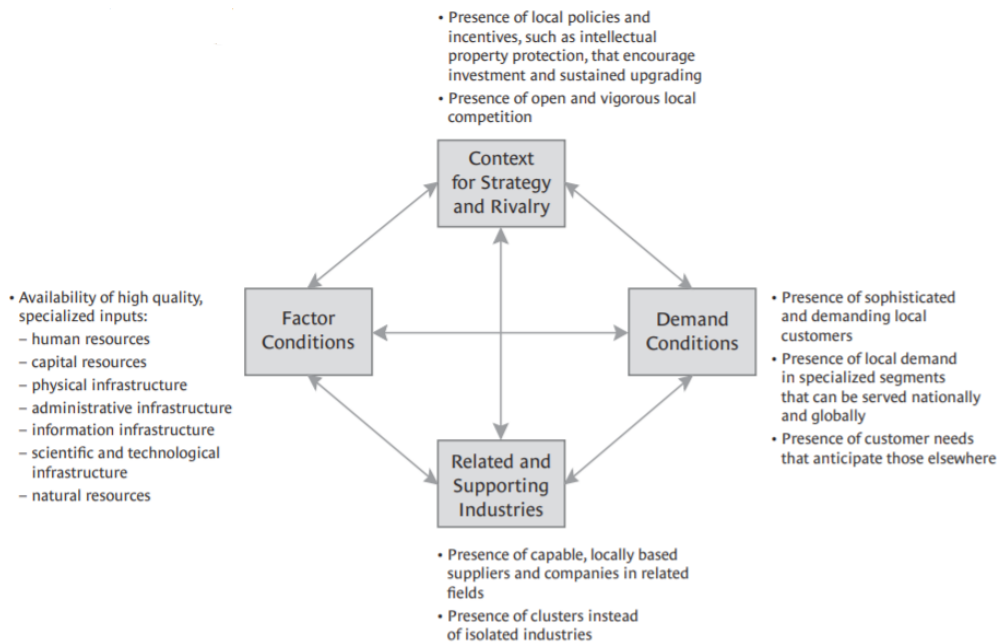


Figure 3.4. The Four Elements of Competitive Context (Source: Porter & Kramer, 2006)

The impact of social responsibility on company competitiveness varies according to industry, company size and dislocation. However, it is recognized that each and every company needs its social agenda in order to achieve social and economic benefits at the same time.

CSR as value creator for consumers

Consumers typically evaluate the CSR actions of a company according to their own interests, and priorities. Within this context, company social performance can be viewed as attitude to its actions, rather than actions themselves. Moreover, manifestation of CSR is a key to understanding how it affects consumers as simple investing in social activities does not have a direct impact on consumer attitudes. One of the possible approaches in describing CSR as value creator for consumers is through the concepts of consumption values, consumer satisfaction and consumer loyalty.

The consumption values fall into three main categories (Sheth *et al.*, 1992):

- Emotional values - consumer satisfaction from a purchase with a social or environmental added value;
- Social values are deduced from purchases from companies active in CSR;
- Functional values – aspects of CSR that relate to the actual benefit the consumer receives from the product or service.

Consumer satisfaction is a significant indicator of any company performance. Rana and others (2014) define it as feeling or attitude of a consumer towards a product/service after it has been used. It can be measured by the fact if consumer's expectations have been met fully, partly or not met at all. At the same time, social dimension that includes such aspects as responsible attitude to environment and recycling, employment policies and participation in social projects can strengthen company's competitive power. A satisfied consumer will provide good references that can encourage other customers to choose this particular company over any other company (Irshad *et al.*, 2017). It is possible to classify the description of customer satisfaction in relation different marketing tasks (Figure 3.5).

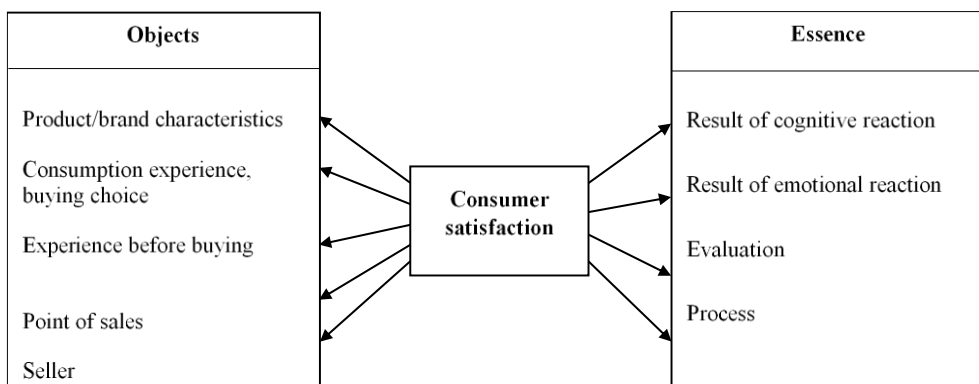


Figure 3.5. Characteristics of consumer satisfaction approaches (Source: Linina *et al.*, 2016)

Howard and Sheth (1969) admit that consumer satisfaction arises from of adequate or inadequate award (the result of shopping). Emotional reaction has been described by Oliver (2010) as combination of expectations and after-buying experiences. Engel and others (1993), however, describe the aspect of alternatives (the chosen alternative meets or does not meet customer expectations).

Researchers have paid attention to the impact of CSR to customer loyalty (Stanaland *et al.*, 2011; Sindhu & Arif, 2017). These investigations demonstrate theoretically and empirically that the ethical approach to business and commitment to CSR activities have a significant impact on customer loyalty. Attraction of new customers to businesses is significantly more expensive than retaining the existing ones, since the regular consumers spend more, but cost less to the company itself. The research in

the field has demonstrated that the acquisition of new consumers costs 5-7 times more than serving the existing consumers. The social initiatives can play a significant role in this respect as they influence consumers' attitude towards the particular company. The loyal consumer exhibits the following characteristics: they are buying more and buying more often, they maintain their loyalty in the case of price increase, they recommend brand/ store/ service to other potential customers (Oliver, 2010). In order to show the impact of CSR on the consumer satisfaction and consumer loyalty the conceptual model is the following (Figure 3.6):



Figure 3.6. Conceptual model of CSR impact on customer satisfaction and loyalty
(Source: Linina *et al.*, 2016)

The current model accentuates three aspects of CSR that are decisive in customer satisfaction and loyalty formation, namely, the ones of employment policies and attitude to employees; responsible attitude to environment; participation in socially oriented projects. In other words, social activities of the company create an additional value, hence increase the consumer satisfaction and creates the basis for loyalty.

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. Do you agree that CSR-practices and the company's orientation towards CSR goals can be a driver for value creation? Provides some arguments pro-/contra-
2. Based on the theory, provide examples of how different types of CSR-related (environmental, social...) activities can contribute to the value creation of a company.

CORPORATE SOCIAL RESPONSIBILITY WITHIN THE FRAMEWORK OF CORPORATE GOVERNANCE

The existing research on how Corporate Social Responsibility practices influence corporate performance indicates that the concept itself appears to be controversial (Margolis & Walsh, 2003); some scholars argue that social responsibility creates extra profits and company value, others indicate solely negative outcomes (the corporations just lose money on socially responsible behaviour), while the third say results may be both. The majority of researchers agree that outcomes of socially responsible corporate behaviour are both context based and firm specific (Barnett, 2007). In case of developing countries and transit economies both the concept of social responsibility and its perception appear different: “The rationale for focusing on Corporate Social Responsibility in developing countries as distinct from Corporate Social Responsibility in the developed world is fourfold:

1. developing countries represent the most rapidly expanding economies, and hence the most lucrative growth markets for business,
2. developing countries are where the social and environmental crises are usually most acutely felt in the world,
3. developing countries are where globalization, economic growth, investment, and business activity are likely to have the most dramatic social and environmental impacts (both positive and negative),
4. developing countries present a distinctive set of CSR agenda challenges which are collectively quite different to those faced in the developed world.” (Viser, 2012).

Hence, in case of developing countries, institutionally underdeveloped countries and transit economies one should take into consideration the context and existing perception of Corporate Social Responsibility in order to understand the forms it takes within the framework of social governance.

According to Crotty’s findings (2011), a number of researchers indicate that traditional Corporate Social Responsibility practices do not allow to achieve required outcomes if the institutions are not fully developed (Devinney, 2009). For example, in case of insecure property rights, companies are less likely to be socially responsible. Yet, when they are forced to do so (for instance, by the need to fulfil Millennium goals), they simply limit to minimum the amount of resources that could be spent for the sake of Corporate Social Responsibility (thus faking it rather than implementing) – due to extreme uncertainty in corporate future development. This idea can be found in the works of Alon *et al.* (2010), who indicates that relation-based and clan-based societies are much less likely to focus on social responsibility than formal institutions-based societies, from which the concept of Corporate Social Responsibility has emerged. This means one has to first consider the setting for corporate governance and then to assess the quality and outcomes of Corporate Social Responsibility.

Crotty (2011) identifies three types of such specific Corporate Social Responsibility practices:

1. regular Corporate Social Responsibility practices, which are being implemented even if necessary pre-requisites are absent,
2. 'forced' projects, when a company is forced to implement certain socially responsible behaviour though it is not included in its strategy and is not a part of regular corporate governance,
3. 'city formations' when the corporate management does not have any choice but to be socially responsible as they appear to be the only taxpayer in the city or county, and in order to continue operations there the corporation has to be enrolled in socially efficient practices.

OECD (2008) have revealed a few important incentives for Corporate Social Responsibility concept implementation. Two are dominant among them: the need to access global financial market (and it is nowadays relatively hard to gain access to foreign investments if the company does not incorporate socially responsible practices in corporate governing) and aiming to go public (again, road shows would appear inefficient if the company cannot present socially responsible governance). From this point of view, Corporate Social Responsibility is mainly driven by international companies and is partly a consequent part of globalization process, which has proven that for international companies Corporate Social Responsibility leads to increasing profitability. Same conclusions one can find in the works of Fifka & Pobizhan (2014):

“Corporate Social Responsibility has been fostered by the influx of Western business concepts, but the understanding and practice of CSR is predominantly determined by the country's institutional environment”.

Yet, this approach appears to be only a part of the story. On the contrast to globalization roots of Corporate Social Responsibility, one can see that socially responsible practices appear also on the other side of the world, in underdeveloped emerging economies, and become a solution for both social and economic problems, such as poverty reduction (Yunus, 2008). In this opposite case, socially responsible behaviours appear indigenously, representing extra entrepreneurial opportunity (originally coming from the bottom of pyramid, but not necessarily). As the ideas behind social responsibility implementation are controversial, one can draw on a map of social responsibility in corporate governance, created along the line of grid model by Blake and Mouton (1964).

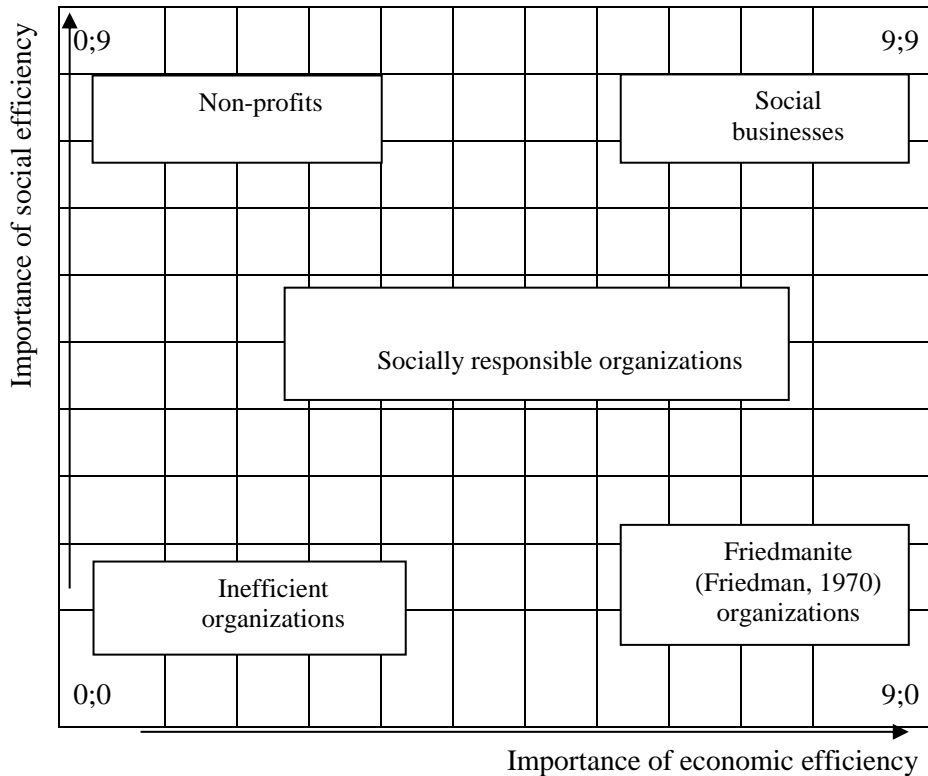


Figure 4.1. Socially responsible business typology model (Source: Author’s developed)

The positioning of the company on a grid matrix that appear in Fig. 4.1 is determined on a scale from 0 to 9, where 0 stands for the type of efficiency which is totally unimportant within the framework of company’s corporate governance’ and 9 stands for an extremely important type of efficiency within the framework of company’s corporate governance’. The two extremes here are organizations as described by Friedman (absolute ignorance of company’s social efficiency), that is mapped at the maximum of 9;0 on the matrix. The other extreme point is represented by the non-profit organization, for which economic efficiency is not the main issue of governance (though usually they do have restrictions on economic efficiency) – which can be found at the point 0;9 on the presented map.

For the type of corporate governance known as social enterprises, both social and economic efficiency are equally important, which makes this approach somewhat different from traditional Corporate Social Responsibility which tries to combine both social and economic efficiency, yet one can be more important than the other. The smallest difference in the suggested model can be seen when social businesses (9;9 at the maximum point) and socially responsible organizations (approximately 6;9) are compared. Yet, the model distinguishes traditional Corporate Social Responsibility and social enterprises, and for the latter social efficiency appears to be

extremely important while the social effects should not be neglected during organizational crisis. For socially responsible companies, cutting costs in a manner that neglects social efficiency is acceptable, especially in the case when such actions are core of the project to ensure the company's survival, whereas a social entrepreneur would not even consider such an opportunity as the social effect is a core of company's business model.

Literature widely discusses the role of institutions in the development of social entrepreneurship (Dacin *et al.*, 2010; Estrin *et al.*, 2013, Mair & Marti, 2009, Sud *et al.*, 2009). This determines the relevance and influence of the institutions for the trends of social entrepreneurship development where social business models develop and flourish under the institutional settings they were set for (Dacin *et al.*, 2010) and thus question the ability of social entrepreneurs to provide solutions to society's pressing social challenges (Sud *et al.*, 2009). The authors of the present research share the findings of Sud *et al.* (2009) who sees social business as a special approach towards ensuring social and economic development, when existing entrepreneurial opportunities were ignored by conventional entrepreneurs (Yunus, 2008). The understanding within the framework of the present research is based on the work of Dacin *et al.* (2010), who acknowledged that social entrepreneurship emerges as a response to significant socio economic, cultural or environmental issues (Dacin *et al.*, 2010). Empirical research offers a similar perspective by noting a higher probability of social entrepreneurship activity in developing countries as a response to the oversights attributable to political agendas and weaknesses found in the country's government (Terjesen *et al.*, 2011). In such contexts, failure of social market develops a new opportunity for the social entrepreneur (Austin *et al.*, 2006) who hence creates social value from this opportunity (Urbano *et al.*, 2010). Yet, though these arguments are quite intuitive, they were not supported by certain empirical studies in existing literature. For example, Stephan *et al.* (2014) reports that the revenue-generating social business is only strongly associated with government activities in the rule of law, and these features can rarely be found in the developing countries with weak institutions – and yet quite a number of social businesses are being established there. The Global Entrepreneurship monitor (GEM) report finds that equally high levels of social entrepreneurship activity can be found in the US, Iceland and Finland (countries associated with a high level of institutional development) as in Argentina, Colombia or Uganda (which are associated with underdeveloped institutions).

To resolve the revealed contradiction, existing research suggests an approach to define how institutions influence organizations with a social mission. This includes (1) formal and informal institutions that influence (by means of measuring the share of formal institutions in economic environment of a social entrepreneur) and (2) the average level of regulatory control and rule of law (as a measure for strength of formal institutions). The matrix mapping social business onto these two axes can be found in Figure 4.2.

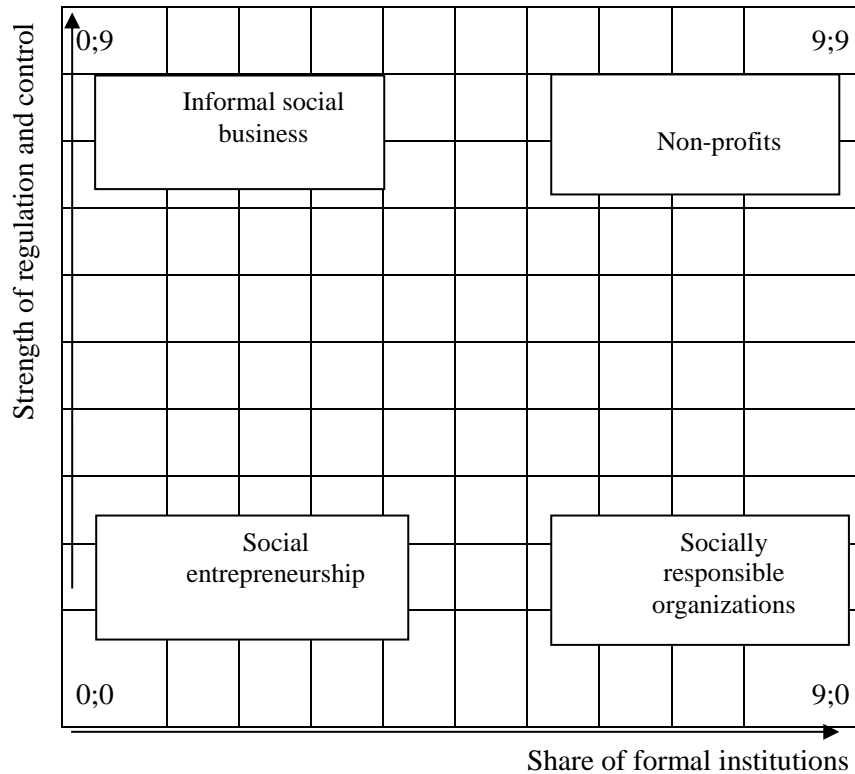


Figure 4.2. Matrix of businesses with social mission on immature state of the key market (Source: Author’s developed)

This matrix allows seeing that low formal institution development drives Corporate Social Responsibility out of corporate governance practices, as the company is usually unable to use the outcomes for its prosperity. Instead in institutionally underdeveloped economies social entrepreneurship arises, filling out institutional gap and replacing traditional Corporate Social Responsibility.

The mapping presented in Figure 4.2 above is applied from the social business creation and development perspective because social businesses, as case studies indicate, appear in underdeveloped markets. Once they reach maturity, social businesses may remain in the field in which they were created, but in many cases CSR practices may appear in a given field.

As Figure 4.2 indicates, social businesses emerge within contexts in which informal institutions experience relatively low levels of regulation and control, which may result from both laissez-faire and weak state practices. This type is marked as 0;0 on the matrix. The level of regulation reflects the government’s attitude toward market failure, where, if regulatory control is high, this indicates that the government only considers solutions that involve the state. Examples of this approach include Belarus,

the Democratic Republic of Korea, and the Russian Federation, which impose strict regulations on any emerging social activities. A low level of regulation indicates that the government supports state-free solutions to social problems. Examples of this approach include Bangladesh, Uganda and Argentina. A quantitative analysis conducted using data from the Economic Freedom Index used to measure the level of state regulation Heritage Foundation (2009) and the SEA rate (Terjesen *et al.*, 2011) indicated that there is a positive Spearman correlation between these parameters ($\rho = 0.318$, significant at 0.05 level), which supports the approach of mapping social entrepreneurship with respect to the level of government regulation.

The second parameter, the prevalence of formal institutions, indicates that there are approaches available for solving social issues, and these are used by either not-for-profits or socially responsible organizations. Social businesses emerge to close the gap resulting from underdeveloped formal institutions, and in many cases, as indicated by Yunus (2008), support the creation and implementation of new institutions. In this case, social entrepreneurship seeks to fill the oversight created by market failure, in accordance with theory (Bator, 1958), and might indicate the need to develop certain institutions to solve the issue. Once the issue is solved, the market becomes characterized by greater control and/ or the prevalence of formal institutions with new social entrepreneurs rarely appearing in this new market.

Social responsibility practices are mapped in Figure 4.2 and show the extreme, at 9;0, and emerge in contexts in which institutions are well-developed while the level of regulation is relatively low. In this case, socially responsible practices appear best suited to address a social mission: developed institutions facilitate companies' efforts to provide social services, while the relatively low level of regulation allows such organizations to be proposed without needing register as a special type of organization. The latter is located, at the extreme point, at 9;9, where both institutions are developed and government regulation is strong. In this case social services, tend to primarily be provided by non-profits, in keeping with existing legal requirements regarding provision of social services. In some cases, these two types of organizations serve as platforms for the improvement of existing institutions to better achieve the social mission, but their activities rarely produce incentives for the creation of new formal institutions which is the opposite of the case of social business development, where formal institutions arise in response to challenges created by this type of business. Finally, informal social practices appear when informal institutions prevail and regulation is strong, mapped at 0;9 shown at the extreme point of Figure 4.2. In this case, social businesses experience issues at the creation stage because regulatory procedures do not permit the official registration of these types of businesses, as they fall outside the existing legal frameworks and the government refuses to develop new ones or change existing regulation. In this context, literature indicates that informal enterprises will emerge (de Soto, 2000) and this is also the case for enterprises with a social mission. This quadrant is the only one that indicates limited potential for institutional change in the field of social businesses, as in the other three quadrants, either the improvement of existing formal institutions or the development of new ones matching societal needs can be expected.

The other significant characteristic distinguishing social entrepreneurship in terms of key entrepreneurial intention was suggested by Yunus (2008) and represents a concern for the client's dignity. Most studies overlook this issue and instead regard social business as enterprises providing solutions to social problems while remaining sustainable; this internal sustainability is instead regarded as the major difference. However, within the framework of the present research a focus on dignity is understood as a key feature of social entrepreneurship where its mission is not only to generate a social effect but also to respect the client and provide them with a platform to feel respected. Social business opportunities may be identified if this issue is taken into consideration. This assertion is illustrated in Figure 4.3.

The key features of social businesses, as the figure indicates, are dignity orientation and efficiency orientation. The extreme Friedmanite organizations are concerned with goal achievement and efficiency, are balanced by achieving both the desired result (as goal-oriented enterprises) and the efficient use of resources (Friedman, 1970). Socially responsible organizations and not-for-profits are efficacy oriented in terms of achieving their social goals but are not concerned with achieving high levels of efficiency – primarily because the funds used to achieve their social goals come from external sources (for non-profits, grants and charitable donations and, for socially responsible businesses, earnings from the businesses' main activities). However, these latter two types differ with respect to considering the feelings of the clients receiving social services. In the case of not-for-profits, it appears logical for these organizations to simply distribute goods and services among those who require them. Yet this approach may create dependency on such assistance when the recipients do not search for a sustainable solution but instead rely on charity programmes to support themselves and thus lose their sense of dignity (Yunus, 2008). Socially responsible businesses rarely adopt such a position in relation to their clients. An analysis of best practices such as Pampers' (2006) 'One pack – one vaccine' reveals that the clients of socially responsible companies are provided with a sense of belonging and dignity – they feel involved in solving an important social problem while socially responsible businesses can behave similarly to not-for-profits toward those who receive their assistance. Social entrepreneurs lie at the other extreme: they combine a dignity orientation in client treatment with an efficiency orientation in resource treatment, in accordance with Dees (2001) findings.

This combination of theoretical orientations is important for improving the current state of knowledge regarding social entrepreneurship, as it demonstrates that sustainability is achievable even when solving major social problems. This type of approach allows social entrepreneurs to attain a solution that is efficient from a resource use perspective and from a value creation perspective. This finding resolves the contradiction outlined by Friedman (1970) that social responsibility does not need to be funded by other activities, as it should involve different business models based on social market opportunities.

First, the existence of profitable social businesses resolves Friedman's (1970) dilemma between engaging in socially responsible behaviour and maintaining high profits, as social entrepreneurs acquire profits by achieving a social mission. Thus the present

research provides a different view and solution to Friedmanite dilemma than the one suggested by Porter and Cramer (2011). The present research implies that the dilemma is solved because an entrepreneur can find social opportunities leading to profitability which are not due to shared value creation. The basis for such activity, as outlined by Yunus (2008), is that conventional entrepreneurs overlook market opportunities because they are obscured by the opportunities' social nature.

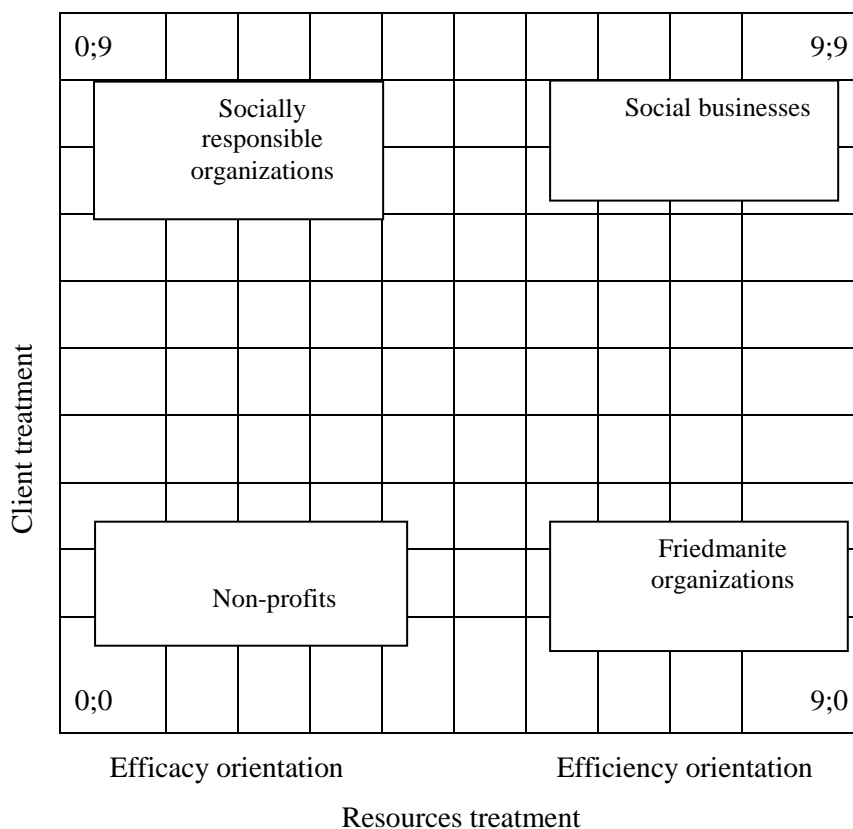


Figure 4.3. Dignity/efficiency types of business matrix (Source: Author's developed)

Although social businesses currently present a relatively lower level of profitability than conventional firms do, there is a greater number of market opportunities in the social business sector, and thus social entrepreneurship is becoming increasingly attractive, even for venture capitalists. An example of this trend is Coursera's success in raising venture capital despite the lack of sufficient clarity in the business model where the idea's high potential was sufficient to attract investors. Thus, conventional entrepreneurs and existing enterprises should consider social market opportunities as a means of business development, which contrasts with Friedman's position of ignoring social mission opportunities as a priori unprofitable, and this serves as a basis for shared

value creation as the key concept in future economic development (Porter & Cramer, 2011).

The other important feature is the role and position of social entrepreneurship in improving the institutional environment. Dacin *et al.* (2010) has stated that social entrepreneurs are eager to provide creative solutions to overcome environmental barriers, thus they rarely reject the idea of business attributable to underdeveloped environment. In line with the results of the present analysis, they noted that social entrepreneurship activity is likely to occur in absence of formal institutions in order to fill the oversight between the existing environment and social needs. In this case, conventional entrepreneurs would seek a solution within the framework of existing institutions which is the approach followed by socially responsible businesses and not-for-profits. Whereas social entrepreneurs would develop a platform for new institutions that may subsequently be made formal (see Yunus, 2008, for examples). Although social entrepreneurship business models cannot currently be implemented in certain contexts (see Dacin *et al.*'s (2010) criticism of the Aravind Eye Clinic business model in the US institutional environment), these models appear to offer more sustainable solutions to numerous social problems than current governmental and non-profit practices do. Therefore, institutions, and not social business models, might provide a more meaningful area of change. Consequently, conventional entrepreneurs may use social businesses' as the approach to identify solutions to their business issues that might appear solvable in a modified institutional environment where such initiatives could gain support in both social and economic markets as being more efficient. Yet, the majority of researchers agree that social enterprises and Corporate Social Responsibility practices can be considered the same research object, the difference lies in the field of heavier focus of corporate governance whether it considers economic outcome a consequence of fulfilling social needs (social business) or vice versa (corporate social responsibility).

Developing Corporate Social Responsibility measuring tool to ensure quality corporate governance

Based on this positioning, one needs a measuring instrument for Corporate Social Responsibility evaluation within a company. Such an assessment of Corporate Social Responsibility practices for a variety of companies seems possible if one can use a specific tool, which would combine both existing theoretical frameworks and existing society perception. Moreover, such tool yet had to be developed. Based on the data from legal entities, the researchers had developed several Corporate Social Responsibility measuring instruments, one of which is described below.

To evaluate the data for this research, researchers have developed list of indicators on the basis of correlation analysis results, which included 22 indicators originally used by researchers and 6 more suggested the experts in interviews. The analysis had proven the following indicators to be significant: "(a) share of rejected goods and services on the basis of their poor quality, Pearson correlation equals -0.6112; (b) the share of corruptive costs in total costs (approximate estimation), Pearson correlation equals -0.5684; (c) the share of labour contract violations of total employee interaction, Pearson correlation equals -0.5106; (d) the share of properly proceeded

reclamations, Pearson correlation equals + 0.6984; (e) the share of deals done on terms of pre-payment, Pearson correlation equals -0.8173” (Svirina & Khadiullina, 2014).

Existing research is somewhat controversial when it comes to an issue of Corporate Social Responsibility relation to company performance (Henriques, 2003); so for the study described below Corporate Social Responsibility seen as a set of socially responsible activities, which are performed by the enterprise despite they are not legally required. This leads to a double meaning situation – on the one hand such activity means additional costs for the company, but in the long run can provide higher customer appreciation resulting in increased sales. The final list of significant criteria with their ranges, built in accordance with the above stated CSR definition, is in Table 4.1.

Table 4.1. Corporate Social Responsibility assessment tool (Source: Svirina & Khadiullina, 2014)

Indicator	Corporate Social Responsibility performance quality					
	Outstanding	Excellent	Good	Average	Poor	Very poor
The share of goods and services rejected because of poor quality	0-0,5%	0,5- 4%	4-7%	7-15%	15-25%	>25%
The share of corruption-based costs in total costs	<1%	1-4%	4.01-9%	9.01-17%	17.01-35%	>35%
The share of labour contracts’ violations	0-0.1%	0.11-1%	1.01-4%	4.01-7%	7.01-10%	>10%
The share of reclamations proceeded according to existing procedure	>99.7%	98-99,7%	90-97.9%	80-89.9%	60-79.9%	<60%
The share of pre-paid deals	<0.5%	0.5-5%	5.01-15%	15.01-25%	25.01-40%	>40%

For each type of performance within the Corporate Social Responsibility concept, each performance type was assigned a number of points, when ‘outstanding’ means 8 points, ‘excellent’ – 5 points, ‘good’ – 4 points, ‘average’ – 3 points, ‘poor’ – 2 points and ‘very poor’ – 1 point. Henceforth the maximum amount of points enterprise’s management can get for organizational culture development (without outstanding performance) is 20 points. For Corporate Social Responsibility a company can get maximum 25 points without providing outstanding management performance.

Correlation of defined Corporate Social Responsibility level and the EBITDA of the studied enterprises is shown in Table 4.2.

Table 4.2. Correlation analysis of Corporate Social Responsibility level and EBITDA
(Source: Svirina & Khadiullina, 2014)

		CSR level	EBITDA
CSR level	Pearson correlation	1	0.854**
	N	132	132
EBITDA	Pearson correlation	0.854**	1
	N	132	132

** . Correlation significant at 0.01

This correlation is in line with mainstream research findings and outlines a strong positive correlation between the quality of Corporate Social Responsibility (viewed as special managerial function), and the EBITDA of studied enterprises.

Prediction enterprise management quality model in relation to Corporate Social Responsibility practice

To finalize the findings in the field, “correlation between management performance multiplier has been estimated, which is done according to Equation 3; the resulting factor was chosen as fulfilment of management plans (the average for tactical and strategic plans was taken), which was estimated as a ratio of resources consumed to fulfil the plan to the amount of resources planned for consuming, in % (where 100% meant consuming the same exact amount of resources as it was planned, and amount less than 100% meant less resources were consumed than the plan suggested). The correlation rate for 32 companies studied in this survey was estimated at the level of - 0.6751 that means there is a strong negative correlation. The trend line for the data has turned out to be polynomial” (Svirina & Khadiullina, 2014).

The level of R^2 shows that management multiplier variation explains only 51.43% of management plans fulfilment variation. But, this might be due to the fact that in this study only two management functions have been examined to create a multiplier, and these functions were not the basic ones (such as planning, organization or motivation), so if the amount of functions examined was increased, the R^2 would probably be higher. Other type of trends, such as logarithmic, linear or exponential had shown lower levels of R^2 (in all cases less than 46%), and henceforth the polynomial trend has been chosen to explain the existing relationship between management performance multiplier (which varied from 0 to 1) and management plans fulfilment.

The prediction function for the level of management plans fulfilment in relation to management performance multiplier is presented in Equation 3, and it represents the sixth-order polynomial.

$$PF_{man} = 205467 M^6 - 642294M^5 + 799613M^4 - 502920M^3 + 167383M^2 - 27821M + 1994 \quad (3)$$

where

PF_{man} – percentage of management plans fulfilment in terms of resources spent to achieve the planned results, where 100% stands for a perfect fit with the original plan

M – management performance multiplier estimated according to Equation 3, from 0 to 1 (or over 1 in case of outstanding management performance)

Thus in case of a low level performance multiplier which means that in case of mismanagement the variation of management plans fulfilment is very high, which is due to the fact that management does not have much influence on this process. As the multiplier gets higher, the results become more consistent and get closer to the original plan.

The prediction function from Equation 3 can be used in order to pre-estimate possible deviations of the resource consumption during implementation of the plan, which would result in more accurate planning.

The model for predicting EBITDA on the basis of Corporate Social Responsibility level, created using SPSS, estimated R^2 for ANOVA model is 0.529. The coefficients for the model are presented in Table 4.3. This particular model can be used to enhance the quality of measurement-based management of Corporate Social Responsibility practices as the outcome of those is not always clear and concise, and in a few cases is not really measurable. Though the integral level of Corporate Social Responsibility seems to predict only 52.9% of company profitability variation, it is still a reliable managerial tool if the company wishes to assess perspective Corporate Social Responsibility outcomes in terms of monetary units – though the research in this field is quite controversial, it seems that in case of corporations Corporate Social Responsibility can be paid off at least in the strategic perspective.

Table 4.3. ANOVA model coefficients. (Source: Svirina & Khadiullina, 2014)

Model	Non-standardized coefficients		Standardized coefficients	T	Value
	B	Standard error	Beta		
Constant	-0.011	0.004		-2,589	0.027
CSR level	0.002	0.000	0.854	5,187	0.000

These results seem contradictory to some extent to regular perception of CSR. Usually CSR is viewed a type of governmental responsibility which does not lead to increased interest in company's products. While the employees of socially responsible companies are likely to appreciate Corporate Social Responsibility practices, resulting in their increased efficiency and in lower labour costs and higher quality of company products.

Though the number of stimulus for Corporate Social Responsibility is smaller than the amount of obstacles, these practices are gaining popularity, especially in local communities – and increased social responsibility is starting to change societal perception.

Social business and Corporate Social Responsibility both consider the client's dignity in areas in which it has not been regarded as an important aspect of performance. Although there is contradictory evidence regarding the relationship between Corporate Social Responsibility and increased firm performance (Roman *et al.*, 1999), a case analysis of social entrepreneurship practices reveals that social entrepreneurs provide a higher level of human resource efficiency than conventional firms (Osberg, 2013). According to Budd (2004), the issues of dignity and human performance are interrelated; the present research indicates that issues concerning dignity are well-developed and fully identified by social entrepreneurs – thus social business may be considered more efficient in human resources implementation due to their greater attention to the issues of dignity. Social entrepreneurs may explain the lack of consensus regarding socially responsible practices' effects on company performance in the pursuit of a social mission's effects on the firm performance, if such issues of dignity appear to be the basis for such a pursuit. In other cases, having a social mission should not affect company performance. Thus, conventional enterprises can increase the efficiency of their human resources by adopting a dignity-based attitude toward clients, and social entrepreneurs may provide exemplary practices in the field.

The existence of profitable social businesses resolves Friedman's (1970) dilemma between engaging in socially responsible behaviour and maintaining high profits, as social entrepreneurs acquire profits by achieving a social mission. Thus this research provides a different view and solution to Friedmanite dilemma than the one suggested by Porter and Cramer (2011). The present research implies that the dilemma is solved because an entrepreneur can find social opportunities leading to profitability which are not due to shared value creation. The basis for such an activity, as outlined by Yunus (2008), is that conventional entrepreneurs overlook market opportunities because they are obscured by the opportunities' social nature. Although social businesses currently present a relatively lower level of profitability than conventional firms do, there is a greater number of market opportunities in the social business sector, and thus social entrepreneurship is becoming increasingly attractive, even for venture capitalists. An example of this trend is Coursera's success in raising venture capital despite the lack of sufficient clarity in the business model, where the idea's high potential was sufficient to attract investors. Thus, conventional entrepreneurs and existing enterprises should consider social market opportunities as a means of business development, which contrasts with Friedman's position of ignoring social mission opportunities as a priori unprofitable, and this serves as a basis for shared value creation as the key concept in future economic development (Porter & Cramer, 2011).

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CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. What are the key features and key implications of corporate social responsibility?
2. What relationship can one find between Corporate Social Responsibility and social business development and institutional development?
3. How can one measure Corporate Social Responsibility within the framework of corporate governance?
4. What are the key concerns when a company develops Corporate Social Responsibility as a key action of company's competitive advantage?
5. How does the development of Corporate Social Responsibility and social business influence entrepreneurial development?

CORPORATE SOCIAL RESPONSIBILITY IN VARIOUS BUSINESS AREAS

The concept of Corporate Social Responsibility (CSR) may mean different things in different industries due to their specific financial accountability requirements, as well as their relations with stakeholders. Thus, we cannot say that human resource managers would view responsibilities in the same light as, for example retailers or public relation specialists. In other words, in different industries and based on company's nature of activities, the relation social-financial performance may have different levels of sensitivity to different dimensions of CSR (Shalchian *et al.*, 2015).

In this chapter, the specific characteristics of CSR will be briefly discussed in the following areas: (1) manufacturing and service industries, (2) retailing, (3) human resource management, (4) finance and banking.

CSR in Manufacturing and Service Industries

One of the most important directions of CSR, in general, is building relations with local communities, this pertains especially to production companies as they require the extensive and highly developed infrastructure, and at the same time compliance with 6R principle – reduce, reuse, recycle, recover, redesign, and remanufacture – pertaining to operation type, price, quality, time, quantity, and cost (Stasiku-Piekarska & Wyrwicka, 2019). The latter aspect, in particular, distinguishes CSR in manufacturing from the one in service industry. Other significant aspects of the manufacturing industry CSR include the socially fair treatment of employee and environmentally conscious thinking on all management levels from top to bottom and vice versa.

In comparison to manufacturing industries service industries exhibit a few specific traits: (1) the industry tends to be more labour intensive by in comparison to the manufacturing, at the same time in many developing countries it supplies the majority of working spaces; (2) technological development has changed the employment landscape overall, as a result, the labour force has moved into the sphere of services, hence employee welfare has become a matter of prime concern (Handayani *et al.*, 2017).

On the other hand, regarding the manufacturing industry, we can speak about six key business drivers, that, according to A. Troup (2018) make it possible to create employee-centered CSR strategies. These drivers are the following:

- Engagement of younger generation that is more ambitious, more technologically educated, employee-centered approach can create a space for their self-expression in socially oriented activities.
- Nurturing young talents through training programs, grants, skills-based volunteering opportunities expose young people to promising career possibilities in manufacturing industry.
- Increase of productivity due to employee engagement and loyalty to the company.

- Community development through investing in the neighbourhood development that can attract new employees and build company image and good reputation.
- Building collaborative and multi-dimensional partnerships with NGOs and governmental agencies will facilitate company further development.
- Corporate citizenship involves organization's understanding of internal and external changes in order to be able to meet interests of its stakeholders and be sustainable in long run.

CSR practices in the manufacturing industry are closely related to the environmental management in the matters of providing raw materials, closed production cycle, recycling, use of environmental friendly materials, green innovation, etc. In these cases, CSR is needed as an ethical and moral obligation of the company in reduction of negative impacts of the company.

Nevertheless, according to some researchers (Casado-Diaz *et al.*, 2014, Kalaignam *et al.*, 2013) CSR effect on performance is higher for services firms than for manufacturing companies due to the specific nature of their services that includes face-to-face involvement with customers. From the investors' viewpoint it is more difficult to evaluate services company performance based on the financial results only, therefore CSR activities that result in accumulation of the so-called reputation capital gain a special significance in reducing their perceived risks. While consumer goods can be easily checked regarding their quality standards, there is a great variability in quality in the services industries. This make prospective customers to look for additional information – company characteristics, activities in the society, public exposure, etc. Individuals can use this information for uncertainty and risk reduction by *proxi*, that is, customers may think, if the company is interested in the social well-being, it might, as well, be interested in taking good care of its customers (Nicolau, 2008). At the same time, service companies, on their part, are interested in spreading information to existing and potential investors, as well as to customers, creating so-called 'reputation capital' (defined as a public trust). Different social activities and ethical responsible practices thus gains a paramount significance as they signal about company's core values, employment policies, attitude towards environment protection, etc. In addition to that, the reputation capital allows to attract and retain skilled labour-force, to reduce investment risks.

CSR in Retailing

Although, in general, all the categories and characteristics of the CSR are applicable to the sphere of retailing, there are some idiosyncratic features to be mentioned. Thus, J. Anselmasson and U. Johansson (2007) distinguish three main attitude-based dimensions – human responsibility (fair-trade), product responsibility (user-friendly information), and environmental (eco-conscious actions, e.g., disposable packaging, etc.) responsibility. In addition, we have to talk about the supply chains in retailing, since in the case of mega-retailers (chain stores and chain operations) there exist a lot of social risks, such as child labour, sweatshops, pollution, etc. Namely, the longer

supply chain the greater risks are being involved. The main CSR issues in the sphere of retailing can be defined:

- fair-trade, support of local producers, organic produce,
- protection of natural environment, energy use and waste reduction, recycling,
- product safety, distribution of eco-goods and local produce,
- ethical trading,
- employment policies and working conditions, health and safety at work, discrimination, corruption, foreign labour,
- sustainability, corporate reputation,
- charity, philanthropy, support for local communities, social, educational and environmental programmes,
- consumer loyalty and purchasing behaviour (Jones *et al.*, 2007).

The specific role of retailer is determined by the fact that it assumes a middle position in-between producer and consumer in the supply chain, therefore, it is important to consider the role of CSR on the part of both producers and consumers. Thus if the production company displays human rights violations it could (or rather would) spill over to perception of the retailer, spoil its image, diminish consumer loyalty, thereby reducing the retailers' performance in the market. One of the most recent investigations in the field is the one conducted by H. Schramm-Klein and others, entitled *Retailer corporate social responsibility is relevant to consumer behaviour* (2016). The authors have developed the conceptual model that can be described in the following way: perceived CSR activities and perceived retailer attributes lead to the consumer loyalty and eventually to the change in purchasing behaviour; the process itself is being influenced by the CSR credibility and CSR orientation. In the result, the authors come to a conclusion that in the sphere of retailing perception of the combined CSR activities and retailer's attributes has a greater impact on loyalty rather than purchasing behaviour. The study also reveals that most consumers are not fully aware of the CSR activities, hence it is very important to inform existing and potential consumers about company social activities, such as supporting charity, diversity programs, employee support, environmentally conscious behaviour, fair trade, etc. In consumers' perception, there are two main aspects of retailers' social initiatives – the beneficiary of activity (i.e., what are the beneficiary profits) and the retailers' input (i.e., how much retailers invest into projects) (Herpen *et al.*, 2003). This means that the best way to relay information about retailers in order to increase consumer loyalty is speak about activities that both benefit society and require a high level of contribution. T. Wagner and others (2008) in their research have tried to identify the critical spheres of CSR in retailing, that is, the spheres that could be perceived as irresponsible by the consumers. They have pinpointed fourteen risk aspects: societal rules, employee discrimination, local working conditions, dishonesty, pricing policies, natural environment, employee benefits, foreign labour, employee wages, local businesses, local employment, offensive material, foreign

economies and sales practices. Paying a special attention to these aspects and foreseeing possible negative effects can help retailers to build company reputation through trust of consumers, producers and investors and, in the results enhance company's financial performance in the market.

CSR in Human Resource Management

Focus of the human resource management (HRM) is a 'people' side of organization - interpersonal relations, internal (with employees of a different level) and external (with stakeholders) communication, all this entail a high involvement with ethical and social issues, such as:

- discrimination (gender, age, racial, professional, etc.),
- lack or overselling of social benefits,
- unfair compensation systems,
- unsafe working conditions,
- pressuring employees to donate to different charities or to volunteer their time against their true intentions,
- violations of employee rights, etc.

At the same time, the modern changing business environment causes shift in organizational forms (e.g. partnerships, alliances, franchising, subcontracting, outsourcing, self-employment) and power relations within and outside organizations. Trade unions, non-governmental organizations, governmental agencies pay a special attention to companies' responsibility to just and fair treatment of their employees. These new employment relationships result in unstable career patterns, work stress and exhaustion, and risk is shifted to the workers (Ryan & Wessel, 2015; Stone & Deadrick, 2015). Taking into account this context, human resource managers paly an instrumental role in helping their organization achieve its goals of becoming a socially and environmentally responsible company – one which reduces its negative and enhances its positive impacts on society and the environment. Due to its specific mediating role (employers – employees, company – community) the HR department can ensure that there is an equilibrium between information disclosed publicly and they ways company treats its employees. In addition to that, the HR department can provide the management with the tools and framework for creating an ethical working culture and adopting CSR programs proactively (De Baldo, 2013). Let us briefly describe the main HR activities related to the CSR.

Implementation and encouragement of green practices involve assistance in environmental waste reduction (closed-cycle production, industrial recycling, disposable packaging, etc.), as well as promotion of green marketing strategies. The important thing is to keep both employees and society informed about the company values and nature-conscious activities. On the individual level green practices can mean working remotely from homes, carpooling, switching off the electrical appliances after work hours, promotion of brown-bagging in the office to help

employees reduce fat and calories to live healthier lives and reduce packaging waste, too.

Fostering a Culture of Corporate Social Responsibility means fostering attitude of responsibility and sense of participation and involvement in the CSR programs. Committed employees would enable friendly competition and recognition programmes.

Social and community connections – company ties with local communities through the following activities:

- Company charitable programs accord to employee interests;
- Volunteering activities;
- Corporate sponsorship of community events;
- Encouraging employees to participate in walkathons, food banks, and so forth.

The HR department, in most cases, is responsible for employee motivation, celebrating success, praising individual and group initiatives (including the social ones). Of course, all these programs require serious management involvement; the particular role of the HR department is to be a vehicle of change and a channel of feed-back information.

CSR in Finance and Banking

It is of no surprise, that a great majority of people are affected by the activities of financial organizations, be they employers, employees, investors, everyday people paying their bills, taking out loans, etc. Characteristically, these are long-term multivalent relations that are of a high social significance. In other words, irresponsible behaviour on organizations part affect well-being of clients and of community in general, at the same time the financial sector is influenced and affected by the indirect impacts of the environmental and social activities of its clients. These impacts in many cases can outweigh the direct impacts, since they can result in low ranking of country by the international financial institutions, for instance, World Bank, European Investment Bank and others.

In the realm of consumer banking criticisms regarding social responsibilities are often related to the facts of financial exclusion of the groups of people or misselling of financial services and products to community, whereas as positive examples we can mention the financial support of relatively poor consumers and would-be entrepreneurs. According to Kurtz (2008), CSR in the financial sector refers to the inclusion of ethical, religious, social and/or environmental aspects in investment decision processes – over and above considerations of financial risk and return. Hence, the main aspects of CSR in the banking are risk management, protection of customers' rights, complaint management, strengthening ethics, combating bribery and corruption (Viganò & Nicolai, 2009; Yeung, 2011).

Applying the classical depiction of the CSR pyramid by A. B. Carroll (1991) it is possible to describe CSR activities in the banking sector in the following way.

- *Economic responsibility.* This involves financial innovation – creating new opportunities for customers, developing new products, applying risk management and mediation of resources. Interaction with stakeholders has a crucial role in determining these new products.
- *Legal responsibility.* Regulation is determined by statutes, and its aim is to minimize risk and ensure safety and confidence in the financial system. This involves also a compliance with the guidance of different supervisory institutions and trade associations.
- *Ethical responsibility.* This type of responsibility is the most obvious in the stakeholder dialogue regarding principles of integrity, fair conduct and transparency. The ethical norms and responsibility of various parties are fixed in the form of ethics codes (codes of voluntary ethical behaviour).
- *Discretionary (philanthropic) responsibility.* This responsibility is of a strictly voluntary nature; still, it has become a common practice of the financial institution, contributing to the welfare of the community, as well as to reputation (Decker & Sale, 2009).

Bank clients expect secure products, satisfactory and correct information; employees expect having safe workplace lacking discrimination (gender, age, racial, cultural, social and professional); competitors, on their part, expect a fair competition in the market. Banks' engagement in CSR activities indirectly ensure their competitive advantage – reflected in their financial performance and reputation capital.

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. What are perceptions and challenges for corporate social responsibility in manufacturing?
2. What are perceptions and challenges for corporate social responsibility in service industry?
3. What are the perceptions and challenges for corporate social responsibility in retail industry?
4. What are the perceptions and challenges for corporate social responsibility in human resources management?
5. What are the perceptions and challenges for corporate social responsibility in banking?

CORPORATE SOCIAL RESPONSIBILITY REPORTING

In the situation of dense competition in the market stakeholders evaluate companies not only by their financial performance, but also by non-financial indicators. Therefore, companies' CSR reports become a vital source of information. Through CSR reporting, companies are trying to present their efforts to reduce the negative impacts of their activities on the society and environment. According to Corporate Register, the global online directory of corporate responsibility reports past and present, in 2019 there were 105,627 reports registered across 17,691 organizations worldwide (Corporate Register, 2019). Although it is just one of global reporting frameworks (some others to be mentioned here are the ones of the Global Reporting Initiative, AA1000 Accountability Principles, etc.), it demonstrates that reporting is being viewed by companies as communication of their social involvement, as well as a tool for stakeholder engagement and creation of a competitive advantage. Another indicator of growing importance of CSR reporting is the KPMG Survey of Corporate Responsibility Reporting. KPMG is a network of professional service firms and one of the Big Four auditors, along with Deloitte, Ernst & Young and PricewaterhouseCoopers. In 2017, KPMG member firm professionals reviewed corporate responsibility and sustainability reporting from 4,900 companies in 49 countries and regions. The survey provides a detailed look at global trends in CR reporting and insights for business leaders, company boards, and CR and sustainability professionals. The survey spotted four major emerging themes in the CSR reporting: climate-related financial risks, UN Sustainable development goals, human right, carbon reduction (KPMG, 2017). Despite the fact that thousands of CSR reports are being published every year, there is neither a unified definition, nor a unified format of reporting. Reports are being named differently (sustainability reports, environmental, health and safety reports, community affairs reports, etc.); they focus on different issues related to the industry and/or type of company activities (environmental sustainability, communities and giving, people and culture, ethics and compliance, governance, health and safety, etc.). Nevertheless, the purpose of all reports is to demonstrate relations between organization and society.

Scope of CSR reporting

CSR report is a possibility to inform society about company values, social initiatives, as well as about products and services. Regular CSR communication brings the company certain advantages:

- Transparency –awareness of CSR activities,
- Supervision of CSR activities – allows to follow implementation of the CSR strategies and to pinpoint weaknesses,
- Involvement of stakeholders – creates trust and loyalty,
- Cross-sector cooperation – partnerships between businesses, government agencies and non-profit organizations (Moravcikova *et al.*, 2015).

The form and content of the CSR report can vary, still there are some features allowing classification:

- According to the content, the report can be either a single report or a comprehensive report. Single reports mainly include environmental, health and safety information, focus is a single aspect. Comprehensive report mainly include CSR, sustainable development, corporation citizen, corporate social and environmental information, covering economy, society, environment and other aspects more extensively.
- According to the degree of comprehensiveness, the report can be divided into a generalized and narrow social responsibility report. The generalized CSR reports include all the reports in the formal way, i.e. a single report and comprehensive report. A narrow CSR report generally refers to CSR report (Shin, 2014).

Due to the variety of stakeholder groups, there is a number of ways how CSR reports can be employed. According to Ojaasoo (2016), there are six possible applications of the CSR reports:

Reading for investment. Reports are regarded as valuable source of information for the financial community. They provide knowledge about potential social and environmental risks investors may face, such as poor toxic waste management, lack of attention to labour standards, etc. Potential investors can find information about quality management and staff training programmes, customer service initiatives and brand loyalty strategies.

Reading for engagement. CSR reports can help identify key practices regarding company's environmental and social practices and willingness to construct a dialogue with the community.

Reading for employment. Employees working at the company or seeking employment can get information from the reports on the following issues: general corporate culture, employment policies, employee benefits, employee and union relations.

Reading for management. CSR reports can help identify spheres that need an improvement, as well as to measure progress, to carry out an internal and external ethics audit. Figure 6.1 shows main ways how CSR could earn stakeholders interest through an ethics audit. An ethics audit can identify hidden risks and vulnerabilities, which help direct the company to be more transparent and open. Through the ethics audit it is possible to gain a view on organizational health and sustainability, and the extent to which the business is driven by stakeholder interests and CSR principles. It can help to increase transparency in the organization and identify ethical risks (see Fig.6.1).

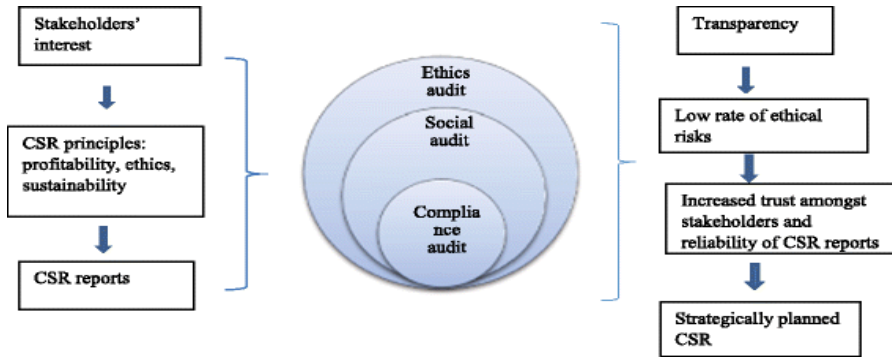


Figure 6.1. Relation between theoretical concepts and improved ethics audit (Source: Ojasoo, 2016)

Reading for purchasing. Communication concerning the customer should present how a company manages to integrate corporate responsibility into everyday practice. Communication with customers may disclose information about product quality and safety, customer satisfaction, fair trade practices, pricing, compliance with marketing and advertising ethics, etc. In general, CSR report can be used for building long-time customer loyalty.

Reading for research. For researchers – academic or empirical – CSR reports can provide a unique source of data, that allow to identify company progress, social and environmental activities, community involvement, etc. If initially CSR was regarded as public relations tool to inform society about company values and social initiatives, then today the report is considered to an important component of competitiveness building and strategy implementation. Taking into account various formats of CSR reports, there is a question – is it possible to summarize main functions of the CSR reporting? Although it is not possible to give one conclusive answer to this question due to the complexity of the issue, some descriptions of the roles are viable.

1. CSR report enhances the brand image. The image of socially responsible company can build public trust, attract new and retain existing customers
2. CSR report can be regarded as annual internal audit that helps to work out future CSR strategy.
3. CSR report reinforces employee loyalty to the company.
4. CSR as non-financial report in combination with the financial report can more comprehensively reflect the corporation's performance and development potential.
5. CSR report is an internal dialogue mechanism since it involves various departments, such as marketing department, research and development and finance ones.
6. CSR report is a new external communication means. CSR report is a new kind of means to transmit information and communicate responsibly to the

external stakeholders. Moreover, it helps strengthen the relationship and build the trust between the corporation and consumers and communities.

7. CSR report fulfils a proactive function; through the report corporate executives detect possible problems, thus preventing such events.
8. CSR report as evaluation tool. The development of CSR report requires evaluating the corporate contribution to nature and the society, assessing the corporation's future development.
9. CSR report can increase financial stability. Regular comprehensive report disclosure can help avoiding investor's behaviour transition caused by non-disclosure in time or a sudden disclosure, avoiding the acute fluctuation of stock price and improving the stability of shares and finance (Shin, 2014).

Summarizing all that has been mentioned above, it can be concluded that CSR report is an important instrument of strategic management (it examines the interaction between the corporation and society and promotes comprehensive analysis of strategic environment), as well as of daily management practices (procedures, performance, level of service, etc.). One more important thing to be mentioned here is that CSR report can promote brand image and value. It is helpful for the establishment of responsible image to make the society recognize the corporation and improvement of its brand value.

Key elements of CSR report

A complete CSR report has a rich content. At the same time, in order to achieve the role of CSR report and win the stakeholder's support, the report should meet the following three features:

- **Comprehensiveness.** The report contains both a complete concept of CSR and a comprehensive summary of the practice of CSR. It reflects not only the good side of practice but also the negative impact on the environment, namely, the deficiencies; reflects the economic value as well and social value and environmental value of the corporation, which is a comprehensive reflection of relationship between the corporation and society from the perspective of responsibility.
- **Systematic feature.** The role of the corporation and its responsibility should be systematically revised: positive and negative impact of the corporation's operation on the society and environment, interaction between the company and each stakeholder group, corporate value implementation, corporate governance, etc.
- **Continuous innovation.** The report provides a new angle of view for understanding the role and mission of the corporation from outside and inside; it reflects the value of the corporation from the perspective of stakeholder's expectations and participation and provides a way to find the existing problems, the improved direction and motivation (Shin, 2014).

In general, CSR reports all follow a similar format: they describe a social or environmental problem and then report on how much the company has spent on a range of good causes that aim to address the problem (Vartiak, 2016). The main purpose of CSR reports is to communicate everything about companies' social impact.

The responsibility and obligation from the perspective of the role. Corporations control most of the world's wealth, master the biggest share of resources and play a central role in the economy, society and even the global development and play an important role, which determines that the corporation should and must bear the mission and responsibility. In order the report to be regarded as effective strategic management tool several questions should be answered. These questions are:

- Is this CSR report a community affairs report?
- Does the report provide information about CSR practices as well as policies?
- Does the CSR report provide systematic data?
- Does the report present future goals as well as past practices?
- Does the report include bad news as well as good news?
- Does the report reflect company's greatest challenges?
- Does the company integrate the CSR report with its business strategy and financial reporting?
- Does this report provide links to secondary sources and additional materials?

Several factors have a significant impact on reporting. One of them is the size of the enterprise. Small and medium-sized enterprises can have closer contact with their stakeholders than large-scale and multi-national companies (Idowu, 2016). In addition to the size, the reporting is also influenced by the type of property (private or public company, shareholding company or joint venture, etc.). The generic content of the CSR report contains several key elements (Table 6.1).

Table 6.1. Generic content of CSR report (Source: Author's compilation)

Element of CSR	Features of the element
CEO's letter	The letter gives reader a sense of company's commitment to the CSR principles. It is important for both inner and outer audiences. It permeates corporate culture for insiders, as well as establishes the credibility of the report. It should state the general principles as main challenges the company faces.
Mission and values statement	Mission statement sets forth goals of the firm. Value statement enumerates the qualities the company seeks to cultivate and is known for. These public statements become standards to which the company is to be held and their performance measured.
Summaries of key facts and figures	A thorough report features summaries of key facts and figures prominently either towards the beginning of the report or in each section. These summaries make the most important figures easily

	accessible; they demonstrate what the company considers to be its greatest challenges and accomplishments.
Tables and graphs	Intelligently designed tables and graphs provide readers with an effective way to determine company's records and developmental trends.
Pictures and other graphics	Attention to layout and readability, inclusion of additional information is a sign of a well-thought and well-prepared CSR report. Still, if the report is dominated by illustrative materials, it can lose its informative value.
GRI Index and GRI Grade	Although it is not mandatory to present data in accordance to the Global Reporting Initiative, the standardized data allows carrying out benchmarking.
Statements of assurance or other third-party evaluations	These are statements verifying the reliability of CSR reporting processes. It is important that these assurances come from an independent source.
Interviews and surveys	Although it is not mandatory, some CSR reports include also interview and survey data. The purpose of this inclusion is giving the voice to stakeholders.

The CSR reporting gains even greater significance in the age of social media. The question for companies is how to meet the increasing demands for transparency and actual facts required from investors while engaging with their general audience at the same time. By re-describing the facts from their CSR reports and matching them to other digital channels, companies can reach a wider public or additional stakeholder groups having specific concerns (Nwagbara & Reid, 2013; Ali *et al.*, 2015). The boundaries between senders and receivers, information and communication, old and new media become blurred. Internet allows people (and of course, the stakeholder groups) to connect with other people (in the same stakeholder group or in other groups). It also allows people to easily create, access, publish, share, distribute and track contents. At the same time, we can observe a change from information control to knowledge sharing. In traditional communication, distribution of information between an organization and its stakeholders is highly controlled, Internet allows people and organizations to make available data, information and knowledge (Ali *et al.*, 2015). Traditional means of CSR communication usually involve digital advertising, digitalized CSR annual report, CSR brochures and the press releases in pdf and so on. This kind of communication can be characterized as mainly unidirectional, asymmetrical and orientated toward the dissemination of information (Cappriotti, 2011). New tools of communication make communication of CSR values a two-way process. Still, despite the wide spectrum of the internet communication tools, one of the most significant remains the *corporate website*. Presence of a specific section that is dedicated to CSR signifies an explicit recognition of the topics in question. It is especially important if their CSR initiatives are a good fit for company's mission and vision (Kotler & Lee, 2005). By proactively communicating with stakeholders and involving them in strategy planning and practices of CSR, companies can form long-term connections and effectively manage and respond to

the growing influence of the various stakeholders. The contents of an annual report, a sustainability report or a corporate homepage in terms of CSR activities is becoming an important platform for communication.

CSR reporting frameworks

Since the end of 1990s a significant growth in the number of indices (commonly dubbed ‘benchmarks’) can be observed, with the overriding objective to describe economic situation of the companies meeting certain CSR requirements. As it was mentioned above, the structure of the report, inclusion or exclusion of certain elements depend on the company’s size, aims, stakeholders as well as industry demands, but the global business environment requires reporting using certain standardized indices. There are various CSR reporting frameworks, in the current chapter five of them is being discussed, respectively the ones of GRI (Global Reporting Initiative), CDP (Carbon Disclosure Project) CDSB (Climate Disclosure Standards Board), DJSI (Dow Jones Sustainability Index), ISO 2600 (International Standard – Guidance of Social Responsibility), AA 1000 series (AccountAbility) (Table 6.2).

Table 6.2. CSR global reporting frameworks (Source: Author’s compilation)

Framework	Focus	Why report	Who reports
GRI	CSR with an equal weight on environmental, social and governance factors. Heavily on stakeholder engagement to determine materiality	The official reporting standard of the UN Global Compact, the default reporting framework for organizations involved	Public and private companies, cities, government agencies, universities, hospitals, NGOs
CDP + CDSB	Primarily GHG emissions, but has grown to address water and forestry issues	CDP together with CDSB hold the repository of corporate GHG emissions and energy use data	Public and private companies, government agencies, NGOs, supply chains
DJSI	Industry-specific criteria considered material to investors. Equal balance of economic, social and environmental issues	The corporate sustainability assessment (CSA) brings sector-specific focus and need-to-know simplicity to disclosure for public companies	2500 largest public companies in the world
ISO 2600	Operation in a socially responsible way. This means acting in an ethical and transparent way that contributes to the	Assist organizations in addressing their social responsibilities while respecting cultural, societal, environmental, and legal differences and	Private, public, and non-profit sectors

	health and welfare of society	economic development conditions; provides practical guidance related to making social responsibility operational	
AA 1000 series	Sustainability strategy and performance	A practical set of internationally accepted and auditable guiding principles with which organizations can effectively shape their sustainability strategy and successfully manage their sustainability performance	Designed to be of use to organizations regardless of size or sector

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) first started in 1997 in Boston. GRI reports follow the triple bottom line system with a stakeholder approach and are widely applied all over the world, it employs several levels (e.g., A, B, C) differentiated by the scope of subjects and volume (GRI Homepage). GRI complements existing financial reporting frameworks with an environmental reporting framework that provides guidance for companies in reporting on the environmental sustainability of its current operations. The GRI Standards were released on 19 October 2016 (GRI, 2018). The primary goal of the framework is to provide reporting guidelines for organizations: methodology, process of creating reports, and set of indicators that enable presentation of results gained by given organizations. The document contains reporting principles for defining report content (stakeholder inclusiveness, sustainability context, materiality and completeness) and for defining report quality (accuracy, balance, clarity, comparability, reliability and timeliness). These principles belong to the set of general standards that are used for setting the background for topic-specific (economic, environmental and social) requirements. The economic standards are: economic performance, market presence, indirect economic impact, procurement practices, anti-corruption, anti-competitive behaviour. The environmental standards concern materials, energy, water and effluents, biodiversity, emissions, effluents and waste, environmental compliance, supplier environmental assessment. The most extensive count of standards are applied to the social sphere, just a few of them are mentioned here: employment, labour/management relations, occupation health and safety, non-discrimination, child labour, local communities, marketing and labelling, customer privacy, etc.

Carbon Disclosure Project (CDP) + Climate Disclosure Standards Board (CDSB)

Carbon Disclosure Project (CDP) is a non-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Companies and investors can disclose climate change and elements of environmental information through the CDP platform, which provides

the structure for data collection and the content for reporting. Through its reporting framework, CDP provides the guidance to communicate that content in mainstream reports, which helps companies inform their investors and stakeholders, while providing regulators with a comprehensive set of information. CDP together with CDSB (Climate Disclosure Standards Board) have worked out the ‘CDSB Framework Advancing and aligning disclosure of environmental information in mainstream reports for reporting environmental information, natural capital and associated business impacts’ (CDSB, 2018). The objectives of the CDSB Framework are to transmit organizations’ sustainability information, to provide data for investors regarding their environmental performance within the context of overall performance, to enable investors’ decision-making process, to simplify the reporting process.

The first CDSB Framework, the Climate Change Reporting Framework, released in 2010, focused on the risks and opportunities that climate change presents to an organization’s strategy, financial performance and value. In 2013, CDSB’s Board agreed to expand the scope of the Framework beyond climate change and greenhouse gas (GHG) emissions to encompass environmental information and natural capital. Environmental information about the reporting organization includes natural capital dependencies, environmental risks and opportunities, environmental policies, performance against environmental targets.

The results of the reporting are the following:

- Investors will have better quality information about the climate and environmental opportunities and risks disclosed by a company, therefore making better informed capital allocation decisions,
- Companies can use the CDSB Framework to incorporate climate change and natural capital-related information in mainstream financial reports. The CDSB Framework can help them understand how environmental issues affect their performance and the necessary actions they could take to address the related risks and opportunities,
- Regulators can benefit from standards-ready material and a framework that can be immediately adopted or referenced as a method of compliance in regulation or guidance,
- Analysts can be better equipped to utilize climate change and natural capital-related information in determining impacts on future cash flow and ultimately company valuations.

Dow Jones Sustainability Index series (DJSI)

The Dow Jones Sustainability Indices (DJSI) are a family of benchmarks for investors who have recognized that sustainable business practices are critical to generating long-term shareholder value and who wish to reflect their sustainability convictions in their investment portfolios. The indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for investors who wish to encourage companies to improve

their corporate sustainability practices. Only the top ranked companies within each industry are selected for inclusion in the Dow Jones Sustainability Index family. The key factor in selecting constituents for any DJSI index is a company's Total Sustainability Score (TSS), calculated under the annual Corporate Sustainability Assessment (CSA). The annual CSA process begins in March each year, with new scores released in September. The Corporate Sustainability Assessment (CSA) helps companies understand which sustainability factors are important from an investor's perspective, and which in turn, are most likely to have an impact on the company's financial performance. Thus, the CSA serves as a sustainability roadmap helping participating companies to prioritize corporate sustainability initiatives that are most likely to enhance the company's competitiveness.

International Organization for Standardization (ISO 26000)

ISO 26000 standard was issued in 2010 as a guideline for sustainable development, it stressed that compliance with law is one of the most fundamental aspects of CSR. The seven main principles of the standard are: accountability, transparency, ethical behaviour, respect for stakeholder interests, respect for the law, respect for international norms of behaviour, respect for human rights. At the same time the subjects covered in the standard are: organizational governance, human rights, labour practices, the environment, fair operating practices, consumer issues, community involvement and development (see Figure 6.2). Still, preparing the report each organization can decide the particular areas of importance to pay attention to (International Organization for Standardization).



Figure 6.2. Seven core subjects of social responsibility according to ISO 26000 (Source: International Organization for Standardization)

ISO 26000 provides guidance how to act effectively, rather than requirements, so it cannot be certified to unlike some other ISO standards.

AccountAbility (AA 1000) series

Sustainability and accountability are spheres that are especially important for various groups of stakeholders. They increasingly challenge organizations to set clear sustainability objectives; to measure and monitor their progress; and to show impactful performance in areas of material importance (AA 1000, 2018). The AA 1000 series were developed in 1999 through multiple stakeholder consultations. As a result these standards offer a guideline of how to design and implement the organization's social and ethical accounting, auditing and reporting processes. This standard was followed by the standards published in the years of – 2003, 2005, 2008, 2015 and 2018 (the revised edition of the latter one is being published in 2019). The core principles of the standards are: inclusivity, materiality, responsiveness, impact (Figure 6.3).



Figure 6.3. AA 1000 Accountability Principles (Source: AA 1000, 2018)

Inclusivity in the AA 1000 series means, first, the identification of stakeholders, second, engaging them in determining company's sustainability issues, third, developing the strategic response to them. An inclusive organization accepts its accountability to those on whom it has an impact and to those who have an impact on it.

Materiality principle regards the identification and classification the most relevant sustainability topics, taking into account the effect each topic has on an organization and its stakeholders in short, medium and long-term. Criteria for topic identification

are: industry, geography, business model and structure; the development of clear, balanced and replicable assessment criteria; and an assessment approach that is integrated into organizational processes.

Responsiveness is company's relevant and appropriate response to sustainability issues and their internal and external impact. Responsiveness is realized through decisions, actions and performance, as well as communication with stakeholders by establishing targets and objectives, developing management systems and processes, creating plans and ensuring their implementation, monitoring the process and outcomes.

Impact regards the result, the outcome of organizational behaviour on the economy, the environment, society, stakeholders and the organization itself (AA 1000, 2018).

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. What are the main principles for corporate social responsibility reporting?
2. Who benefits from corporate social responsibility reporting and what types of benefits are there?
3. What are the specific goals for corporate social responsibility reporting?
4. What main elements does corporate social responsibility report contain?
5. What are the core subjects of corporate social responsibility, which are to be outlined during reporting?

CONCEPTUAL FRAMEWORK OF BUSINESS ETHICS

Defining Business Ethics

According to *The International Encyclopedia of Ethics*’ business ethics is described in the following way: “‘Business ethics’ is a concise, but in many ways misleading, label for an interdisciplinary field covering a vast range of normative issues in the world of commerce. The label lends itself most directly to a core set of questions about how individuals in the business world ought to behave, or what principles they might appeal to in order to negotiate moral dilemmas at work. But if we consider the array of topics covered in the leading business ethics journals or textbooks, we see that these core issues about individual virtues and ethical decision-making are surrounded by layers of issues involving organizations and institutions. In other words, business ethics in the broadest sense also inquiries about the most appropriate or just designs for firms, markets, market regulations, and political oversight in a democratic society and a globalized economy.” (Norman, 2013).

This is only one definition of many, they varies according to different philosophical perspectives and analytical frameworks, still it exhausts such significant aspects as: normativity, individual-social relations, organizational behaviour, market and political conditions. Still, in our opinion, the most efficient way to describe the subject is through the lens of three Cs – compliance, contribution and consequences.

- *Compliance*. In order to operate in the socio-economic and legal environment successfully, each company has to work out its corporate policies regarding its corporate behaviour and adherence to the legal requirements of the given region. The ethical approach presupposes developing ethically responsible business culture.
- *Contribution* business can make to the society – to employees, to community, first of all ensuring the service/ product quality standards.
- *Consequences* regards the impact the business leaves on the environment and society.

Taking into account all that was mentioned above, it can be said that business ethics has twofold objectives, that is, it evaluates human practices by calling upon moral standards, and also it may give prescriptive advice on how to act morally in a specific kind of situation.

Levels of Business Ethics

In business, most ethical questions fall into one or more of three categories: individual (a ‘micro-level’), organizational (a ‘mid-level’) and societal (a ‘macro-level’).

- A ‘micro-level’ concerning the behaviour within business organization. It comprises such ethical issues as leadership, followership, communication, conflict resolution, etc. What rights and obligations do they have, what kinds of actions are permissible, what virtues and character traits should they

cultivate, how should they resolve dilemmas, and so on? These questions deal with the day-to-day issues of life in any organization.

- A ‘mid-level’ concerning the activities, policies, and behaviour of organization. This category can be called ‘internal policy’, it includes the issues of the strategic nature, such as developing codes of ethics (or codes of voluntary ethical behaviour), corporate social responsibility programs, etc.
- At the societal level, we ask questions about the basic institutions in the society. Companies wishing to do business there still face a complex set of issues as political, economic, and social dynamics change; the situation can still present an ethical conundrum for many companies. This level pertains issues of human rights, sustainability, and perception of corruption, bribery and discrimination. Societal level questions usually represent an ongoing debate among major competing institutions. A ‘macro-level’ also concerns the structure of markets and their regulation within a democratic state and an international economy.

Approaches to Business Ethics

There exist several perspectives of business ethics due to the lack of clear definitions of the subject itself, nevertheless it is possible to delineate two main approaches – the instrumental and the philosophical ones. The basic difference between them lies in the particular configuration of business and ethics relation, or – in the question which of them is primary and which is secondary. Ultimately, both perspectives are interconnected. A key function of business ethics is to properly relate business to its societal contexts, i.e., to the norms and values of stakeholders and the society.

Instrumental Perspective

The instrumental perspective of business ethics considers the function of ethics for business, that is, business demands come first, ethical treatment follows. It doesn’t mean that ethics is unimportant, still the question is about placing accents. The question to be asked is: What role ethics play in business? Does it ensure some added value? The task of business ethics is to develop ethical tools that support business success and to provide knowledge of how to optimally implement such tools into business strategies, operations, and organizational design (Becker, 2019). Globalization and technical advancement bring forth ever new ethical challenges, for example, issues related to security and privacy, data storage and analysis, different normative requirements, legal frameworks. The lack of ethical standards can result in company’s disadvantageous market position. Serious instances of internal wrongdoings, such as harassment cases, stealing from the company, and bribery cases, can threaten business success and result in serious legal issues.

Philosophical Perspective

Contrary to the instrumental approach, the philosophical one starts from the ethical vantage point. The questions are: What is the ethical meaning of business? What is the meaning of business or economic aspects within a broader ethical context? The ethical theories are derived from the works and thoughts of a number of key

philosophers. Three major theories relevant for the field of business ethics – utilitarianism, deontology and virtue ethics – are discussed below.

Utilitarianism

Utilitarianism is concerned with consequences and the course of action that benefits the greatest number of people, regardless who these people are. The most decisive feature of utilitarianism is the one of impartiality the ethically best action is the one that benefits majority of people. Important original contributions to the development of modern utilitarianism were made by Jeremy Bentham (1748–1832), John Stuart Mill (1806–1873), and Henry Sidgwick (1838–1900). It is possible to delineate four basic characteristics common to all theories:

- The grounds for ethical valuation of any given action are consequences.
- Effect on all persons involved should be taken into account.
- Distinction between ethical/unethical on the individual level lies in the harm/benefit inflicted. This does not just refer to physical pain and pleasure, but to all kinds of pain and pleasure, including psychological and economic ones.
- Fourth, utilitarianism considers the overall happiness of all affected by an action. We need to sum up all pains and pleasures to evaluate the effect of the action on the overall happiness of all affected (Becker, 2019).

In order to apply the utilitarian method in a business situation four subsequent steps are to be taken:

1. Determination of all possible actions for a given case,
2. Identification of all parties who are affected by each alternative action,
3. Identification of the amount of harm inflicted to all parties,
4. Summing up all harms and benefits resulting from each alternative action, calculation of the impact of each alternative on the overall happiness of all affected. It can now be easily determined which alternative maximizes the overall happiness. This action would then be the ethically right one.

Deontology

Deontologists argue that the ends do not always justify the means. For them only the act (action) is important, not the consequences or intentions. People should follow rules and never deviate. Despite its strengths, rigidly following deontology can produce results that many people find unacceptable. Deontology is often associated with German philosopher Immanuel Kant (1724-1804) who asserted that consequences did not matter in comparison with human actions. Kant held that it was wrong to consider human beings as means to an end (Bibb, 2010).

Scottish philosopher W. D. Ross (1877-1971) developed the hierarchy of obligations. He identified seven major *facie* obligations: fidelity, reparation, gratitude, justice, beneficence, non-maleficence, and self-improvement. Nonetheless, there can never

be a true ethical dilemma, Ross would argue, because one of the main *facie* duties in a given situation is always the weightiest and over-rules all the others. This is thus the absolute obligation or absolute duty, the action that the person ought to perform.

Virtue Ethics

Virtue ethics is a normative ethical theory about the definition and realization of virtues and human excellence. In contrast to utilitarianism and Kantian ethics, virtue ethics is not focusing so much on the single ethically right action, but more on questions such as: What is a good person? What is a good character? What is human excellence? What is a good life? These are fundamental ethical questions of everyday life. The roots of virtue ethics comes from Aristotle. He proposed 12 virtues and their corresponding attributes: courage – bravery and valour; temperance – self-control and restraint; liberality – bigheartness, charity and generosity; magnificence – radiance, *joie de vivre*; pride – self-satisfaction; honour – respect, reverence, admiration; good temper – equanimity, level headedness; friendliness – conviviality and sociability; truthfulness – straightforwardness, frankness and candour; wit – sense of humour – meaninglessness and absurdity; friendship – camaraderie and companionship; justice – impartiality, evenhandedness and fairness. Compliance to these virtues signifies a moral life. Do virtues matter for business? Integrity, honesty, and fairness can be considered general business virtues. These virtues matter for many business activities: they help individuals get along with customers, co-workers, suppliers, and other stakeholders in an exemplary way, and, by this, support business and professional success. Loyalty can also be regarded as virtue in business ethics. Effective leadership presupposes such virtues as courage, responsibility, fairness, or care. Further, there are virtues that are specific to a profession or a certain job. (Becker, 2017).

Ethical Organization

There are no univocal criteria to determine if the organization is to be regarded as ethical or unethical. For the study purpose, characteristics of the ethically decoupled and the ethically transformed organizations have been juxtaposed (Table 7.1).

Table 7.1. Characteristics of Ethically Decoupled and Ethically Transformed Organizations (Source: Johnson, 2012)

Ethically Decoupled Organizations	Ethically Transformed Organizations
See ethics as means to an end (profit, better public image)	See ethics as an end in itself
Comply with legal requirements	Exceed legal requirements
Exhibit organizational behaviour inconsistent with the stated values	Take actions that reflect collective values; the transformed organization ‘walks its talk’
Are insensitive to potential moral issues	Are highly sensitive to moral dilemmas
Emphasize rules and penalties	Emphasize adherence to shared values
Have a low awareness of ethical duties Dysfunctional conflict Tolerate misbehaviour	Have a high awareness of individual and collective ethical responsibilities Functional conflict Swiftly punish misbehaviour

Rarely discuss ethics; rarely use moral vocabulary	Routinely discuss ethics using moral vocabulary
Omit ethics from daily decisions and operations	Make ethics part of every decision and operation
Are driven by practical or pragmatic considerations (the bottom line)	Are driven by mission and values
React to destructive behaviours	Prevent destructive behaviours
Have ethically inconsistent reward structures	Have reward systems that promote moral behaviour
Show a high concern for self	Show a high concern for others
Sacrifice individual rights for organizational good	Honour and protect individual rights
Engage in self-centred communication (monologue)	Engage in other-centred communication (dialogue)
Have low to moderate trust and commitment levels	Have high trust and commitment levels
Have teams that routinely fall victims to unethical group processes	Have teams that are rarely victimized by unethical group processes
Show high concern for the organization	Show high concern for stakeholders, society, and the global environment
Hold and build power bases	Give power away
Exhibit low-level moral reasoning	Base reasoning on universal ethical principles
Prevent members from making moral choices	Equip members to make moral choices
Respond to changes in the ethical environment	Anticipate changes in the ethical environment
Invest little in building a positive ethical climate	Invest significantly in creating and maintaining an ethical workplace (i.e., training, socialization, leader involvement)
Are at significant risk of ethical misbehaviour and scandal	Are at low risk of ethical misbehaviour and scandal

Components of Ethical Culture

Components of ethical work culture can be divided in two categories – formal elements (core values, mission statements, codes of ethics, structure, reward and performance evaluation systems, reporting and communication systems, ethics officers) and informal elements (language, norms, rituals and stories, traditions, informal communication).

Formal elements

Core values. Most organizations formulate a few ethical values that form an axis around which the value system is being developed. The values are the main principles, it is important to communicate them throughout the organization.

Mission (purpose) statements. A mission statement is used by a company to explain, in simple and concise terms, its purpose(s) for being. It identifies an organization's

reason for being, its uniqueness and difference from competitors. These statements serve a dual purpose by helping employees remain focused on the tasks at hand, as well as encouraging them to find innovative ways of moving toward an increasingly productive achievement of company goals.

Codes of ethics. A code of ethics, also called a code of conduct or ethical code, sets out the company's values, ethics, objectives and responsibilities. A well written code of ethics should also give guidance to employees on how to deal with certain ethical situations without involving lawyers. Every code of ethics is different and reflects the company's values and business style. Some codes are short, setting out only general guidelines, and others are large manuals, encompassing a huge variety of situations. It is important that codes include also the conflict solving mechanisms (Singh & Prasad, 2017).

Codes of ethics typically address six main areas (Hoppen, 2002): conflicts of interest, personal data and confidential information, records, relations with internal and external stakeholders, other issues, such as health, safety, etc.

The codes of ethics are directed both to the internal and external public; involvement of employees (or building the code from the 'bottom up') is of a high importance, since only in that case the employees participate in the process of implementation of the document. This can be achieved by consultations, employee meetings, brainstorming. The implementation guidelines (procedures) is a vital part of the codes as well. The form and formulations of the code is as important, since employees should internalize and apply its principles (that is virtually impossible in case the code consists of theoretical concepts only). Furthermore, the code might simply consist of a set of rules that the employees are expected to follow ('do it or else'), rather than values-based and providing guidance on how to handle ethical dilemmas (Webley & Werner, 2008).

Reward and performance evaluation system. Rewards system is a powerful determinant of ethical or unethical behaviour. It goes hand in hand with a quality management system, plus clear and transparent principles of reward.

Reporting and communication systems. Companies should have open systems (channels) for violation reports. Organizations also need systems for communicating ethics messages. Constant communication is essential to reinforce the importance of ethics.

Ethics officers. A number of ethics officers vary from organization to organization depending on its size, industry, etc. Moreover, in majority of companies there are the so-called 'ethical commissions' that analyse ethical misbehaviour cases and pass their decisions.

Informal elements

Language. The style of day-to-day conversation is an important aspect of the ethical working culture (language can be offensive, harassing, discriminating, etc.)

Norms. Norms are commonly accepted standards of behaviour in the organization. They can be regarded as some type of unwritten contract among employees.

Rituals. Rituals are organizational behaviours that are repeated over regular intervals. Rituals serve many functions – introduction, integration, enhancement, conflict reduction, etc. In general, rituals are informal ways of implementing organizational values.

Stories. One way to determine the organization's ethical culture is to analyse its stories. A narrative qualifies as an organizational story when many people know it; these are stories about company history, heroes, past occurrences. Such stories can promote employee loyalty to their company, make them be proud members of the company.

Highly ethical organizations make sure that cultural components align and/ or support one another.

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. Define key features of ethical organizations.
2. What are the core ideas behind instrumental and philosophical approach towards business ethics?
3. What main formal elements of business ethics can you name? How are they implemented?
4. What main informal elements of business ethics can you name? How are they implemented?

BUSINESS ETHICS COMPONENTS

Business ethics can be viewed from different viewpoints (utilitarianism, deontology, virtue ethics, etc.), on different levels (individual, organizational and societal), in various business sectors (manufacturing and service, retailing, human resource management, etc.). Nevertheless, there are components that are present on all levels and in all sectors of business activities. The current chapter covers components of business ethics: (1) leadership ethics (2) followership ethics (3) communication ethics (4) ethics of conflict management and negotiations.

Leadership Ethics

Due to the great variation of theoretical approaches to the matter of ethical leadership, as well as the varying depth of empirical analyses the authors of the present book to apply the three-level leadership model: ethics of the leader, the means of ethical leadership, and the heart of leadership (Palmer, 2009).

The theories of the ethical behavior of leaders are related to leaders' personal model standards and role modelling. In other words, leaders who exhibit high moral standards usually do not violate ethical principles in their business activities (Bowie, 2005; Zaccaro, et.al. 2008). Though it has to be noted that the standards can be set too high to be able to comply with them. The second set of theories concerns the means of ethical leadership, that is, specific actions taken in performing leader's functions. It can also be described in the terms of leadership styles. But the problem consists in the fact that none of the leadership styles is inherently moral or immoral, although some of them tend to discern ethical dimensions – everything goes when the job has to be done. Taking into account the leader's position on the hierarchic ladder of the organization, he/she can often be viewed as a model for normative behavior (Mayer *et al.*, 2012; Ghahroodri *et al.*, 2013). The third set of theories presupposes an existence of common vision within the organization. However, if leader's vision is inherently in conflict with the mission of the business or when the vision is centred upon the mission that is inherently unsupportable, the ethical leadership fails (Bowie, 2005; Kaptein, 1998).

The models of ethical leadership are described in Table 8.1.

Table 8.1. Models of Ethical Leadership (Source: Reed *et al.*, 2011)

Model	Similarities	Differences
Transformational leadership	Concern for others – altruism Ethical decision-making Integrity Role modelling	Ethical leaders emphasize ethical standards and moral management (more transactional) Transformational leaders emphasize vision, values, and intellectual stimulation
Authentic leadership	Concern for others – altruism Ethical decision-making	Ethical leaders emphasize moral management (more transactional) and “other” awareness

	Integrity Role modelling	Authentic leaders emphasize authenticity and self-awareness (dark side – can have unrealistic expectations of an unattainable level of self-knowledge)
Spiritual leadership	Concern for others – altruism Integrity Role modelling	Ethical leaders emphasize moral management Spiritual leaders emphasize visioning, hope/faith, work as vocation
Servant leadership	Concern for others – altruism Integrity Role modelling Moral manager Transactional/transformational	Ethical leaders emphasize the aspect serving others, putting their interests before the self-interest

It is of no surprise that transformational leaders are thought to be ethical one who role-model the ethical conduct (Brown & Mitchell, 2010), the same regards the authentic leadership (Walumbwa *et al.*, 2008; Yukl, 2008; George, 2003). The transformational leadership is defined as a process where leaders and followers engage in a mutual process of raising one another to higher levels morality and motivation. (Turunc *et al.*, 2013) It comprises five leadership dimensions: idealized attributes, idealized behaviours, inspirational motivation, intellectual stimulation, and individualized consideration. They influence others by developing collective vision and inspiring them to look for a common good, rather than their self-interest. The spiritual leadership can be defined as the one that places emphasis upon the moral engagement of the followers. The servant leadership presupposes a non-hierarchical structure of the organization, where the ethical culture is based on the serving to common goals by each and every member of the organization.

A set of criteria to distinguish ethical/unethical leadership is developed by G. A. Yukl and G. Yukl in their book *Leadership in organizations* (2002) (Table 8.2)

Table 8.2: Criteria for determination of ethical leadership (Source: Yukl & Yukl, 2002)

Criterion	Ethical Leadership	Unethical leadership
Use of leader power and influence	Serves followers and the organization	Satisfies personal needs and career objectives
Handling diverse interests of multiple stakeholders	Attempts to balance and integrate them	Favours coalition partners who offer the most benefits
Development of a vision for the organization	Develops a vision based on follower input about their needs, values and ideas	Attempts to sell a personal vision as the only way for the organization to succeed
Integrity of leader behaviour	Acts consistent with espoused values	Does what is expedient to attain personal objectives

Risk taking in leader decisions and actions	Is willing to take personal risks and make necessary decision	Avoids necessary decisions or actions that involve personal risk to the leader
Communication of relevant information operations	Makes a complete and timely disclosure of information about events, problems and actions	Uses deception and distortion to bias follower perceptions about problems and progress
Response to criticism and dissent by followers	Encourages critical evaluation to find better solutions	Discourages and suppresses criticism or dissent
Development of follower skills and self-confidence	Uses coaching, mentoring and training to develop followers	Deemphasizes development to keep followers weak and dependent on the leader

In sum, the criteria relevant for judging ethical behavior of a leader include individual values, conscious intentions, freedom of choice, stage of moral development, types of influence used, and use of ethical as well as unethical behavior.

Followership Ethics

Most publications on corporate ethics emphasize the role leaders play in creating and promoting the ethical work culture, reinforcing ethical behavior in the workplace. Nevertheless, some broadly publicized scandals show that it is often the leaders who act unethically and demand the same behavior from the followers. (Carsten & Uhl-Bien, 2012). We can mention here the example of the leaders' unethical behavior in the case of Volkswagen Diesel emission test in 2015. The internal investigation revealed that fifty members of staff mostly in Wolfsburg confessed that they were completely aware of emission scandal activities (Mansoury, 2016). Thus, the significant issue in business ethics is followers' responses to unethical requests by their leaders. In such situations, followers must make a decision. They can choose to object to the unethical request (by refusing to engage in unethical practices) or they can go along with the leader's request, in essence agreeing with the unethical behavior. In the contemporary business environment due to such factors as use of high technologies, specialization, new leadership paradigms, such as networking, the role of followers is growing. Hence, ignoring followers is short-sighted on the part of management.

To describe the growing role of employees in organization a concept of authentic followership has been developed (Leroy *et al.*, 2015). The authentic followership describes the process whereby followers come to experience the autonomous motivation and realize their potential. In this case they would be able to act morally on their own accord rather than being demanded by the leader. The authentic followership can be described by the means of three characteristics:

- *Psychological ownership* is grounded in the sense of belonging to an organization, a sense of an employee self-identity, accountability, efficacy;

- *Trust* – the authentic followers own up to their shortcomings, at the same time they encourage their leaders to follow their example;
- *Transparency* – the authentic followers are willing to share their thoughts, values and feelings, are ready to build transparent relations with the management based on honesty, feedback and communication (Johnson, 2012).

At the same time, there are certain challenges the employees face when placed in the situation of choice. These challenges are the ones of obligation, obedience, dissent, and cynicism (obligation to follow uncritically the leader's proposed course of actions, obedience to inherently unethical requirements, ability/inability to express dissent and cynicism arising from powerlessness).

The authentic followership is an active, relational process, where the followers contribute to organizational goals and possess a mutually influential relationship with the leader. This relationship must be built on trust and loyalty (Ford and Harding, 2018). Moreover, the trust is necessary for followers to have confidence in the leader.

Communication Ethics

Organizational communication (both internal and external) can be described as the use of available resources to convey information, to move, to inspire, to persuade, to enlighten, to connect. Regardless the mode and context of communication process the ethical communication involves three basic components: choice, values and consequences, that is, the choice of means of communication, the values to be communicated and, the consequences of the communication process. (Shockley-Zalabak, 2015)

Internal communication in the workplace occurs at all levels: supervisor to employee, manager to supervisor and executives to employees – one-on-one and in group settings. It can be of the formal or informal character. In order to qualify a communicative action within organization as ethical or unethical, Redding's Typology of Unethical Organizational Communication (Redding, 1996) can be applied here. The resulting typology of unethical organizational communication consists of six general categories. Let's have a brief insight into each category of unethical communication:

- *Coercive communication* can be characterized as intolerant to any possible dissent, restricting of freedom of speech, refusing to listen, resorting to formal rules and regulations, etc.
- *Destructive communication* implies attacking receiver's self-esteem, reputation, or deeply held feelings; reflecting indifference toward, or content for, basic values of others. This can be in the form of insults, derogatory innuendoes, epithets, jokes (especially those based on gender, race, sex, religion, or ethnicity), put-downs, back-stabbing, character-assassination, and so on. Besides that, it can include concealing information or revealing it to the unauthorized persons. In the case of destructive communication, information can be used as means of employee manipulation.

- *Deceptive communication* presupposes the form of relying information, this includes evasive or deliberately misleading messages, bureaucratic-style euphemisms designed to cover up defects, to conceal embarrassing deeds, or to ‘prettify’ unpleasant facts. The aim of such communication is to distort receiver’s perception and interpretation of reality,
- *Intrusive communication* gains a special importance in the 21st century in relation to development of modern technologies that allow to intrude deeply into personal lives of individuals, for example, leaking information.
- *Secretive communication* includes hoarding information and sweeping under the rug information that could expose legal or ethical violations
- *Manipulative-exploitive communication* can be described as the one using different rhetoric technologies in order to get the desired result by exploiting people’s fears, prejudices, or areas of ignorance (Macau, 2009; Redding, 1996).

In contrary to this typology, the ethical organizational communication can be characterized as free exchange of information, orientated towards problem solving. It exhibits regard for privacy), honesty (refusal to lie to internal and external stakeholders), regard for individuality, it is transparent and sincere.

A special importance ethics of communication gains in the light of the new IT paradigm that particularly affects social and economic transformations is its ‘networking logic’, that is, more complex interactions that are organized by networks. M. Castells (2010) describes changes that have taken place within last two decades, the most significant of them being the merger of Internet and wireless technologies (the mobile Internet, the Wi-Fi connections are broadly used today, wherever we are, wherever we go people sit with their cell phones or tablets and browse the net). According to the authors, new media exhibits six distinctive characteristics. (1) Every consumer is a producer – the reader creates the content, as in the case of Wikipedia, that can be developed by everyone (in, on one hand it embodies the very spirit of new media – a free exchange of information, the, on the other hand, for academic purposes this information can be regarded as untrustworthy. (2) The new media gains authenticity precisely because content creators are not working for any professional media organization. (3) The new media allow to choose one or another way of expression, or even different combinations of tools, for instance, Twitter and Instagram, YouTube and Facebook, etc. (4) It is free of charge for content creators and readers. (5) The new media is highly compatible (according to the public relation specialists, the organization today should employ not less than three social media channels). (6) The new media exhibit intrinsically social character and facilities creation of new communities (Levinson, 2009).

This new social and technological reality brings forth some possible ethical pitfalls, among them we can mention the following ones (the most significant, in our opinion):

Privacy issues – appropriate or inappropriate handling of privacy settings (people tend to view Facebook as private conversation while forgetting that information

posted could be used for many causes, including job interviews, prowling, even stalking). The paradox lies in the fact that it is a public space, but at the same time the account is private. This raises an issue – up to which point officials are entitled to pry into the private posts, liking histories etc. The landscape of privacy issues was changed drastically by Regulation (EU) 2016/679 of the European Parliament and of the Council¹¹, the European Union’s (EU) new General Data Protection Regulation (GDPR), regulates the processing by an individual, a company or an organization of personal data relating to individuals in the EU. Personal data is any information that relates to an identified or identifiable living individual. Different pieces of information, which collected together can lead to the identification of a particular person, also constitute personal data. Personal data that has been de-identified, encrypted or pseudonymized but can be used to re-identify a person remains personal data and falls within the scope of the GDPR. Personal data that has been rendered anonymous in such a way that the individual is not or no longer identifiable is no longer considered personal data. For data to be truly anonymized, the anonymization must be irreversible (European Commission, 2018).

Virtual communities and networking. Although formation of communities can be regarded as a positive factor (as discussed above), at the same time there exists a possibility that virtual communities can substitute the real ones.

Improper anonymity. In the business setting anonymity can take a form of false endorsements of a product or service, anonymous feedbacks, fake success stories, etc.

Misuse of free expertise and contests. This aspect concerns organizing contests on social media, when the sent in ideas that have not been rewarded can be used later by the company without consent an an author. This abuse is especially unethical if the sponsor knowingly gathers superior design ideas from contestants they have no intention of compensating.

Integrity risks involve irresponsible use (or use for purely personal purposes) of company social media channels by the employee.

Screening services. These services can be an ethical challenge for both employers and employees in case the performance appraisal is based on personal information drawn from the social media.

Advertising and marketing practices in the era of social media have gained a special ethical importance. The interactive nature of social media provides companies with the ability to engage with customers more directly than other forms of media. This poses new ethical challenges, such as, for example, advertising on the private pages of customers, sending spam messages, etc.

Ethics of Conflict Management

The culture of organization, especially its ethical component, has a strong impact upon success of conflict resolution policies and practices. While corporate ethics and dispute resolution programmes are often viewed as separate organizational strategies, it is important to address them in a holistic manner. This approach typically addresses a wide range of conflicts, such as workplace disputes (for example, harassment,

discrimination, clash of individual interests), disputes with external stakeholders (for example, suppliers and customers) and disputes with regulatory agencies. Although it is impossible to develop a single conflict resolution matrix, a company should work specific policies and procedures of conflict resolution, as well as introduce management and employees training programs (Walker & Deavel, 2008).

The organizational conflict literature has identified three common forms of conflict: relationship conflict or affective conflict, task or cognitive conflict and process conflict (Panteli & Sockalingam, 2005).

- *Relationship conflict* in the workplace is related to differences in personality, character, style, etc. People of different background with different attitudes towards things are often thrown together and must try to get along.
- *Task conflict* involves issues related to employees' work assignments, differences of opinion on procedures and policies, interpretation of situation, etc.
- *Process conflict* refers work procedures. (Moreno *et al.*, 2009).

Researchers have defined particular steps in ethical conflict management: identification of conflict type, context, personal conflicting style, working out and applying conflict solution guidelines.

One of the problems closely related to conflict management is the one of *workplace harassment*. Harassment can be defined as unwelcomed conduct in the. It can be based on race, colour, religion, gender, national origin, age, or disability. From the legal point, harassment becomes unlawful in two occasions: when the inappropriate conduct becomes a condition for employment, or when the conduct creates intimidating, hostile, or abusive work environment (Hejase, 2015). Recent (2019) sexual harassment scandals involving Hollywood producer Harvey Weinstein have brought forward this type of harassment, that can appear in the form of gender-based (nonsexual) comments and behaviours in order to demean women, unwanted sexual attention (verbal or physical), coercion or forcing employees into unwanted sexual activities against their will. Possible results of the sexual harassment in the workplace can be: hostile work environment, decreased productivity, feeling of dissatisfaction, distrust and disrespect, bad reputation and so on.

The issue of the sexual harassment has been discussed also on the European level. Thus, European Parliament resolution of 26 October 2017 on combating sexual harassment and abuse in the EU states the principal equality of genders and that sexual violence and harassment in the workplace is a matter of health and safety and should be treated and prevented as such (European Parliament, 2017).

If the conflict situation arises, then it is necessary to resolve the situation by taking into account positions of all parties involved, by activating ethical commissions, by developing conflict solution manual for the given company.

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. Describe models of ethical leadership.
2. Define the main ethical in contemporary business organizations.
3. What is ethical communication? Define its key features
4. What are the five steps of ethical conflict management?
5. What are the main approaches towards managing ethical negotiations in business environment?

ETHICAL DECISION MAKING PROCESS

The task of the current chapter is to discuss the ethical decision-making process in business. In general, the ethical decision-making means the process of choosing and evaluating different alternatives against the background of existing ethical principles. The process involves an identification and elimination the unethical options, and after that – making the informed (the conscious) choice. This is especially important because employees and managers face ethical issues daily, potentially leading to misconduct on different organizational levels – from the corporate to the societal ones. Taking into account the extent of the extent of illegal and unethical business activity that continues to transpire and the resultant costs to societal stakeholders including shareholders, employees, consumers, and the natural environment, the importance of ethical decision-making by individual employees and managers in business organizations is no longer in doubt. We can mention here, for instance, the financial scandals (Enron, WorldCom), the consumer product scandals (Bridgestone/Firestone tire blowouts), the environmental catastrophes (British Petroleum oil spill in the Gulf of Mexico). In addition to that, the bribery and corruption scandals arise every year throughout the world. Annual surveys by the Transparency International demonstrate the high levels of corruption perception within the public sector. The Corruption Perception Index ranks 180 countries by their perceived level of corruption using the scale from zero (highly corrupt) to 100 (the least corrupt). The index of 2018 demonstrated that two-thirds of all countries score below 50, with an average score of 43; these data suggest that most countries have not been very successful in their fight against corruption. (Corruption Perception Index, 2018)

There are different ways to tackle the problem of ethical/unethical decision-making in business, either from theoretical or practical viewpoint. If the theoretical analyses evolve around issues of the philosophical (axiological) nature, the practical approaches are more solution-oriented. The current chapter pays attention to the latter aspect, it is divided into two parts: (1) the context (individual and organizational) of ethical decisions making; (2) the framework of ethical decision-making.

Still, prior to the discussion it is necessary to give description of the basic terms used in the chapter. An *ethical issue* can be defined as a situation in which an individual must reflect upon competing moral standards in determining what is a morally appropriate decision or action. *Ethical dilemmas* are to be understood as more challenging situations involving ‘right versus right’ or ‘wrong versus wrong’ alternatives, such as deciding which employee to lay-off or whether to anonymously report the misconduct of a manager. *Moral temptation*, however, involves ‘right versus wrong’ alternatives linked more directly to our self-interest. *Moral judgment* is defined as the determination of the most ethically appropriate or the least ethically objectionable course of action among potential alternatives. *Ethical behaviour* is behaviour that can be supported by one or more moral standards (Schwartz, 2017).

Context of Ethical Decision-making

When talking of ethical decision-making in business both the individual and the situational (organizational) factors are of an equal importance. In order to understand the process, we have to take into account the following factors – first of all, the person’s moral character, then the situational context (for example, company’s values and norms, moral standards, etc.), and, finally, - the urgency or intensity of the particular ethical issue for the individual (Figure 9.1).

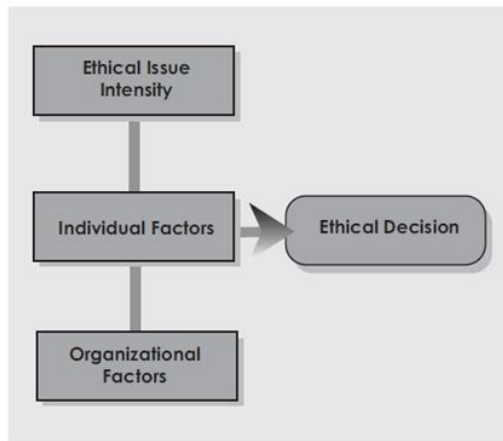


Figure 9.1. Framework for Ethical Decision-making in Business (Source: Ferrell *et al.*, 2015)

Any ethical decision-making process requires an individual or group work in choosing among various possible actions that eventually would be regarded as right or wrong by the stakeholders within and outside the company. Therefore, the first step is becoming aware that an ethical issue exists at all. Ethical awareness is the ability to perceive whether a situation or decision has an ethical dimension at all. Costly problems can be avoided if employees are able to first recognize whether a situation has an ethical component. Nevertheless, in cases when decision-making is a part of everyday job routine, it is easier to overlook certain ethical issues (for instance, when job routine involves hiring and laying off people on daily basis and something like that). This makes it important for organizations to train employees in recognition of the potential ethical consequences of their current decisions. The scope of the training programs could vary, but all in all they should include familiarization with societal and organizational ethical values and norms, possible ethical scenarios (typical problems and their solution possibilities). In other words, the training could help develop employees’ ethical awareness. The intensity of an ethical issue relates to its perceived importance to the decision maker. It is personal and temporal in character to accommodate values, beliefs, needs, perceptions, the special characteristics of the situation, and personal pressures prevailing at a particular place and time (Ferrell *et al.*, 2015). As research suggests, the individuals, when ethically challenged, are subjected to influence of their respective reference groups – the workplace, family, religion, legal system, community, and profession –

and the level of importance of each of these influences varies depending on how important the decision maker perceives the issue to be. According to McDevitt & Van Hise (2002), as well as to Schwartz (2017), the ethical issue intensity involves six main components:

1. Total harm/benefit caused by the respective choice (magnitude of consequences),
2. Social consensus (degree of agreement that option is good or evil),
3. Probability of effect (likelihood action will cause expected benefit/ harm),
4. Time (the time period between the present instant and the consequences of the act),
5. Proximity of closeness (the feeling of nearness that the moral agent has for the victims or beneficiaries),
6. The number of people to be affected by the action.

Individual factors of ethical decision-making. Facing ethical issues in their daily lives people, as a rule, ground their decisions in their personal perceptions, values, stereotypes, superstitions, etc. Usually they learn these values through the socialization process in family, social groups, formal and informal education. Among the individual factors that govern ethical decision-making, gender, age, education, culture and relation to power can be mentioned (Figure 9.2).

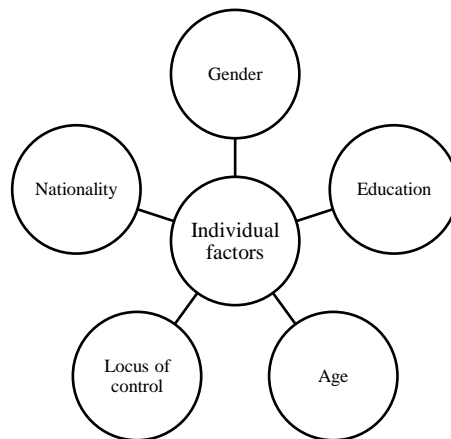


Figure 9.2. Individual factors of ethical decision-making (Source: Author’s compilation)

Among the individual factors of the ethical decision-making we can mention the following ones: gender (although research shows that in many aspects there are no differences between men and women, still this aspect should be taken into account due to the possibility of gender discrimination); education (higher levels of education make it possible to avoid the ethical pitfalls and take better informed decisions

regarding crucial issues in business or, in other words, higher levels of education might encourage people considering more fully alternate perspectives or extenuating circumstances rather than judging complex ethical issues in narrow absolute terms) (Nikoomaram *et al.*, 2013).

One of the significant impacts of globalization is that business organizations operate across cultures. Depending on how management responds to different values and beliefs, cultural diversity may substantially affect the organization's performance. Still, the reality of today is that multinational companies look for businesspeople that make decisions regardless of their nationality. At the same time, in the case of international or global company, potential problems can arise if there is resistance to transfer parent company values to the local (national) subsidiaries. In that case there exist only two possibilities – either to stick to the global ethical standards or to adapt to local ways of living and doing business, still keeping the ethical values of the company (Simga-Mugan, 2005).

Age is another individual factor researched within business ethics. On one hand, it is related to the work and life experience, a theoretical consensus appears to support that age improves one's ability to apply relevant ethical standards; on the other hand, there exists a problem of age discrimination (ageism) in business. The latter statement could be illustrated by the research carried out in 2019 by the Insurance company Hiscox "Ageism in the Workplace Study" (Hiscox, 2019). According to this study, the workplace age discrimination is growing and has been largely underreported for various reasons, chief among them are the fear of creating a hostile work environment arising from a complaint and a lack of knowledge about the process of filing an age discrimination charge.

Locus of control relates to how people view themselves in relation to power. There are individuals who believe in the external control; they believe that their ability to make significant ethical decisions are rather low (they believe in "going with a flow" and feel the most comfortable in the tightly structured and hierarchic business environment). Whereas those who believe in internal control trust that they control the events in their lives by their own effort and skill and influence their environment (they are more apt for change).

Organizational factors. The second component is the organizational environment, or, to put it in a different way, the ethical corporate culture of the organization, the ethical infrastructure or context. This culture consists of both – formal and informal elements (formal elements – internal communication system, code of ethics, sanctioning and reward systems, performance standards and ethical training programs; informal elements – organizational culture, traditions, norms, symbols, etc.). The underlying assumption is that companies with a persistent and strong ethical structure make their employees to be more aware of ethical issues and ethically appropriate behaviour (the one that could be recognized as such by the organization). Approach to the ethical issues by employees depend not only on their personal background (personal values), but also on the exposure to others who behave ethically or unethically within organization.

In addition, one more factor can be mentioned in relation to ethical decision-making, the one of opportunity. The opportunity can be described as condition that make it possible to behave ethically or unethically by providing rewards or failing to erect barriers against possible ethical transgressions in the form of punishment. The lack of clearly stated ethical boundaries allows individuals to engage in such behaviour without fear of consequences. Opportunity also depends on the individual's immediate job context – co-workers, clients and nature of the work itself. The management can use positive reinforcements, such as salary, raises, bonuses and public recognition, and the negative ones – demotions, penalties, public exposure of unethical behaviour, etc.

Framework of Ethical Decision-making

In general, the ethical decisions making process is viewed as a succession of five particular steps (Figure 9.3).

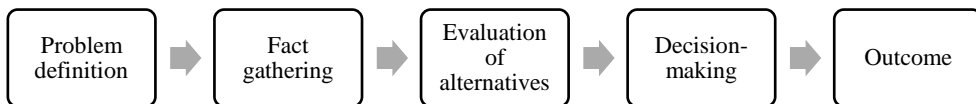


Figure 9.3. Ethical decision-making process (Source: Markkula Centre for Applied Ethics, 2015)

The first stage involves the recognition of an ethical issue as such. This stage presupposes asking the questions like these: Could this decision or situation be damaging to someone or to some group? Is it related to choice between a good and bad alternative? And so on.

The second stage is about gathering all information possible. The questions to be asked are the following: What are the relevant facts of the case? What facts are not known? Can I learn more about the situation? Do I know enough to make a decision? What individuals and groups have an important stake in the outcome? Are some concerns more important? Why? What are the options for acting? Have all the relevant persons and groups been consulted? What are the creative options?

The third stage, in its turn, is the evaluation of alternatives or alternative actions. The questions posed are the following: Which option will produce the most good and do the least harm? Which option best respects the rights of all who have a stake? Which option treats people equally or proportionately? Which option best serves the community as a whole, not just some members?

The fourth, the most important step is, without any doubts, the decision making, the acting upon the chosen alternative on the basis of the information gathered.

Finally, the fifth stage is related to the reflection about the outcome of the decision-making process. The questions here are the following: How can the decision be

implemented with the greatest care and attention to the concerns of all stakeholders? How did the decision turn out and what must be learned from this specific situation? (Markkula Centre for Applied Ethics, 2015).

Apart from the ethical decision-making framework described above we can mention other frameworks, named “Moral Compass”, “Foursquare Protocol”, “Plus Model” and “Five I Formula”. Let us take a brief look at them.

Moral Compass

This particular ethical decision-making framework was developed by the Harvard ethics specialist Lynn Paine (2006). The focus of the framework is quality of the decision-making process and the ethical grounding of each of the steps. The framework is represented by so-called lenses or frames (four altogether).

Lens 1: Purpose – Will this action serve a worthwhile purpose? The first frame examines the end results of the decision-making process taking into account the ethical component as well. The questions posed here are related to the short-term and long-term goals, the efficiency of the taken course of action, the justification of the means used for reaching the goal.

Lens 2: Principle – Is this action consistent with relevant principles? The relevant principles can be ethics codes, ethical standards, etc. The questions to be asked within this frame are related to the norms of conduct and the compliance of actions with the norms and standards agreed upon by the organization.

Lens 3: People – Does this action respect the legitimate claims of the people likely to be affected? This lens concerns the impact of decisions. This process can be described as a possible risk and alternative assessment. The significant aspect this frame involves is the one of the harm mitigation and compensation to the parties involved (the least harm principle).

Lens 4: Power – Do we have the power to take this action? This lens directs attention to the exercise of power and influence. The focus of this particular frame is availability of resources (material and intellectual) and ability to act.

Once an issue is identified, the four kinds of questions explicate different features of the situation so they can be inspected and compared with other features, and then evaluated and addressed. Together the four lenses create

Taken together these four frames (lenses) constitute a compass for the manager that helps chart a reasonable course through conflicting demands (Paine, 2006).

Foursquare Protocol

Yet another ethical decision-making framework was developed by Stephen Goldman (2008), it is called protocol as it describes procedures to reach the ethical consensus. The protocol consists of four elements, it helps responding correctly in some ethically challenging situations.

Protocol Element One: Close description of the situation. This phase is about full information gathering and presenting all facts to see if something is not missing out. This is important to ensure the quality of decision.

Protocol Element Two: Gathering accumulated experience in similar situations. The focus here is similar past experiences within and outside the organization and the steps that were taken to resolve the situation in the most ethical and efficient way.

Protocol Element Three: Measuring the degree of similarity with past situations. This part of the protocol is about weighing all pros and cons, all similarities with and differences from between the situations present and past.

Protocol Element Four: Analyse Your Decision-making Situation. This part of the protocol deals with the ability to make the conscious, appropriate and informed decision under particular circumstances. The protocol proposes three courses of action: first, identification of any self-interest in the action considered; second, analysis of situation from the viewpoint of the receiving end (to step into another person's shoes); third, examination of the moral aspect of the course of actions chosen.

According to Goldman (2008) organizations, that establish a strong ethical framework, most likely will have a more pleasant working environment and good corporate reputation. In other words, they can be among the most thought after working places.

PLUS Ethical Decision-Making Model

PLUS is an acronym of another ethical decision-making framework that strives to create a clear and cohesive approach to implementing a solution to an ethical problem (Ethics Resource Center). It is a tool for managers to apply the so-called “ethical filters” to decision-making process. It has to be noted that this particular framework leaves out any issues related to making a profit in order to focus on values, rather than revenues. In what follows we will decipher each letter subsequently:

P – Policies and procedures: aligning decisions with the policies and procedures laid out by the company

L – Legal: compliance with the legal parameters or regulations

U – Universal: compliance with organizational core values and organizational culture

S – Self: accordance to individual's personal standards of fairness and justice

These filters can even be applied to the process, so leaders have a clear ethical framework all along the way. It should also be used to assess the viability of any decisions that are being considered for implementation.

Five 'I' Formula

This formula, developed by C. E. Johnson (2018) is a combination of all previous models. According to the author, the Five 'I' formula is useful for practical purposes, when there is no handbook or manual at hand. It describes the steps of ethical decision-making.

Step 1: Identification. This step involves recognition and formulation of the ethical problem. Setting goals and objectives is also part of problem identification. The decision maker needs to understand why the problem needs to be solved and what are the consequences if it remains unsolved.

Step 2: Investigation. This step presupposes situational analysis, data collection, stakeholder identification and introduction of ethical perspectives.

Step 3: Innovation. The third step - generating a variety of solutions or options. The decision maker needs to weigh the merits of each solution based on a set of criteria such as its applicability to the problem and its context, suitability to a particular ethical perspective or theory, and how it can help reach the identified goals and objectives as effectively and efficiently as possible.

Step 4: Isolation. This step involves reviewing results of step two against the background of the output of step three. Isolating the solution specifically requires evaluating the data collected and the results of the analysis, examining the pros and cons of alternative solutions, taking into consideration the context of the problem, and referencing a particular ethical perspective or theory.

Step 5: Implementation. The final step of the ethical decision-making framework of Johnson involves the actual implementation of the solution. The decision maker needs to develop an action plan on how to implement the solution.

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. What is the difference between ethics and morality?
2. What are individual factors of ethical decision-making process?
3. What are formal and informal organizational factors of ethical decision-making process?
4. What ethical decision making frameworks can one use, based on existing theory?
5. What advantages and disadvantages do individual ethical decision-making frameworks studied above have?

BUSINESS ETHICS VERSUS CORPORATE SOCIAL RESPONSIBILITY

Development of Corporate Social Responsibility and business ethics concepts

Existing managerial research has continuously studied Corporate Social Responsibility approaches, policies and actions over the past decades, using the data from corporations, governments and non-governmental institutions.

Currently the researchers (for example, Heinrich, 2013) define four concise stages of Corporate Social Responsibility maturity level. The first type (or 1st Generation Corporate Social Responsibility level) is marked by prevalence of single socially driven measures performed by companies (it can be Corporate Social Responsibility reporting, charity, employees social safety measures implementation) which develop corporate citizenship, but cannot be considered a strong and holistic strategy (Carrol, 1999). The disadvantage of this developmental type is that company management at this point considers Corporate Social Responsibility as an unnecessary part of company development (Walker, 2014).

The second type (2nd Generation Corporate Social Responsibility level) is a structured and holistic approach towards CSR practices final implementation (a company could develop a strategy based on ISO 26000 or the OECD Guidelines principles) and becomes a part of corporate routine management. At this point, an organization combines its economically efficient strategy with CSR strategy (Walker, 2014) and at every decision-making point considers the necessity to carry on these practices.

The third type (3rd Generation Corporate Social Responsibility level) is described by interrelation between each stage of managerial decision-making, including its implementation to sub-strategies such as innovation management or HR management. At this point Corporate Social Responsibility becomes a part of company core business. In existing literature this approach is referred to as transformational process, when the business intends to solve social problems as well as traditional ones (Walker, 2014).

Finally, the fourth type is called corporate resilience (4th Generation Corporate Social Responsibility level) when companies “don’t talk about Corporate Social Responsibility anymore and responsibility evolved into a new self-learning holistic behaviour. Common sense leads to decisions which are humane and ethical. Responsible leadership, transparency, holist thinking, stakeholder engagement, social innovations, business innovations, are all part of a proactive behaviour of the organization” (Walker, 2014). At this point the company ensures Corporate Social Responsibility is an authentic part of every process and action, and it becomes impossible to distinguish it from routine managerial practices. Some researchers indicate, that there is a fifth type of Corporate Social Responsibility, integrative corporate robustness (the 5th step) requires continuous improvement, and a change that involves not just one actor (the company) should be based on continuous improvement of Corporate Social Responsibility principles implementation as the company develops, and social outcomes become one of the most important key

performance indicators (KPI) for corporate managers (Zamagni, 1995; Zadeck, 2006).

Commonly accepted structure of Corporate Social Responsibility is shown on Figure 10.1. The concept implies integration of the following elements:

- sustainability (combination of economic, social and environmental outcomes, balanced in the company strategy),
- market (economic feasibility of the product or service based on consumer perception),
- ethics (avoiding unethical managerial behaviour on all stages of product development and within regular consumer practices),
- sincerity (providing the stakeholders with all the required information, ensuring a high level of transparency),
- resources (ensuring socially and environmentally friendly use of the resources, when it is not necessarily the cheapest option),
- goals (measuring social goals and implementing them into routine managerial practices),
- long-term (management considers not only short-term outcomes of the developed decisions, but also mid- and long-term ones, and long-term goals have a priority),
- responsibility (managers are responsible for the implemented decisions in the long-term perspective).



Figure 10.1. Corporate Social Responsibility concept decomposition (Source: Foodengineering.com)

Business ethics as a concept is inherited from philosophers, and though one can name Aristotle among the first business ethics researchers, the concept in relation to management gained interest much later, when Corporate Social Responsibility concept was already being implemented. The majority of contemporary researchers start their studies of business ethics concept from since 1960s. Although the present research will attempt to trace the history since 1960, it is appropriate to start by tracing the origins of business ethics thought over the past 100 years. The first managerial textbook on business ethics was *Business Ethics* by Frank Chapman Sharp and Phillip D. Fox (1937). The preface starts off with the statement: “this book deals with the right and wrong of the transactions that take place in the competitive business world.” (Ferrel & Ferrel, 2009). In business ethics research, “there are three levels of ethical standards i.e., the law, policies and procedures, and moral standards of employees” (Josephson, 1988):

1. The law, which is the formal side of business ethics implementation, should which actions are permissible within the society, and which of them are not. Thus, the law becomes a bottom line of acceptable behaviour. This means, in fact, that not all legal actions are at the same time ethical – hence obedience to the law does not mean that a person is being ethical.
2. Procedures and policies, which are set at the organizational level and define employee behaviour from the ethical red lines point of view.
3. The moral decisions made by the employees when they are not identified by company business ethics policy. At this level, the company culture supports ethical behaviour of the employees.

According to Business Ethics timeline, one can find the following timeline in business ethics research (Table 10.1). In accordance with existing research, the timeline starts with 1960s, when business ethics concept appeared in managerial research and practice.

Table 10.1. Business ethics research timeline (Source: Ethics Compliance Initiative)

1960	1970	1980	1990	2000+
Environmental issues	Employee militancy (us vs. them)	Bribery and illegal contracting practices	Unsafe work practices in third world countries	Emerging technology issues: cybercrime, privacy
Employer /employee tensions	Human rights issues (forced labour, low wages, work environment)	Deceptive advertising	Increased corporate liability for personal damage	Intellectual property theft
Civil rights and race	Firms start	Financial fraud	Financial mismanageme	International corruption

relation issues	practice of covering up not confronting issues	(savings and loan scandals)	nt & fraud	
Changing work ethics	Federal Corrupt Practices Act passes (1977)	Transparency issues arise	Federal Sentencing Guidelines for Org. (1991)	Sarbanes Oxley Act (2002)
Drug use escalated	Compliance & legal to values orientation	Defense Industry Initiatives (1986)	Global Sullivan Principles (1999)	UN Convention Against Corruption (2003)

The elements of modern business ethics model are somewhat overlapping the ones included in Corporate Social Responsibility model, yet even in this case their interpretation is different:

- responsibility (managers are responsible for making and implementing ethical decisions),
- trust (managers are to ensure trust within horizontal, vertical and outreaching managerial communications),
- behaviour (managers are responsible for following ethical path in their everyday routines and strategies),
- principle (ethical principles are implemented within the decision-making process);
- relationship (the issues of relationship development are an important issue in the decision--making process);
- choice (between a number of alternatives, a choice for the maximum ethical outcome should be made);
- reliability (managers are to be reliable on each stage of decision-making and decision implementation process);
- morality (moral values become one of the measurements in the process of decision evaluation).

As one can see from the above, Corporate Social Responsibility concept is somewhat different from business ethics concept, first of all in terms of legal acts and frameworks used in both cases. While Corporate Social Responsibility goals remain quite clear (avoid gender differentiation, child labour etc.), business ethics guidelines are far less concise. To give an example, one can consider comparison of different cultures based on GLOBE research (Table 10.2).

Table 10.2. GLOBE cultures' classification: what's ethical? (Source: Svirina, 2011)

Feature	Low level	Medium level	High level
Self-confidence	Sweden, Japan	Egypt, France	US, Germany
Future orientation	Russia, Italy	Australia, India	Switzerland, Netherlands
Gender egalitarianism	Sweden, Hungary	Italy, Netherlands	India, China, South Korea
Power distance	Denmark, South Africa, Israel	UK, France	Russia, Spain, Thailand
Collectivism	Sweden, UK	Japan, Israel	China, Iran, India
Performance orientation	Russia, Greece	Sweden, Israel	US, Taiwan, Hong Kong
Humane orientation	Germany, Singapore	US, Sweden, Hong Kong	Egypt, Indonesia

Based on the proposed comparison, one can see that certain practices that are considered ethical in a number of countries would be non-implementable in another. For example, an ethical Chinese practice of asking an employee to do a person favour to manager would be considered absolutely unethical in, for example, Swedish environment. At the same time, in both cases such behaviour would be viewed as socially irresponsible from the corporate governance point of view as the employee wastes his/ her time on managing a task that is not related to company performance. This difference moves us forward to decision-making process analysis from both points of view.

Managerial decision-making

Firms commit to Corporate Social Responsibility in their decision-making process in order to meet stakeholder needs (Crane *et al.*, 2008), whilst they innovate to convert demand changes into wealth opportunities (Drucker, 2014) for stakeholders (Mishra, 2017). In this vein, Herrera (2016) suggests that stakeholder engagement enables business model innovations, which in turn can create a lasting social impact.

Existing research suggests several approaches towards defining an ethical decision-making process, i.e. the utilitarian, the justice, the common good and the virtue approach, followed by the rights approach. Each of those has certain specific features described below.

1. The utilitarian approach suggests the following sequence of actions: (a) define alternative actions that are possible, and stakeholders, who are affected by the decision; (b) for each alternative, determine benefits and costs; (c) select an action in the situation in question which produces maximum benefits over minimum costs and (d) determine whether this action can

become a policy. The limitation of this approach is that it does not identify from whose angle the decision and its outcomes should be evaluated.

2. The rights approach includes the following actions: (a) identify the right being upheld or violated; (b) explanation why the status of the full rights should be assigned to a certain activity (why is it essential); (c) assess whether this right conflicts with other rights and (d) define an optimal decision. The limitation of this approach is that the rights are not absolute and hence they are vague criteria to make decisions.
3. The justice approach suggests the following sequence of actions: (a) introduce the principle of justice (inequality can come from differentiation by effort, accomplishment, contribution, need, seniority, contact, social ties); (b) define what type of distribution is present; (c) assess the fairness of distribution and (d) select a fair process of distribution. The main limitation of this approach is that fair distribution cannot be clearly defined.
4. The common good approach includes the following actions: (a) identification of common good elements that are involved; (b) explain why stakeholders are obliged to promote or protect common good and (c) define if action in question conflict with obligation to promote or protect common good. The core limitation of this approach is that stakeholders can define common good differently and this approach opposes western individualism and pursuit for self-interest.
5. The virtue approach suggests the following sequence of actions: (a) ask yourself if a certain action represent the kind of person you wish to be; (b) ask if a certain action is in line with either company reputation or vision, or the desired structure of the latter, or what it would like to be and (c) define whether the action maintains the balance between company success and quality. This approach is limited by the change in attitude towards processes and actions as it occurs over time.

In case of Corporate Social Responsibility the manager would be limited to the use of the utilitarian approach as this type of decision-making is based on clear key performance indicators, and there is no need to define either common good or virtues. This managerial development angle suggested development of Porter and Kramer's (2011) concept of shared value which identifies core features of Corporate Social Responsibility:

- “reconceiving products and markets – companies can meet social needs while better serving existing markets, assessing new ones, lowering costs through innovation,
- redefining productivity in the value chain – companies can improve the quality, quantity, cost and reliability of inputs in order to drive economic and social development,
- enabling local clusters – companies are developing in interrelation with the local community? (Porter and Kramer's, 2011).

The shared value concept combines features of Corporate Social Responsibility and business ethics, and its core components can be seen in Figure 10.2.

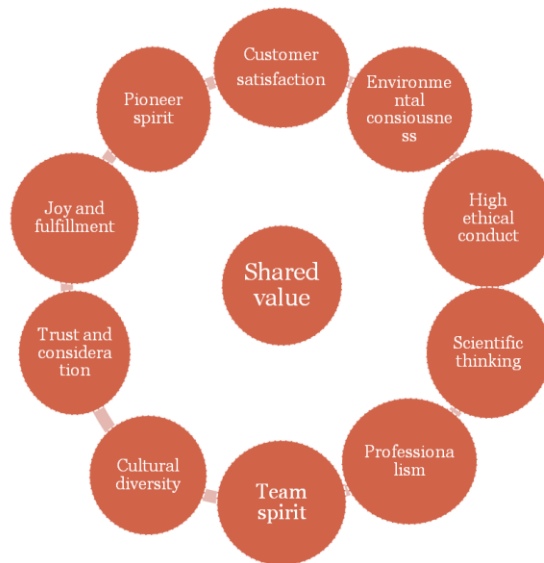


Figure 10.2. Shared value decomposition. (Source: Author’s compilation)

In this concept one can find elements of CSR concept (environmental consciousness, trust and consideration, professionalism and fulfilment) and also elements of business ethics approach (high ethical conduct, pioneer spirit, cultural diversity, team spirit) which together enabled creation of the shared value approach that was an answer to engineering revolution challenge from ethical and socially responsible point of view. Hence, from the angle of decision-making, CSR and business ethics in the contemporary setting are to be combined to ensure both economic and social efficiency.

Besides assessing Corporate Social Responsibility concept and business ethics concept as a prepositions to shared value concept, some researchers draw attention to the fact that the idea of sustainable development also comes from a combination of these two. The agreed definition for sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations, 2019), which is in line with both Corporate Social Responsibility and business ethics. The concept had led to creation of sustainable development goals, which include the following (as defined by United Nations):

Goal 1: no poverty. “Globally, more than 800 million people are still living on less than \$1.25 a day; many lack access to adequate food, clean drinking water and sanitation. rapid economic growth in countries like china and India has lifted millions out of poverty, but progress has been uneven. Women are disproportionately affected;

they are more likely to live in poverty due to unequal access to paid work, education and property. In their development the companies should aim to make decisions that lead to reducing poverty” (United Nations, 2019).

Goal 2. Zero hunger. Developing countries experience both famine and hunger, and are looking for the solutions to provide required nutrition to their citizens. The companies should aim to make an input for hunger reduction if possible.

Goal 3. Good health and well-being. This goal aims to eliminate both injustice, lack of resources and possibilities for those from the developing countries, resulting in decreased level of poor health and development outcomes to which companies should contribute.

Goal 4. Quality education. “Children from the poorest households are four times more likely to be out of school than those of the richest households. Disparities between rural and urban areas also remain high.” (United Nations, 2019). The companies should aim to contribute to its reduction.

Goal 5. Gender equality. “Ensuring universal access to sexual and reproductive health, and affording women equal rights to economic resources such as land and property, are vital targets to realizing this goal.” (United Nations, 2019). The companies are to plan their activities to ensure reduction of gender gap.

Goal 6. “Clean water and sanitation. Water scarcity affects more than 40 percent of people around the world, an alarming figure that is projected to increase with the rise of global temperatures as a consequence of climate change”. (United Nations, 2019). The companies should aim to reduce the problem.

Goal 7. “Affordable and clean energy. Ensuring universal access to affordable electricity by 2030 means investing in clean energy sources such as solar, wind and thermal.” (United Nations, 2019). This goal also requires contribution from the companies.

Goal 8. Decent work for everyone and ensured economic growth. This goal is concerned with decreasing inequality which should be followed by higher economic growth rate. The companies contribute to this goal due to their nature.

Goal 9. Industry, innovation, infrastructure. Technological progress should enhance lasting solutions to economic and environmental challenges. This should be done by means of creating sustainable industries, fostering scientific progress and innovation, i.e. facilitating sustainable development – and should be facilitated by the companies in the first place.

Goal 10. “Reduced inequalities. It is well documented that income inequality is on the rise, with the richest 10 percent earning up to 40 percent of total global income. The poorest 10 percent earn only between 2 and 7 percent of total global income. In developing countries, inequality has increased by 11 percent if we take into account the growth of population”. (United Nations, 2019). Innovation development by the companies should ensure inequality reduction.

Goal 11. Sustainable cities and communities. “The rapid growth of cities in the developing world, coupled with increasing rural to urban migration, has led to a boom in mega-cities. In 1990, there were ten mega-cities with 10 million inhabitants or more. In 2014, there are 28 mega-cities, home to a total 453 million people”. (United Nations, 2019). Providing their well-being is part of corporate strategies.

Goal 12. “Responsible consumption and production. Achieving economic growth and sustainable development requires that we urgently reduce our ecological footprint by changing the way we produce and consume goods and resources” (United Nations, 2019). This should be a part of companies’ strategy.

Goal 13. “Climate action. The goal aims to mobilize \$100 billion annually by 2020 to address the needs of developing countries and help mitigate climate-related disasters” (United Nations, 2019). The contribution to this goal from the companies is required.

Goal 14. @Life below water. Oceans absorb about 30 percent of the carbon dioxide produced by humans, and we are seeing a 26 percent rise in ocean acidification since the beginning of the industrial revolution” (United Nations, 2019), and it is the goal of the companies to decrease such a negative impact.

Goal 15. “Life on land. Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss” (United Nations, 2019). This goal is also not possible without companies’ contribution.

Goal 16. “Peace, justice and strong institutions. High levels of armed violence and insecurity have a destructive impact on a country’s development, affecting economic growth and often resulting in long standing grievances among communities that can last for generations. Sexual violence, crime, exploitation and torture are also prevalent where there is conflict or no rule of law, and countries must take measures to protect those who are most at risk” (United Nations, 2019). The responsible companies are developing solutions to related problems.

Goal 17. Partnership for goals. This requires joint action from the companies in relation to society and government.

The described sustainable development goals are related to both studied concepts.

One more significant issue of implementing social responsibility and business ethics concept is lying in the field of relating these concepts and the derived ones (shared value concept and sustainable development) to technology and innovation where the so-called engineering revolution is happening.

Technology, innovation and social responsibility

Both innovation and sustainability are top company’s strategic priorities and may show important complementarities. Extant literature has demonstrated a relationship between innovation and Corporate Social Responsibility given that some technological changes implemented to improve products and process may pursue economic interests but also social responsibility (Bansal, 2005). In response to that, the linkage between innovation and Corporate Social Responsibility has been widely

analysed and systematically reviewed by Ratajczak and Szutowski (2016). However, the banking sector has been excluded from most of the empirical studies on Corporate Social Responsibility and innovation. In fact, analyses of Corporate Social Responsibility determinants are scarce when compared to other sectors, with some exceptions. For example, Chih *et al.* (2010) studied the predictors of Corporate Social Responsibility, as did Jizi *et al.* (2014) for a sample of the US. In turn, Scholtens (2009) examined the social responsibility the international context, whereas San-José *et al.* (2011) built a measure to identify ethical level of corporate performance. Finally, Forcadell & Aracil (2017) focused on institutional determinants of Corporate Social Responsibility policies in developing host countries. Thus corporate responsibility, according to existing literature, is integrated into technology and innovation development strategies. The situation with business ethics is somewhat different; to make sense of it, one must first get acquainted with different types of power (to evaluate which type is associated with innovation and technology). According to managerial research, there are the following types of power:

- coercive power – someone is made to do something he/ she does not want to do,
- reward power – a person has an ability to grant another person some things he/ she desires for doing something,
- legitimate power – based upon the formal role of a manager or leader whom people obey,
- referent power – an ability to administer to the other a certain sense of acceptance or personal approval (charisma),
- expert power – an ability to administer to the other information, knowledge or expertise (ex.: doctors and lawyers),
- informational power – based on ability to utilize information (including manipulation).

Existing research reveals positive correlation between referent, informational and expert power, outlines, that referent power tend to decrease over time, while expert power and informational power tend to have the same level of influence and define that expert and informational power remain unchanged in case reward and punishment system changes. These findings are essential as expert power and information power are the two mainly associated with technology development. Thus speaking about ethical and socially responsible aspects the researchers are to understand that the power of technology and innovation are based on these two types, and assess related advantages and disadvantages. This defines core ethical issues regarding technology development:

- growing role of expert and informational power (the latter in accordance with growing role of Internet),
- problem of ethics and social responsibility insuring after some disastrous event had occurred,

- problem of blaming only ‘bad apples’ for irresponsible technological implementations,
- prejudices and their influence on customer decision-making in the field of technology (experiment with circles) – searched by socio-economic systems network analysis, including self-personal influence.

An illustration for these problems from an ethical and technological point of view is provided in Table 10.3.

Table 10.3. Comparison of technology and ethics perspectives (Source: Author’s compilation)

Type of approach	Basic ethical theory	Main goal	Decision-making criteria	Assessed content
Merit-based	Rule-based ethics (deontology)	Punish the unethical ones	Fairness	Actions
Rights-based	Ethics of rights and freedoms	‘Cure’ the unethical ones	Existence of formal right acceptance by society	Actions
Consequences-based	Consequences based ethics	Provide instrument to prevent unethical behaviours	Efficacy	States of affairs (current and perspective)

The above comparison illustrates different approaches technology developers and ethical managers have towards innovation. At the same time, managerial literature does not provide a necessary overview of ethical issue of innovation development. An analysis of existing literature on technology innovation reveals that it is mainly focused either on (1) technology innovation, including key issues of production in innovative economy, analysis of best practices in new product development process, prepositions to produce successful innovative products in high-velocity environments, and other issues, or (2) innovative climate and culture as a part of organizational culture, including cultural issues of innovative process coordination, analysis of cultures supporting new product development etc., with main research focus on technology innovation and in majority – qualitative and case studies. In terms of experimental testing the studies are quite limited, and include testing the effect of project characteristics on new product performance, identification of new product development best practices or creation of path model for workplace innovation. Along this line some of the researchers had defined key independent variables that influence innovative products performance, structured those as strategy, resources and process elements of innovation – resulting in integration with the second line of research in terms of defining innovation structure within organizations as a complex of organizational innovation, innovation climate,

individual and team innovation (McMurray *et al.*, 2013). Still, the quantitative side of joint research, combining technology innovation, new product development strategy and workplace innovation issues remain very weak both in global context, and especially in specific economic environments.

In the outskirts of this research the scientists argue about social outcomes of innovation, yet, current managerial practices lack a foresight vision on technology and innovation relation to managerial efficiency and company performance, as well as societal impact. Yet, at least the following possible problems with innovation and ethics were outlined by case studies:

- Personalized genetic tests/ personalized medicine. The issue concerns protecting the data, as if this knowledge leaks out, manipulating person's behaviour becomes much easier.
- Driverless zipcars. The concern with those is based upon making a decision in paradoxical situations: for instance, whom the car should prefer to kill – the owner by sending him off the road in case a child ran onto it, or the child who violated the rules.
- 3-D printing. Giving 3D printing technology out to households means that dangerous and malicious products can also be printed and get spread around without any authorities controlling the process.
- Low quality and fake pharmaceuticals. That is mainly the problem of emerging markets, where the issue of drug accessibility is one of the key concerns, building up a huge market for fake, untested or underdeveloped products with extremely high consumer demand.
- Autonomous management systems. The concern with these ones is – who is to take responsibility for company actions in this case? Taking into account existing legal procedures, this concern starts to be much more important.
- Human-animal hybrids (chimeras). Futuristic research already indicates that creation of such new species will probably come up in the upcoming decade. What rights these species are to have? Should they be considered humans with the same human rights, or should the humans be protected from the representatives of this new species as they will not be able to compete on the labour market?
- Data collection. The Facebook scandal with passing out private personal information had already happened, and in the digital world the problem has to become worse and worse, as people themselves are responsible for sharing a lot of personal information without clearly defined boundaries of violating privacy.
- Human enhancements. The ethical question behind is not new and concerns how long is it necessary to keep human beings alive despite lethal diseases, when there is no or extremely low chance of recovery. Should it be possible

to allow a person to become a chimera in this case without violating his or her human rights?

- Relying on gadgets. A significant share of people has outsourced their memory functions to gadgets, leaving it impossible to retrieve information if gadgets fail. The situation sets a question of the boundaries of human decision-making, and hence requires clarification on where human responsibility ends if a person was relying on gadgets.
- Data computing and statistics. In the age of big data human brain is unable to check the statistical processing of millions of data units. This creates an incentive for cutting 'fat tails' and manipulating conclusions, which might become a threat to human development.

These problems provided a basement for a specific discipline, technoethics, which itself defines the difference between the two studied concepts – one can investigate the ethical issue of technology, while the social responsibility can only be applied to companies and their behaviour (including innovation and technology development policies).

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. What are the key features of Corporate Social Responsibility concept?
2. What are the key features of corporate business ethics concept?
3. What are shared value concept and sustainable development and how are they related to Corporate Social Responsibility and business ethics?
4. How were Corporate Social Responsibility and business ethics concepts evolving along the timeline?
5. How would you describe the changes in Corporate Social Responsibility and business ethics concepts in relation to technology development?

BUSINESS ETHICS AND STRATEGIC MANAGEMENT

2007 global economic crisis highlighted two problems that were understated during pre-crisis period. The first one was steadily decreasing entrepreneurial activity in the main sectors of economy (and relevant future decrease in employment possibilities as one sees only a few countries with growing entrepreneurial activity worldwide). The second one came from real and financial sectors of economy misbalance. The pre-crisis world witnessed sufficient growth of the financial sector, which was not followed by relevant boost in the real sector. Both tendencies are explainable: for a talented person it is much less risky to implement his or her abilities in the corporations, rather than start an entrepreneurial journey; and for the investor it makes more sense to invest in more profitable financial products rather than rely on the ability of an entrepreneur to deal with the customer-scarce current market. Due to incentives described, one can see that the two problems are interrelated and connected to the following fact: an entrepreneur is producing not only economic, but also social outcome; and as the latter can not be measured, it seems rational to eliminate it and focus on economic outcomes solely. To change this situation, researchers in business ethics and corporate social responsibility had indicated correlation between responsibility and profitability, but still the issue is not considered a priority in many corporate strategies. Thus in this chapter we focus on creating a tool to measure social outcome to develop awareness on how ethics and social outcome are changing in relation to corporate strategy implementation.

Social value creation as a result of ethical strategic management

Social value is a phenomenon that is under research both in Corporate Social Responsibility and Entrepreneurship studies, and within each of those social and ethical results is being assessed in the framework of company's strategy. Strategic background of the social value and ethical behaviour is currently a part of corresponding research, thus proposing the need to evaluate what has been research in the field at the point.

The majority of relevant research investigates relationship between social responsibility and its effect on company's performance, and the results are controversial. Some research indicates positive influence of socially responsible behaviour on company performance (Carroll, 1979; Collins & Porras, 1994; Porter & Kramer, 2006). Others researchers have identified that results are fixed, i.e. in some cases socially responsible behaviour leads to negative economic outcomes (Margolis & Walsh, 2001; De Bakker, Groenewegen & Den Hond, 2005). Some research goes even beyond and outlines that socially responsible behaviour is bound to lead to negative outcomes as it is some amount of money that is spent by the company on something that has nothing to do with its original goals (Friedman, 1970). From this point, it seems worth understanding where do such contradictions come from and require development of an approach that assesses solely social outcome without mixing it with an economic one.

The other branch of research is dealing with social entrepreneurship that is considered a special type of entrepreneurial activities (focusing primarily on social value). This

type of business is bound to be economically efficient, and yet it is unclear why social value focused entrepreneurs become successful (as they are spending large amounts of money on social issues). Within this branch of research one cannot define social entrepreneurship clearly (by Dacin, Dacin & Matear, 2010) as each entrepreneurial activity is in some way social (Schramm, 2010; Mair, 2006). From this point of view, all entrepreneurship can be considered social, producing an incentive to strengthen the approach to measure social outcome for all types of enterprises.

The idea of entrepreneurial social value creation provides an incentive for business-based post-crisis recovery. This approach was first outlined by Keynes, who paid attention to social outcomes produced by regular business, and not only in a form of taxes and employment. G. Dees, the founder of term “social entrepreneurship”, went further: “How many businesses would start from scratch and go to scale if we didn't have venture capital? If we didn't have banking and financial infrastructure to support business growth? If we didn't have business schools? We have a very elaborate support structure for business entrepreneurs. ... Without something similar for social entrepreneurship, we can't expect to see the same kind of scaling and impact.” (Dees, 2010).

One can point out at least two features, which contradict this statement. First, regulating social value creation by the government is not in line with the entrepreneurial nature. If such regulation appears, a number of entrepreneurs would choose social value creation instead of economic efficiency as it had happened with biogas stations in some countries (it turned out that burning food instead of selling it in the market, which resulted in increased food scarcity in some countries). The other reason why institutional regulating social value creation might lead to undesirable outcomes is that there is no common approach towards social results measuring – and hence any assessment of the latter would be questionable. Thus, the only way to efficiently manage social value creation within the regular strategic management is to provide a tool for its measuring.

If it can be measured, it can be managed: is it possible to measure social outcome of ethical strategy?

The solution for measuring social value is provided by marginal theory, which approaches social efficiency as a balance of external and internal social costs and benefits. Within this paradigm, Social Efficiency becomes an output, which is equal to Marginal Social Cost (MSC) (as suggested by Watkins, 1981). Following this idea, customers would define an acceptable price of goods and services on the basis of its utility, and increased amount of stock is leading to decrease in utility – thus marginal utility is what defines the price. Since the suggested way does not provide an assessment tool, the problem of measuring costs and benefits remains unsolved. Globerman argues: “How are social values of different outputs and inputs established? After all, consumers are unlikely to have identical tastes and preferences, while workers, landowners, and other suppliers of inputs are likely to differ in their skill levels and other endowments. Hence, members of society will differ in their individual valuations of the many different outputs and inputs that characterize economies. In capitalist economies, the forces of supply and demand establish the

values of outputs and inputs. Specifically, market-clearing prices, that is, prices that equate supply and demand, ordinarily serve as measures of value. The reliance on market-clearing prices as measures of social value can be conceptually justified by acknowledging that buyers should be willing to pay, at a maximum, what any quantity of a good is worth to them rather than go without that good. This implies that the market demand curve for a good should represent the valuation that consumers, in the aggregate, place on different quantities of the good. Similarly, sellers should be willing to supply to buyers any given quantity of a good only if the price received at least covers the incremental cost of supplying that quantity. This, in turn, implies that the market supply curve for a good can be taken to represent the incremental cost of supplying different quantities of the good in question. Under reasonable assumptions, the market demand curve is presumed to be downward sloping, while the market supply curve is presumed to be upward sloping.” (Globerman, 2011). Also, evidence suggests that consumers are not readily buying goods for their social value solely (green products are not the top sellers for retailers) – which means the choice is being made by customers mainly based on non-social value of the product or service.

Standard approach towards solving the above mentioned issue is the following. “A standard assumption in the economic theory of production is free disposability, meaning that if the point (x, y) , for an output y and inputs x , is in the producer's production set, then so too is any point defined on the graph (x', y') such that $x' > x$ and $y' < y$. The assumption of free disposability has been invoked explicitly in some studies of social efficiency and is implicit in other studies. This may be a defensible assumption for a production process (though it can certainly be questioned in that context). But how can the application of this assumption be interpreted to (say) life expectancy – as the ‘output’; and public spending on health – as the ‘input’? There are (thankfully) very few governments in the world that can freely dispose of their citizens so that if the country initially has a life expectancy of (say) 60 years, and health spending of (say) \$100 per person per year, it is equally feasible for it to have a life expectancy of 40 at the same or greater spending. The applicability of production theory to measuring social efficiency is questionable. Social indicators do not stem from anything one could reasonably think of as a production function representing a well-defined technology operated by an individual producer with well-defined physical inputs. While there are production functions under the surface somewhere, there is clearly a lot more going on in determining the aggregate relationship between measured social outcomes and social spending and/ or national income” (Ravallion, 2003).

Due to problems of social efficiency and efficacy measuring, researchers commonly estimated is an integrated value which includes quality of life, employment conditions, environmental safety, work-life balance and other relevant issues, aiming to keep their balance at the peak when each change would lead to decreasing the quality for a certain economic agent (i.e., Pareto efficient”). For example, Rizzo (1979) indicates that an action is socially efficient if it meets societal needs without implementation of overwhelming costs. This thesis is followed by Rothbard: “Not only is ‘efficiency’ a myth, then, but so too is any concept of social or additive cost, or even an objectively determinable cost for each individual. But if cost is individual,

ephemeral, and purely subjective, then it follows that no policy conclusions, including conclusions about law, can be derived from or even made use of such a concept. There can be no valid or meaningful cost-benefit analysis of political or legal decisions or institutions.” (Rothbard, 2006). If one agrees, social efficiency can be achieved only when the company or other economic agent follows ethical conduct to a full extent.

Yet there is a significant flow in this argumentation. Social value measuring (an objective assessment) is being substituted by individual perception of social value (which is subjective in origin). This fact does not mean that social value can not be measured; it merely means that an individual can not provide an objective assessment of created social value, and this is proven both by intuition and rationalization. Henceforth, a special mechanism to assess entrepreneurial social output needs to be created. Dr. Dees puts it that way: “We badly need greater clarity and transparency in performance evaluation and assessment. That would give sceptics confidence that we're achieving the impact we're claiming to achieve. But that's a small piece of a larger puzzle. We need improved legal structures, better financial mechanisms, better pipelines for talent, and more directed education and training. We need all of that, and a culture that understands social entrepreneurship and supports it.” (Dees, 2010).

Based on these findings, one can develop a tool for assessing social outcome of company's strategy implementation (the recommendation for which is implementation of Corporate Social Responsibility and business ethics concepts in managerial routines and strategic plans).

Developing measuring instrument for social outcome: a base for strategy management

One of the mathematical ways to assess social outcome was suggested by Svirina (2011): “Analysis of real, financial and virtual sector company's performance based upon the data assembled from over 170 Russian enterprises have shown that, in case the company is creating zero social value, approximately 1/10 of its profits is gained because employees and agents are not being dissatisfied with entrepreneurial venture actions. This figure came out of chronological comparative analysis of company performance which was provided in cases of relatively stable economic development and different approaches towards social value creation in different periods taken into consideration for the purpose of analysis. It is also estimated, that there is a relation between creation of positive social and economic value by an entrepreneurial unit, and this relation has two specific features: it is non-linear and tends to be reproduced on self-similarity basis both in case of positive and negative social value creation. Those two features mean that the mathematical framework to be used for social value modelling should be based on those specific features. Henceforth, fractal theory was chosen as mathematical framework. Though fractal is not clearly defined by mathematicians nowadays, it is being addressed as a set of fractional dimension. According to Mandelbrot, the author of fractal theory, fractal is a rough or fragmented geometric shape that can be split into parts, each of which is (at least approximately) a reduced-size copy of the whole (Mandelbrot, 1982), which means that fractal is both non-linear and self-similar.

In order to solve the problem of social benefit measurement in value terms, a fractal with interstitial dimension from 1.2 to 1.3 (this dimension is defined by estimated type of relation between social and economic value creation by an entrepreneurial unit) should be chosen as a basic figure for mathematical modelling. This chosen figure should also have a feature of continuity and is to be directed into external environment. According to the developed set of features, Koch snowflake curve has been chosen (Figure 11.1).

When the selected fractal is used in order to solve the problem of social benefit measurement, it can change in four different ways according to the type and trend of social result created by the entrepreneurial structure (Svirina, 2012):

- in case social value, created by an entrepreneur, is changing simultaneously in the same direction, Koch curve will have the classical one (Figure 11.1)

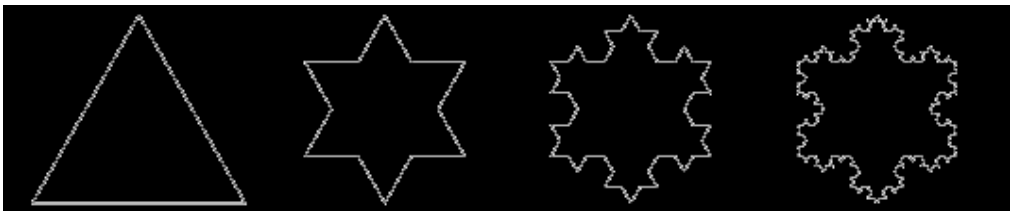


Figure 11.1. Koch snowflake (Source: <http://mathworld.wolfram.com/KochSnowflake.html>)

- in case social value, created by an entrepreneur, is changing unevenly in one direction, Koch curve will be changing – an example is below (Figure 11.2)

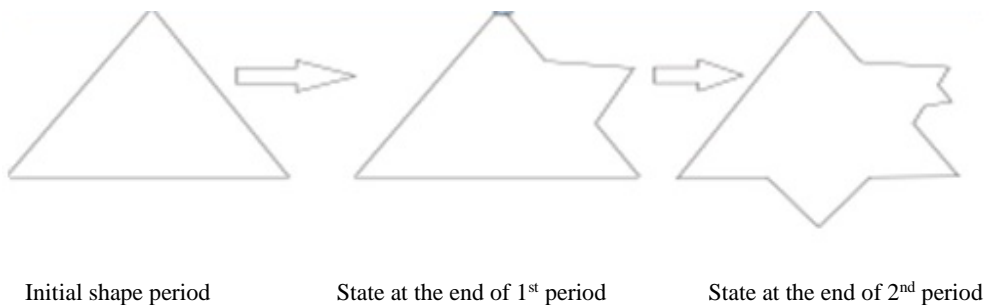


Figure 11.2. First 3 iterations of Koch snowflake (uneven iteration change) (Source: Svirina, 2012)

- in case social value, created by an entrepreneur, is changing evenly in opposite directions, Koch curve will be again changing partially – an example is below (Figure 11.3)

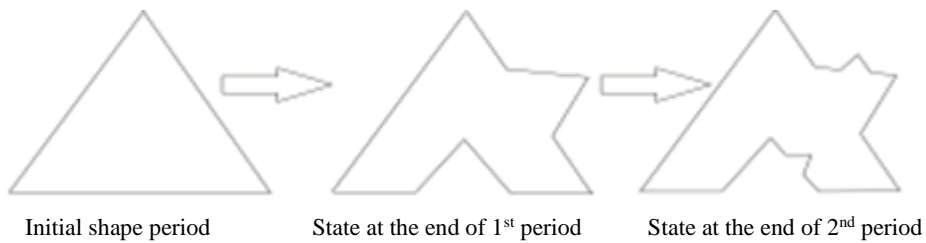


Figure 11.3. First three iterations of Koch snowflake (even iteration change) (Source: Svirina, 2012)

- in case the created social value is changing unevenly in opposite directions, Koch curve will be changing partially– an example is below (Figure 11.4)

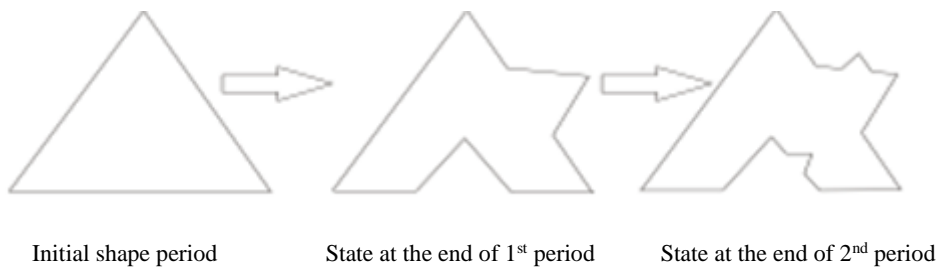


Figure 11.4. First three iterations of Koch snowflake (uneven opposite directions change) (Source: Svirina, 2012)

The interpretation of the figures and implementation of fractal theory is the following. The length of the initial figure rib in all cases is $1/20$ of entrepreneurial structure profit received in the initial stage, and, henceforth, the area of initial fractal is equal to the share of the profit received due to creation of social value. The difference between fractal areas at the end of the current and previous period is the measure of social result produced in value terms. Finally, a single change of Koch curve in this model occurs when all criteria influencing social value created change by 10% from the initial state. In case the change is higher (lower) than 10%, the basic length for next Koch curve iteration is changing proportionally. Social value that is measured in value terms according to the described algorithm becomes a base for social benefit creation regulation procedures.

Two main mechanisms for social value creation regulation can be suggested. The first one is a modified quota mechanism (an analogue of the one introduced by Kyoto protocol). In terms of positive social value creation stimulation it could be used in the

following way. At the first stage, minimum (basic) acceptable social value level (for a region or country, according to regulation level) is to be estimated. In case the entrepreneur is producing social value which is lower than the basic level, he/she should buy a quota equal to negative social value created from government authorities or companies producing positive social value. This would allow launching a compensation mechanism that would allow entrepreneurs who produce positive social value transform it into income, which should lead to an increase in economic system sustainability. Within this mechanism the main problem is basic social value level estimation, which can be suggested to be considered equal to zero at the initial stage of regulation in cases where:

- the level of labour turnover in an entrepreneurial structure is now exceeding normal,
- entrepreneurial unit performance is transparent (according to global standards),
- company's agents assess information on entrepreneurial unit performance as clear and understandable,
- claim for replacement is not exceeding the rate which is considered normal of the country, region and industry,
- entrepreneurial unit is ecologically safe (according to national and regional requirements),
- the government and the society do not have valid claims on company performance.

Using the same basic level of positive social value creation and suggested mechanism for social value amount estimation in value terms, the other way of entrepreneurial social value creation stimulation can be implemented. This second mechanism should imply tax preferences for entrepreneurial structures which are creating positive social value (social value volume in that case should be subtracted from the taxation base), and tax extras in the opposite case. As it can be seen, both mechanisms are to be used in order to provide balance between social and economic entrepreneurial value creation" (Svirina, 2011). This approach provides a number of problems in practice, yet its existence indicates the possibility to create a measuring approach to be used in strategic KPI systems of the companies.

Existing research also argues that efficient implementation of strategies has to consider the context of social value oriented managerial policies implementation. To measure it, the following hypotheses were tested:

1. the level of social value creation correlates with the share of rural population and level of economic freedom (indicators of institutional development),
2. higher social activity rates can be found in countries with well-developed networks,

- higher social activity rates can be found in the countries with a higher share of rural population.

For measuring social value Social Entrepreneurship Activity ratio (SEA) was used as measured by Global entrepreneurship monitor.

As it can be seen from Table 11.1, there is a statistically significant negative correlation between the share of rural population and the level of economic freedom – which is in line with the existing literature (Porter & Kramer, 2006) and indicates better institutional development in case of a decreasing share of rural population, and vice versa. It is stated in this study that a low level of institutional development in the country indicates probable higher spread of networks and, hence, an existing base for network economy.

Table 11.1. Non-parametric correlation between the SEA rate, the level of economic freedom and the share of rural population. (Source: Author's calculations)

Indicator		SEA rate	Share of rural population	Economic Freedom	
Tau-b Kendall	SEA rate	Correlation coefficient	1,000	-0,108	0,208
		Sig. (2-tailed)	.	0,281	0,062
		N	149	149	139
	Share of rural population (RP)	Correlation coefficient	-0,108	1,000	-0,401**
		Sig. (2-tailed)	0,281	.	0,000
		N	149	149	139
	Economic Freedom (EF)	Correlation coefficient	0,208	-0,401**	1,000
		Sig. (2-tailed)	0,062	0,000	.
		N	139	139	139
Ro Spearman	SEA rate	Correlation coefficient	1,000	-0,158	0,318*
		Sig. (2-tailed)	.	0,278	0,048
		N	149	149	139
	Share of rural population (RP)	Correlation coefficient	-0,158	1,000	-0,549**
		Sig. (2-tailed)	0,278	.	0,000
		N	149	149	139
	Economic Freedom (EF)	Correlation coefficient	0,318*	-0,549**	1,000
		Sig. (2-tailed)	0,048	0,000	.
		N	139	139	139

When Spearman coefficient was assessed for the same dataset, positive correlation was found between the level of economic freedom and the SEA rate; as it can be seen,

the share of rural population is related to economic freedom, and it can be indicated that at least an indirect interrelation between the SEA rate and the share of rural population exists. For the purposes of this assessment approach, the share of rural population is used as an indicator of network communication; however, Global Entrepreneurship Monitor report on social entrepreneurship studies this type of business in well-developed countries, where the share of rural population is relatively low, and the networks are mainly Internet-based. For this type of societies the other type of indicator is needed, which has not been considered here – thus it can be proposed that there is an interrelation between the SEA rate and network activities, which is partly supported by the analysis in Table 11.1. Thus, hypothesis 1 has been supported, and institutional development level matters for socially oriented strategy implementation.

To evaluate the stated hypothesis, cluster analysis for 39 countries from the sample has been performed (the ones assessed in Global Entrepreneurship Monitor report on social entrepreneurship). The final centre of clusters for 4-element clustering is presented in Table 11.2. These clusters' centres were acquired during the seventh iteration of the original data.

The first cluster unites 16 countries with relatively low level of rural population and relatively high level of economic freedom (this cluster includes Germany, Norway, Russia, Malaysia, Italy). Still, the level of the SEA is quite low in this cluster – in case of well-developed countries due to high level of state input into satisfaction of societal needs within business models (Norway), and in case of underdeveloped countries – due to inability to evaluate entrepreneurial opportunities based on social need (Russia, Saudi Arabia). This cluster can be called 'Friedmanite oriented countries'.

Table 11.2. Cluster centres (final) (Source: Author's calculations)

Indicator	Cluster			
	Friedmanite oriented countries	Developed countries	Developing countries	Boosting SEA countries
SEA rate	2,09	3,51	2,84	4,12
Share of rural population	24,69	12,71	47,38	86,00
Economic Freedom	63,15	74,30	60,82	59,90

The second cluster features the lowest share of rural population and the highest share of economic freedom – with quite a high SEA rate. This cluster includes 14 countries, i.e., the US, Netherlands, Switzerland, Republic of Korea, Finland, Belgium, Chile and others. These countries also demonstrate a high level of networking activity which is not rural based, and an ability to reveal societal opportunity to further develop business models. This cluster is indicated as 'Developed countries'.

The third cluster has a higher share of rural population and lower economic freedom level, and unites eight countries, including Bosnia and Herzegovina, China, Jamaica, Morocco, South Africa. A higher level of networking, which in this case appears as a result of rural population cooperation, leads to pursuit for societal opportunity to start a business, which results in a higher SEA rate. This cluster is referred to as 'Developing countries'.

Finally, the fourth cluster consists of Uganda solely, which shows a high rate of social entrepreneurship and share of rural population with the lowest level of economic freedom. Thus, cluster analysis supports the second hypothesis. This cluster can be seen as 'Boosting SEA countries'.

Thus, one can see that the level of development influences the outcomes of companies' social orientation and intention to start such companies; yet there are some outliers, which indicate that institutional development is not the only source of efficient social strategy implementation, and ethical behaviours might pay out even in case of developing countries.

Finally, the third hypothesis has not been supported either by correlation, or by cluster analysis. As it can be seen from clustering, the highest SEA rate is indeed found in the country with a higher level of rural population, but the next cluster with high social entrepreneurship activity consists of well-developed countries with a very low share of rural population. Thus the possibility of rural population being the driver of social entrepreneurship can be rejected on the basis of quantitative research, and hypothesis 3 has not been supported.

To illustrate the last statement, some graph analysis has been performed, which can be seen in Figure 11.5. As it can be seen from Figure 11.5, the highest levels of social entrepreneurship activity lie along the line featured in this figure. This line indicates that enterprises are socially active if the share of rural population in the overall population of the country is high, but the level of economic freedom is relatively low – in this case social entrepreneurship seems to be a classical one as described by Yunus (2008); they also are socially active in case of a low level of rural population, but high level of economic freedom – in this case social entrepreneurship models are again based on networks, but mainly virtual ones which appear in well-developed countries among urban population.

To finalize the present research, graph analysis of the SEA rate relation to the level of economic freedom has been performed (Figure 11.6).

As it can be seen from Figure 11.6, no exact interrelation can be found between the level of economic freedom and social entrepreneurship activity, which supports existing literature that indicates higher enterprise activity of that type in case of under-developed institutions.

R square for the linear model of these two factors is equal to 0.56, which means that no direct interrelation can be seen. Still, the lowest rate of social entrepreneurship activity can be found in case of a very high economic freedom ratio (see outlier in Figure 11.6).

Similar analysis was performed to estimate interrelation of the SEA rate and the share of rural population (see Fig.11.7). Its results are similar to the ones performed above: no direct interrelation can be seen; still, the highest level of the SEA is concentrated where the share of rural population is relatively low (except for an outlier which appeared in cluster analysis also). Thus, it cannot be stated that either the level of economic freedom or the share of rural population have a direct impact of the SEA rate for the described sample.

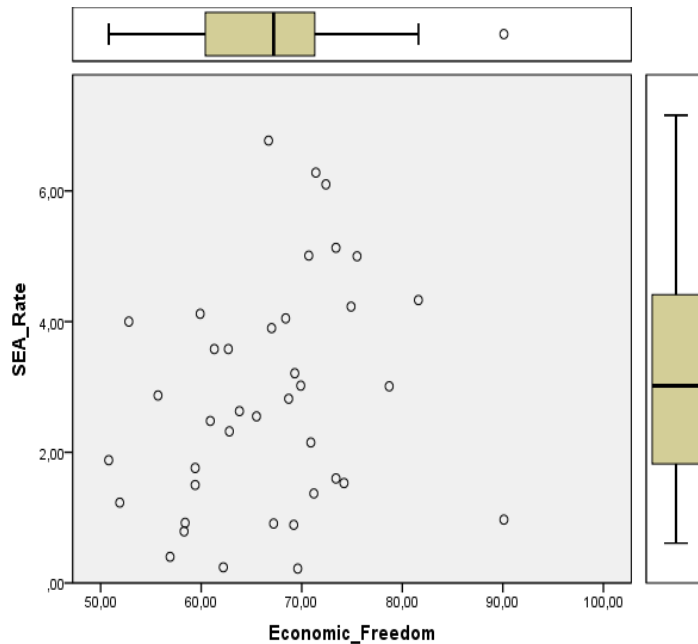


Figure 11.5. Interrelation of the SEA rate and the level of economic freedom (Source: Author's developed)

The other view of the revealed relationship can be seen below in Figure 11.6. Clustering countries by the level of economic freedom and the share of rural population explains why institutional development influence on company's willingness to pursue social outcomes does not depend solely on institutions – in some cases, where rural communities are producing indigenous grassroots institutions, implementing ethical strategy might lead to a higher payoff than it might have in developed countries.

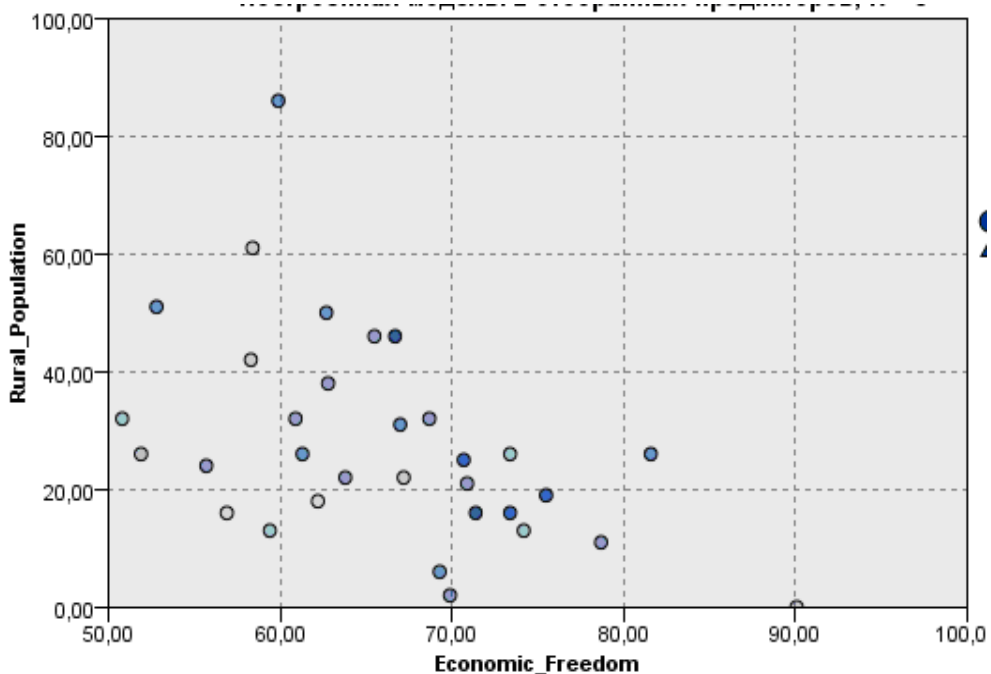


Figure 11.6. Mapping economic freedom with rural population (Source: Author's developed)

Taking this finding into account, one has to consider that in case of a high rural population level socially oriented strategies might lead to opposite results. Therefore, it is necessary to consider the quality of social solutions and the share of bottom of the pyramid population; if both seem to match requirements, socially responsible strategies would be a better choice despite poor institutional development. The illustration of the absent relationship of rural population share to social activity based entrepreneurship development is shown in Figure 11.7.

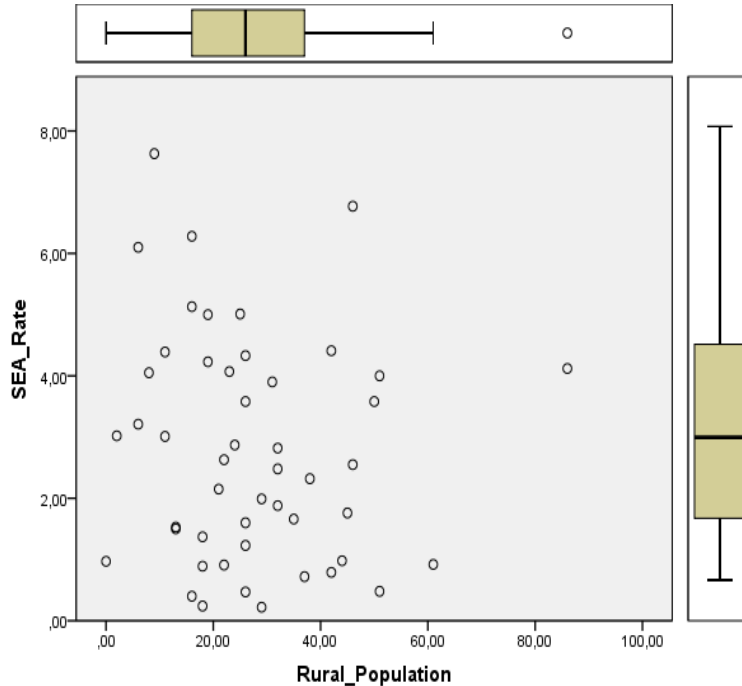


Figure 11.7. Interrelation of the SEA rate and the share of rural population (Source: Author's developed)

First, the present findings indicate that the level of social entrepreneurship activity is related to network activity, but is not correlated to both the share of rural population, which was used as an indicator of networks' power, and to the level of economic freedom, though in case of non-parametric correlation analysis implementation relation between the latter exists. In the opinion of the authors of the present research, this supports the findings from existing literature that suggest specific origins of social businesses, and enriches these findings by quantitative analysis.

Second, the cluster analysis has indicated the presence of four clusters. The first one, 'Friedmanite oriented countries' includes countries with a low level of rural population; second, 'Developed countries', consists of developed countries with a high level of social entrepreneurship activity; third, 'Developing countries', where the SEA rate is relatively low, as well as the level of economic freedom is with a tendency of decreasing rural population; fourth, 'Boosting SEA countries', feature a very high share of rural population and low economic freedom ranking together with a high SEA rate. As it can be derived from this analysis, the most active countries in terms of social entrepreneurship are either the ones with a big share of rural population and, hence, the ones having well-developed rural networks, or countries with highly developed urban virtual networks – and thus a relation between network and social entrepreneurship activity has been found.

Third, graph analysis has also indicated no relation between the level of economic freedom and the SEA rate, as well as between the share of rural population and the SEA rate; however, combination of these two variables seem to have an impact on social entrepreneurship activity level. This finding alone with the previous one adds value to existing literature by providing quantitative proof of networks value to the development of social entrepreneurship.

This performed analysis indicates that hypotheses 1 is partly supported, hypothesis 2 is fully supported, while hypothesis 3 is not supported. Hence, for implementation of a socially oriented strategy the institutional setting is important, but not crucial – that means the manager needs to rely on social effect measuring rather than on the assessment of the context to understand the expected efficiency of societal orientation strategy implementation.

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. What is the purpose of ethical strategy in terms of social value creation?
2. What are the main obstacles for measuring social outcome based on ethical strategy implementation?
3. What tools are used to measure social value produced by entrepreneurs? What limitations do they have?
4. How could one evaluate the context in which the company acts to implement a socially responsible strategy?
5. What role do institutions play in achieving efficiency in implementing a socially responsible strategy? Do underdeveloped institutions mean such a strategy cannot succeed?

CORPORATE SOCIAL RESPONSIBILITY: RESEARCH DESIGN

Corporate Social Responsibility is one of the mainstream research topics in managerial science; almost every professional association has a branch that deals with social responsibility research, resulting in a number of management concepts that emerged out of this research (social business, PRME, Millennium Goals etc.). The variety of research directions in the field means that any researcher would have to deal with a wide range of possible instruments to analyse the situation in the framework of empirical and practical research.

This chapter covers the main research instruments that are used in Corporate Social Responsibility research, including qualitative and quantitative, as both types are broadly used by researchers in the field worldwide. At the meantime, Corporate Social Responsibility research demonstrates high potential in using such newly developed tools as game theory or neural network analysis, which will be also described in this chapter.

Both quantitative and qualitative research is based on sets of data that have to be collected in relation to research question and goals. Thus, on the first stage of research one needs to define what sort of question s/he wants to answer, taking into account that it has to be clear how the researcher intends to measure whether the result is achieved. To do so, first the main research question has to be identified, followed by its decomposition into a number of research goals and corresponding hypothesis. It may then appear that for different hypothesis the researcher has to use different research instruments.

An example of research question in CSR research can be “to estimate the influence of socially responsible behaviour on company’s profitability”, which proposes a few goals: (1) to measure company’s socially responsible behaviour, (2) estimate the level of company’s profitability, (3) analyse the interrelation between measured social outcomes and profitability. Each of these goals will be achievable in case the researcher has clearly defined the measurement for each research object and revealed relevant instruments for data collection.

The sources of data

The main sources of data in CSR research match those in a broader focus of social sciences, and include field studies, laboratory studies, observational studies, surveys, self-reports, archival research and simulations. Each of those sources has its positive and negative sides, which define the possibility to use it for certain research purposes.

One of the most widely used sources of data in CSR research is the data that comes from observations of companies and their environment. This type of source is called *observational research*, and the data appears from observing natural managerial behaviours in various situations; because of its nature, this type of research allows to obtain detailed information about natural behavioural paths in management decisions, analyse the circumstances within which these decisions were made, and systematize this data. An example of this research in Corporate Social Responsibility field would be a longitude observation of ethical code conduct implementation in a multinational

corporation throughout several years of its implementation. In that case observers would analyse the documents provided by the company during the studied period (related to ethical code implementation and development), observe relevant dynamics, tape record (or videotape meetings relevant to the field of study). The coded activities and documents would be used to estimate ideological, economic and organizational changes in ethical code and its implementation within different geographical structures of the company; thus the goal of the described study could be analysing the factors which influence existing changes in a multinational corporation's ethical code. The provided example presents the type of non-participant observational study, when the researcher him-/herself is not involved in company's activities and analyses what is happening in the field of Corporate Social Responsibility from the external perspective. A similar type of observational research is participant observation, which places the researcher in the setting of his or her intended study, when the researcher him-/herself is a part of the process. An example of this research type can be found in *Freakonomics* (Levitt, Dubner, 2009), which describes interrelations between shadow economy managers and employees, to perform which a young researcher used his ability to be a part of the process as he was living in the black underdeveloped neighbourhood. The positive side of participant observation is that the researcher, like in the named example, is involved in the process and thus has an ability to acquire deeper understanding of how processes are organized. On the negative side, personal involvement in the process provokes extra bias related to personal perception of the process, its dynamics and specific features. Observational research provides no control over the studied process or activity, but is being used to obtain a variety of descriptive information elements that become a base for formal theories, or to test the validity of existing theories in a different situation or with different dynamics of the process.

An extension of observational research is *simulation*, an interesting yet rarely used technique when the information is being gathered by observation of actions and processes that appear in an artificial setting (which allows to get rid of irrelevant factors and focus on the research-related ones). Usually, the aim of simulation is to assess the subjects' behaviour in certain circumstances. Simulations are not used frequently in Corporate Social Responsibility research due to the fact that they require clear identification of the factors which influence socially responsible behaviour and actions, and existing research does not allow having this clear understanding at the current moment.

An alternative for observational research are *surveys* and *questionnaires*, a method widely used in Corporate Social Responsibility research. Surveys are aiming to obtain data by asking participants questions about facts, behaviours, attitude, beliefs, values connected to a Corporate Social Responsibility research question. This type of data collection is used for both qualitative and quantitative research, i.e., for qualitative research scientists mainly use it to find out what respondents think or plan to do in a certain situation/ setting (in many cases – versus what they really do); while quantitative research labels each answer with a number or scales it, and these numbers are further used for statistical analysis. The first type of surveys (focused on verbal information) is called semantic, as they heavily depend on respondent's ability to

articulate their beliefs or conclusions. This type of research is used, because one can observe behaviours, but it is quite problematic to observe internal constructs like beliefs or values. The positive side of surveys is that they are relatively easy to administer and analyse, and are convenient for respondents since they get to decide the date and time for survey completion. At the same time the method has a few disadvantages, including lack of respondent's motivation to answer the questionnaire (for instance, for e-forms 4.5% of response rate is considered to be a normal one, hence if you need, for instance, 120 completed questionnaires the original e-form has to be sent to approximately 2700 people. The rate increases if researchers pay for answering questionnaires, but not too significantly – the response rate raises to 5.5-7.5%, which is the described case and means that one still needs to send out over 1700 questionnaires to receive 120 questionnaires back). The other important disadvantage is that respondents' answers are influenced by a relatively big number of factors.

In order to develop an efficient questionnaire for data collection, the researcher needs to follow a strict algorithm:

1. Define the set of goals you wish to achieve (in order to eliminate extra questions which you do not need for the current study).
2. Define the target population (and a number of respondents you will need, taking into account a low response rate).
3. Develop a list of all questions you need to try to focus them on the current, specific and real.
4. Organize the questions in a logical order to prevent a drop in response rate as people can assume the researcher is going round in circles.
5. Do the first pre-test of the questionnaire, in order to estimate unclear questions and answers which can contribute to research bias.
6. Adapt the questionnaire to the feedback received.
7. Do a pilot study with a small group with characteristics of the target group.

In order to follow this algorithm one has to keep in mind a few concerns. First, the researcher should keep the questionnaire as short as possible, and simple, avoid any double meanings within the questionnaire. Also, specific questions are better than general, force-choice questions are preferable to agree-disagree ones, while multiple questions on the topic to prevent respondents from manipulating the data (in case a respondent gives different answers to the same rephrased question, the questionnaire has to be considered invalid). In order to keep the response rate at estimated levels, one needs to provide a cover letter, explaining what the research is about, and what sort of conclusions should it offer to general public later; research indicates, that such an approach provokes higher commitment from the respondents and hence a higher response rate with better-filled questionnaires.

The questionnaires contain the following types of questions (Eiselen *et al.*, 2005):

- Factual questions: consider the facts the respondent knows (Yet a question “How much money did your company spend on partying last year?” leads to guessing, it is unlikely that an employee keeps track of this spending),
- Opinion-related questions: reveal respondents’ attitudes or perceptions (Yet a question “Do your classmates consider you an intelligent person?” asks a participant to tell us what s/he thinks the other think, and the answers are usually irrelevant to the research object),
- Open-ended: contain no pre-coded answers (Still, this is a challenge, as the researcher has to be sure the respondents understand the question. In one of Corporate Social Responsibility researchers performed in Central Asia the researchers changed the question “How would you assess your company corporate culture”, as the respondents did not understand what corporate culture was, to the question “What do you associate your company with” and got the answers they wanted, about values, but also half of the respondents declared they associate their company with ‘oil’ or ‘pipes’ which were out of research scope).
- Closed questions (multiple-choice questions) (Yet a question “How much time per day do you spend watching TV?” – “a) up to ½ hour, b) from ½ to 1 hour, c) from 1 to 1 ½ hours, d) from 1 ½ to 2 hours, e) from 2 to 2 ½ hours, f) more than 2 ½ hours” has at the same time too detailed and too broad types of answers),
- Skip, branching or contingency questions: are used when the question is only applicable to a subgroup of respondents (those are put in to save respondents’ time on irrelevant questions).

Besides biases provoked by unclear questions or questions that touch respondent’s inner feelings, the researcher needs to consider the types of answer, which can be the following:

- Yes/ no questions (“Have you stopped wearing furs?” – can you see a problem here?),
- Extent of agreement, level of importance or frequency of behaviour (defined by Likert scale, usually a 5 or 7 point scale where 1 stands for the lowest estimation and 5 (7) for the highest estimation),
- Rankings or ratings (keep track of the number of options).

Below a few concerns on shaping the questions of survey are provided (whether paper-and-pencil or online) that should be considered to avoid the majority of perception biases:

- The question should address only one issue. For example, if you ask a ‘yes/ no’ question “Would you prefer to get education relevant to your past experience and future intentions?” the person would be lost if s/he wants his/ her education to be both relevant to past experience and future intentions.

- The question should be clear and unambiguous. For instance, when one asks “How many friends do you have” it is not clear what the subject is. Does s/he need to know a number of close friends, a number of acquaintances some can call friends, or a number of friends as it is said on Facebook page.
- The question should have a clear instruction. For example, if you compare “Should divorce be made easier or more difficult to obtain in your country, or stay as it is?” with “Should divorce in your country be easier to obtain, more difficult to obtain, or stay as it is” you will see, that adding an opposite option (easier to obtain) makes respondents consider the whole variety of answers resulting in less biased answers.
- The question should not address socially appropriate behaviour or emotions. Consider a question “Do you think people should take care of the elderly?”, which would probably lead to 99% percent of ‘totally agree’ despite what people might really think – in the majority of cases respondents answer what is expected to hear to such questions.
- The respondent should not be influenced by status or prestige. For example, it would be harder for a respondent to answer ‘no’ to the question: “Mother Theresa considered charity one of the best inventions of humankind. Do you agree?” if the respondent knows who Mother Theresa is.
- Evaluate hypothetical questions with care (sometimes they are unavoidable). An example: “Would you buy this New Coke when it appears in McDonalds?”, this question asked prior to New Coke campaign, was typically answered ‘yes’, yet then the respondents refused to buy New Coke when it appeared in the stores and McDonalds restaurants.
- The question should cover all possible answers. For instance, a widow would not be able to provide an answer for the following question: “What is your marital status: single/married/divorced?”
- Response alternatives should exclude each other. Consider a 35-year old person answering a question “What is your age group in full years? – 18-25; 25-35; 35-45; 45 or older” – and his/ her possibility to choose 2 different age groups.
- The question should not contain assumptions. For example, a question “To what extend are you satisfied with your company’s ethical code?” (rate from 0 to 10) assumes that each respondents company has an ethical code which is not necessarily so.

Besides considering the above mentioned issues in case the researcher runs a quantitative study, there is a need to consider which type of measurements would be used:

- nominal measurements: respondents can be divided into mutually exclusive categories according to this measurement (gender, country of origin),

- ordinal measurements: besides categorizing, they provide characteristics of intensity (years of study, Likert scale measures),
- interval measurements: provide equal intervals between different categories, but absolute zero has no meaning (Doing business and Human resource development index – but you cannot say the country is twice as intelligent as the other),
- ratio measurements: interval measurements with meaningful absolute zero (income, age).

An extension of questionnaire technique is an *interview*, when the researcher questions respondents following the questionnaire line and records the answers. An interview allows going in details with the aspects related to research question, and in many cases reveals factors which were not taken into account with original questionnaire settings. Yet, an interview requires much more time from the respondent, and is usually harder to schedule – due to that, mainstream research indicates that 120+ questionnaires is needed to draw valid solutions, while 15 interviews allow to claim the same results.

The other angle, the place where research takes place, allows identifying laboratory and field research. Research, which is conducted in special premises where the necessary software is installed, is called *laboratory research*. The main reason for naming it laboratory is that the research takes place out of the real world, the scientists perform their data collection and processing without the influence of side factors that occur in case of observatory research conducted within the premises of the research object. The advantage of this approach is allowance of better control, but at the same time research objects (in Corporate Social Responsibility case – humans) are acting without looking at other factors and influential actions which are present in real life situations. So the observed behaviour and decisions can differ from what would later appear, when the same decisions are to be made in real-life context.

On the contrary, *field research* is conducted in real life circumstances, with full presence of external influence that normally exists in the environment. The actors in this case evaluate their rights and responsibilities as more ‘real’, taking risks as they would do if no researchers would be around. Yet, the circumstances of research remain partly artificial (the actors know they are being a part of scientific research), and hence the results can still be biased, and these biases are harder to reveal within assessment period.

Finally, the researcher can look up data in some archival sources, and such data collection process is called *archival research*. For instance, a number of studies assessing responsible leadership start with the findings from XVII-XVIII century, and all the data on those can be solely found in archives. Yet for the understanding of theoretical background this type of research is highly relevant. The disadvantages of this research are provoked by its nature – the researcher has no access to actual settings, so it is common that conclusions are drawn from prepositions which are not related to actual environment where managerial decisions were made and implemented.

The researcher makes a decision on what type of data sourcing should be used in relation to the study goals and research question on the one hand, and to the biases for each data source collection on the other. If possible biases might lead to invalid study results, one should consider other types of data sourcing to ensure high quality results.

Variables and research planning

The framework of Corporate Social Responsibility research requires definition of dependent and independent variables. The dependent variable is a measurement of a process or an activity that is influenced by other factors, while an independent variable is a measurement for the factor which affects the dependent variable. The concept is imported from natural sciences, where the interrelation of variables is identified in a form of an equation (for instance, $V = S : t$, where V, speed, is a dependent variable defined by two independent variables: distance S and time period t, so in order to calculate speed one needs to know the distance and period of time within which an object passes this distance). In social sciences it is not always possible to draw an equation from the collected data, still, every process or action which is the goal of research, is influenced by certain factors, and the researcher aims to understand the interrelation during the research process. The studied process, concept or action may be abstract and non-observable, but the variable has to be both observable and measurable. For instance, 'sustainability' is a non-observable and complex concept, but its measure, sustainability index, is defined and one can use it as a variable.

An independent variable (IV) must be controlled by the researcher as a measurable object. If the research is performed as an experiment, either lab or field, the IV is controlled to ensure it changes so that the researcher can carefully measure other variables. An example of a Corporate Social Responsibility field experiment can be that the researcher controls the behaviour of a decision-maker in case of different ethical codes implementation, and the person is not allowed to choose what type of socially responsible behaviour would be required from him. Such manipulations allow drawing conclusions on the decision making process and the effect ethical code has on the process of deciding and implementation. The variable that is affected by the independent variable is called the dependent variable. The researcher intends to measure dependent variable's dynamics in relation to manipulated dependent variable.

Dependent and independent variables are defined within research design along with preferable sources of data and methods of its processing. In order to achieve better results, one has to take into account all the limitations associated with the chosen aspects of research.

Research Designs

CSR research uses a number of different research design concepts, yet there are three main ones: *quasi-experimental design*, *correlation design* and *experimental design* all of which are widely used in contemporary research.

The word ‘quasi’ stands for ‘almost’ or ‘somewhat’, thus defining the core of this experiment type. In other words, a quasi-experiment is the case when major requirements to the experiment are met, but the experiment itself is missing. Such a design requires careful performance, and quasi nature of this experiment provokes a validity thread as the researcher might catch the effects arising from a certain causal relationship. This research design is considered perspective if the outcome of the study is important to understand both theory and practice, yet it does not seem possible to run a classical laboratory experiment, or the process or action the researcher is planning to analyse took place in the past and can be researched only based on documents.

An example of quasi-experiment in CSR field is a study by Flammer and Luo (2017) which assesses Corporate Social Responsibility as an employee governance tool. The study examines if companies employ Corporate Social Responsibility in order to improve employee engagement and hence decrease non-desirable employee behaviour like shirking or absenteeism. For this study the researchers exploited “plausibly exogenous changes in state unemployment insurance benefits from 1991 to 2013” (Flammer & Luo, 2017). This is a typical situation for quasi-experiment in Corporate Social Responsibility, when researchers are exploring what had already happened in order to derive theoretically and practically important outcomes. The hypothesis researchers had in mind was whether higher unemployment insurance (an instrument which reduces employee’s possible cost of being unemployed) would provoke adverse behaviour. Yet the study revealed a moderator – higher unemployment insurance benefits appeared to be related to employee-related Corporate Social Responsibility practices, and such practices lead to higher employee engagement and reduction of adverse behaviour (supporting original hypothesis). For the purpose of this study the researchers used two databases – one on employee unemployment insurance and the other on employee-related Corporate Social Responsibility scores from Kinder, Lindberg and Domini database (KLD, 2010). At the same time employee positive and adverse behaviour was observed (coming from companies’ records) to draw conclusions on the relationship outlined in the original hypothesis.

The specific features of quasi-experiment in this case are obvious: the researchers did not create a specific setting, they were just analysing how the companies were run in relation to the relationship they had stated as a research question. At the same time one can see the possible biases in this quasi-experiment (also related to its nature) –it is not known if there was a third factor that affected both dependent variable (employee adverse behaviour) and independent variable (employee-related Corporate Social Responsibility score) in this study. If the experiment would be run in the lab, this problem would not occur as researchers would eliminate any third factors which might have an influence on the outcomes; but in the quasi-experiment it is not possible. Thus in the conclusions of research the researchers have to keep in mind this possible bias every time they choose a quasi-experiment as a research setting.

One specific type of quasi-experiment, used in Corporate Social Responsibility research, is a case study research design. It implies that the researcher studies a single

case (for instance, one company), and draws conclusions from this single situation. Besides common biases associated with quasi-experiment, in this case it is always probable that a certain action, experience, process organization is unique for the one studied situation and thus the results are not relevant to theory or practice and cannot be used by other organizations. Still, the case study method is used when the cases are really exceptional (for instance, a company uses open job market, i.e., is employing everyone who has said s/he wants to work when the vacancy appears without any further interviews or other procedures). This is being done in order to foster frontier practices to research field.

In quite a few cases with CSR research, one has limited possibilities in controlling or manipulating independent variable to assess its influence and acquire desired results, so the research goal is to estimate interrelation between two or more measurable variables (for instance, the answers to survey questions). The researcher might want to know if person's age is related to his or her perception of Corporate Social Responsibility practices implemented in the company. One chooses this research design if the behaviour can only be observed, but cannot be manipulated by the researcher (as in the given example). This type of research, when the researcher measures statistical correlations between two or more variables with a vague possibility of defining causality in the relationship, is called correlation design. The main disadvantage of this research design type is that the researcher can only establish relationships, yet it is hard to prove causality in these relationships, and it is easier to miss certain specific factors which are causing both assessed factors to change, yet they are overlooked by the researcher. Even if it is not overlooked (such third factor does not exist), it is often unclear, which of the studied variables is dependent and which is independent, though statistical algorithms are getting more sophisticated and sometimes capture causality.

Figure 12.1 represents one of the most famous statistics paradoxes, Anscombe's quartet (Anscombe, 1973), representing four very different sets of data with absolutely the same correlation coefficient 0.816. This research has indicated the weakness of the correlation design – if one uses classical statistics, very different relationships are mathematically described as similar ones, often misleading the researcher.

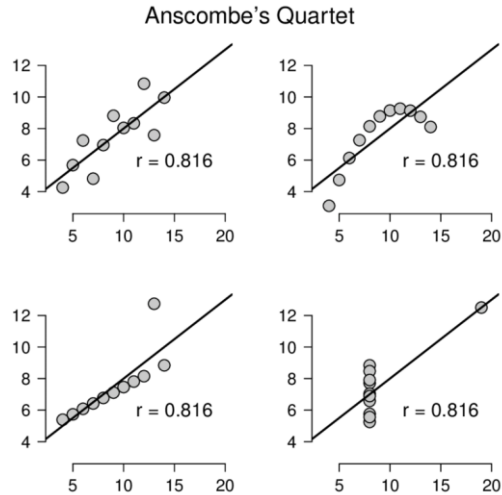


Figure 12.1. Anscombe's quartet: statistical trap in correlation research (Anscombe, 1973)

Still, the correlation research design is widely used in Corporate Social Responsibility research as it allows capturing certain relationships. An example of efficient a correlation research design can be a study of innovation development relation to Corporate Social Responsibility practices in the company. In this case the researcher would create a questionnaire, which includes both questions regarding innovation development in the company, and personal assessment of the implemented Corporate Social Responsibility practices. Each of the answers is coded (usually by means of Likert scale) and then the researcher runs statistical analysis of the acquired answers to reveal strong correlation. In cases one uses specific statistical software (SPSS Statistics or STATA), this software marks statistically significant relationships leaving the researcher to make sense of it (or to admit that such a relationship does not make sense) and derive related conclusions. In case the researcher designs his/her own programme to process the data (using mainly Python or R languages), it is up to him/ her to define the level of significance. Classical statistics insists that correlation is strong and worth further research if the correlation coefficient appears to be over 0.7 – but this threshold is designed for natural sciences; in social sciences even correlations over 0.2 might be considered significant and certain conclusions could be derived from these. Yet, the researcher has to keep in mind that certain relationship might appear to be purely mathematical, and no sensible causation can be derived from it. For example, it is possible to find correlation between the number of people dressed in white jeans and stock exchange indexes, but this does not mean that wearing white jeans drive the stock market up. The process has to be opposite – first the researcher develops a set of hypotheses, and then tries to prove them by means of correlation research. Within this process the motto of the researcher has to be ‘correlation is not causation’, and it is researcher’s responsibility to derive meaning from statistical processing.

An extension of the correlation research design is *differential research*. In case of differential research one or more variables which the researcher plans to analyse, cannot possibly be affected by the others (for instance, respondent's age, gender, marital status which are set before the research starts and are called differential variables). An example of such study was the research that assessed employee loyalty to Corporate Social Responsibility practices which revealed that married employees are more perceptive than single ones. Still, there is a drawback in this method: marital status is not a single feature of a person; it is rather a set of features. It is likely that married people have higher communication skills, responsibility, etc., and their employee loyalty is affected more by these characteristics rather than by their marital status. At the same time, for practical implications marital status assessment is much easier, than estimation of the communication skills and responsibility level. So, if a differential variable proves to be a significant indication of an important set of features, this research is considered valid and enhancing both theory and practice. Though the researcher has to be careful in formulating the conclusions, as the outcomes might differ if culture, history, setting, norms, language differences and a number of other differences between different groups of respondents are to be taken into account. From this view point experiments and quasi-experiments are easier to interpret.

Finally, the researcher has to take into consideration the sample he or she is assessing in a framework of correlation or differential research. In order to see results as valid, the sample must include not less than 120 units, each also considered valid and unique. For example, if the researcher sees two questionnaires filled out by different people, but containing absolutely the same answers and these respondents know each other, only one of such questionnaires can be considered valid for research purposes. Also, if the researcher reveals biased answers in a filled questionnaire, it has to be considered invalid and excluded from the sample. In case the researcher has less amount of valid questionnaires, the classical correlation research design cannot be implemented, it would be necessary to use other statistical tools which ensure validity in case of small or extra small samples.

The outcome of both correlation and differential research is a mathematical model of Corporate Social Responsibility process or action, which defines clearly the relationship between study's dependent and independent variable (or variables). Extra information on development of such models can be found in statistics.

Finally, one of the most complicated, yet highly valued types of a research design in Corporate Social Responsibility research is *experimental design*. Experiments are preferable in social sciences research as it is the only research design which could demonstrate a causal relationship (if this research design was implemented without flaws). To be treated as an experiment, a study has to fulfil the following requirements:

1. Independent variable has to be under full control of the researcher who performs the experiment. This would allow the research team to manipulate independent variables in the desired way, and hence derive valid conclusions

on what is happening with the dependent variable as a result of these manipulations.

2. Research participants (or subjects) have to be chosen randomly and at the same time represent the target audience group of the research. This requirement allows having a full representation of research target population; if this requirement is not fulfilled, the conclusions cannot be generalized. If the requirement is fulfilled, the findings can be extrapolated to the full target population.
3. Within the framework of the experiment research participants are assigned randomly to experimental conditions. This is done to ensure efficient manipulation of the independent variable when all the other conditions are the same within each iteration of the experiment (otherwise the results are considered invalid).

An etalon experiment in research methods analysis is considered to be a medical study performed with poliomyelitis vaccination. This was a double blind experiment – first, there were two groups – patients, who received newly designed vaccination and patients who received water instead of vaccine. The patient took vaccination without knowing if it was vaccine or water (this allowed to eliminate placebo effect bias). The vaccine (or water) was given to a broad child population in several states of the USA where medical authorities agreed to the experiment. Second, the doctors, who prescribed vaccinations, did not know what they were giving to their patients – they received bottles labelled either ‘vaccine’ or ‘water’, but only the researchers knew what was in these bottles in reality. This second blind part was done to eliminate doctor’s believes bias and manipulation with the results. This study revealed that poliomyelitis vaccination led to significant decrease in poliomyelitis spreading – those who got true vaccination were not infected with the disease, while in the control groups the percentage remained the same (with the correction to placebo effect and doctor’s manipulation). Unfortunately, such a research design is rarely possible in social sciences, including CSR research, and the researchers have to rely upon people’s perception accepting the bias associated with it.

The problem with the experimental design is the cost of realistic setting and the range of phenomena in Corporate Social Responsibility that can actually be studied within this research framework. Corporate practices can hardly be implemented in a lab hence researchers are forced to do their research in a form of quasi-experiment or correlation research. Contemporary scientists see the resolutions of the problems with associated biases in implementation of relatively new research technologies, such as game theory that derives a number of biases out of correlation research (the mainstream in Corporate Social Responsibility studies).

Game theory

Game theory was introduced by John von Neumann who studied mixed strategies in the so-called zero-sum games (the type of game where the outcome of one player can become greater only if other players’ outcome becomes smaller). Game theory uses the following main terms.

- Game – any interaction between two or more than two people when the result depends on what players do.
- Players – decision makers in the game (can be either people or legal entities such as governments, companies etc.).
- Actions – the steps players can take on the basis of their decision which would lead to a certain change in the game situation.
- Payoff – the result which motivates players (profit, income, social effect etc.). Games are not played without payoff.
- Utility function – the function that describes player’s preference between alternatives based on payoff a player can gain from choosing each alternative.
- Best response – an action that maximizes player’s payoff.

The basic game, prisoner’s dilemma, is illustrated on Figure 12.2.

2 /	Cooperate	Defect
1 /	Cooperate	Defect
Cooperate	-1; -1	-3; 0
Defect	0; -3	-2; -2

Figure 12.2. Prisoner’s dilemma (Source: Author’s interpretation)

In prisoner’s dilemma the two prisoners who committed crime together, are being questioned by the police separately, and either one can cooperate or defect. Numbers represent the utility of each choice for prisoner 1 and prisoner 2 correspondingly. The usual story behind the payoffs in the prisoners’ dilemma is as follows (Jackson, 2005): “The two players have committed a crime and are now in separate rooms in a police station. The prosecutor has come to each of them and told them each: “If you confess and agree to testify against the other player, and the other player does not confess, then I will let you go. If you both confess, then I will send you both to prison for 2 years. If you do not confess and the other player does, then you will be convicted and I will seek the maximum prison sentence of 3 years. If nobody confesses, then I will charge you with a lighter crime for which we have enough evidence to convict you and you will each go to prison for 1 year.” So the payoffs in the matrix represent time lost in terms of years in prison. The term cooperate refers to cooperating with the other player. The term defect refers to confessing and agreeing to testify, and so breaking the (implicit) agreement with the other player”.

This finding, that describes people's behaviour which does not lead to the best result for both agents involved. If they both cooperate, they will go free after 1 year, but the alternative is for one to go free if the other one defected while he was cooperating – this mutual cooperation would never happen. This result, which outlined irrational behaviour, was important as it revealed the following knowledge about social systems.

- Each player maximizes payoffs (egoist's choice).
- No one is deviating (no player would choose another action given other person's action).
- If one player is deviating, the equilibrium is not formed.
- A situation considered best not for the players, but for an outside observer.
- One agent strictly prefers this outcome while the other considers it as good as the other outcomes.

This particular game has allowed researchers to define five important conclusions about person's behaviour that is driven by egoist desire to maximize personal outcome.

1. If one awaits no punishment, it is highly likely he or she would try to maximize personal outcome without considering other people's outcomes. And if the punishment can appear after receiving of a positive payoff, a person or a company might be driven towards socially responsible behaviour.
2. Efficient management can be based on a clear measurement of the payoffs and redistribution of value according to the payoffs. Companies cooperate more when their responsible actions are more easily detected (for instance, giving the poor products for reduced price) and less when actions not easy to capture (for example, giving a longer period warranty). Thus if irresponsible behaviour cannot be easily detected, the companies would tend to be involved in it.
3. The actors tend to be more irresponsible if they assume other actors are being irresponsible, and vice versa. Hence the companies would be involved in socially responsible practices more if they would spread to competing companies.
4. The players know that maximum payoffs from irresponsible actions come in the last iteration of the game. Thus decreasing if the companies are planning to stay and compete in the market, they are more likely to be socially responsible.
5. The leading company sets the behaviour pattern for other players. Thus if the leading company in the industry supports socially responsible practices, it is likely that the other companies would follow the path.

Also, game theory allows to describe players' behaviour with clearly defined probabilities – the result which was, for example, proven in sporting research on the

basis of Spanish football championships (analysed by Palacios-Huerta in 2003 based on kicker and goalie decisions made in case of assigned penalties) – see Figure 12.3.

Goalie		Left	Right
Kicker		probability p	probability $(1-p)$
Left	probability q	0.58; 0.42	0.95; 0.05
Right	probability $(1-q)$	0.93; 0.07	0.70; 0.30

Figure 12.3. Probability matrix for goalie and keeper choosing a direction to kick (jump) when penalty is assigned (Source: Palacios-Huerta, 2003)

Probabilities of moving to both sides are calculated as follows:

$$0.58p + 0.95(1-p) = 0.93p + 0.7(1-p)$$

$$p = 0.42$$

Goalie would go left with probability 0.42, and right – with probability 0.58

$$0.42q + 0.07(1-q) = 0.05q + 0.3(1-q)$$

$$q = 0.38$$

Kicker would kick left with probability 0.38, and right – with probability 0.62

Hence it makes more sense for the goalie to move right as it seems a preferable strategy for the kicker.

The practical implication of this is that in case the researcher can estimate the probability of certain behaviour of different players, s/he can also define the probability of certain outcome. This is widely used in social sciences research to define probable outcomes of elections, performance of competitiveness development strategies etc., when the results are defined by the actions undertaken by each party.

For the purposes of qualitative research, one can use game theory without its mathematical part, by providing only the descriptions of players' perception of possible outcomes in the researched setting in regard to estimated circumstances. An example of such implementation can be seen in Figure 12.4 which assesses the situation between Austro-Hungarian and Russian empires at the threshold of World War I (Zagare, 2003).

		Russia and France	
		Desert Serbia	Back Serbia
Austria-Germany	Compromise	<p>A</p> <p>Compromise with Serbia, Russian influence on Balkans preserved</p>	<p>B</p> <p>Serbia saved, Russian influence on Balkans preserved, Austrian empire disintegrates</p>
	Attack	<p>C</p> <p>Russia loses Balkans, Austria gains control over Serbia</p>	<p>D</p> <p>War</p>

Figure 12.4. Decision-making matrix after assassination of Franz Ferdinand (Source: Zagare, 2003)

Thus, though each side would be better off with an A option, the fear of potential losses had driven the two sides to the war which had far more devastating outcomes; yet at the start of the war each empire tried to avoid what seemed to them as the least preferable situation. Analogues can be found in social sciences research, and the method is highly applicable to Corporate Social Responsibility research, especially to implementation of different socially responsible practices.

Designing research in Corporate Social Responsibility studies requires knowledge of a set of various instruments, their advantages and disadvantages and research limitations. The most valid results can be acquired from experiential design, yet it is the one that can rarely be implemented in the field; widely used approaches such as correlation and differential studies, on the contrary, might have questionable outcomes but are easier to perform. Due to that researchers usually choose them to investigate the field, but place outcomes carefully assessing research design based biases.

CONTROL QUESTIONS AND QUESTIONS FOR INDIVIDUAL STUDIES

1. *What limitations does a correlation, quasi-experiment and experiment research design have, correspondingly?*
2. *How do you distinguish quantitative and qualitative research? Would it be different for Corporate Social Responsibility research?*
3. *What sources of data does the researcher normally use in Corporate Social Responsibility research?*
4. *How can game theory be applied to Corporate Social Responsibility research?*
5. *Develop your research question and research goals for Corporate Social Responsibility research (provide an example).*

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