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Methodology for basic model development to assess the level of corporate social

Nadezhda Yu. Psareva[1]

[1]Department of International tourism, hospitality and social management of the Federal State-Funded Educational Institution of Higher Education Financial University under the Government of the Russian Federation, 125993, Moscow, Leningradsky prospect, 49

Nadezhda@mail.ru

Abstract

The purpose of this paper is to identify a set of factors characterizing the performance of modern corporations in terms of CSR. Expert evaluation method combined with graphics and mathematical methods is the method to analyze the issue. As a result, the combination of the indicators in each activity area can be changed, their quantitative and qualitative values can be changed depending on our understanding of CSR. In conclusion, transformation of different measurement units of indicators and their quantitative assessment into a score-based system help to include different indicators into the model and to have one measurement unit.

Keywords: Integral Assessment, Performance Indicators, Factors.

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Metodología para el desarrollo del modelo básico para evaluar el nivel de la sociedad social

Resumen

El propósito de este documento es identificar un conjunto de factores que caracterizan el desempeño de las corporaciones modernas en términos de RSE. El método de evaluación de expertos, combinado con métodos gráficos y matemáticos, es el método para analizar el problema. Como resultado, la combinación de los indicadores en cada área de actividad se puede cambiar, sus valores cuantitativos y cualitativos se pueden cambiar según nuestro entendimiento de la RSE. En conclusión, la transformación de diferentes unidades de medición de indicadores y su evaluación cuantitativa en un sistema basado en puntajes ayuda a incluir diferentes indicadores en el modelo y a tener una unidad de medición.

Palabras clave: Evaluación Integral, Indicadores de Desempeño, Factores.

1. INTRODUCTION

The need for sustainable development of the economy as a world trend is closely connected with the assessment of CSR development level. Social responsibility is being developed on a global scale. In 2000 the UN organization initiated the Global Agreement of the UN and the world business based on the principles of human rights protection, protection of decent work, anticorruption activity, and environmental protection. The notion corporate social responsibility (CSR) was introduced into the corporate management in 50-60s of XX

century in the USA. The US leading cooperation of corporations Business for social responsibility Overview of Corporate Social Responsibility, developing and promoting CSR theory since 2003, defined the CSR content as a way to achieve commercial success on the basis of ethical norms and respect to people, communities, environment. The development of corporate social responsibility (CSR) is closely connected with the standards development in different spheres of corporate management relating to the relationships with the employees, corporate ethics, approaches to environmental protection. Back to 2001 Mallen (2014) was one of the pioneers defined CSR as the main business-process rather than an additional process connected with the charity activities. Large companies have the following reasons to pay attention to the relationships with all stakeholders in the sphere of social relations:

- Globalization of economy guiding the companies to practice different forms of social responsibility;

- Approval of the international and national standards of social responsibility;

- increasing pressure from the state introducing stricter standards in labor legislation, environment protection;

- pressure from the trade unions, first of all, in labor protection and social policy;

• Stronger interconnections between public opinion and sales level.

The assessment of CSR development level is one of the most critical issues in business social responsibility development. The issues of social responsibility, its social and economic efficiency are described in the works of Lingane and Olsen (2004), Freudenburg (1986.), Gentile (2002), Kotler and Lee (2005). Emerson (2003), Clark (2004), Hahn (2012), Figge (2008), Perrini et al. (2006), Bendheim et al (1998), Waddock and Graves (1997), Arthaudday (2005), Chen (2011). Analysis of the methodologies to assess the social responsibility efficiency based on the qualitative and quantitative indicators: SIA (Social Impact Assessment), SRA (Social Return Assessment), SCBA (Social Costs-Benefit Analysis), SVA (Stakeholder Value Added) are given by Leshchenko et al. (2014). Who believes that these methodologies are based on the international principles of social impact and result assessment (IAIA - International Association for Impact Assessment). The Coalition of Ecology Responsible Economies (CERES), Institute of Social and Ethical Responsibility (ISEA) assess CSR social efficiency on a regular basis. SROI (Social Return on Investment) methodology assesses the social and economic impact of a company on the society and environment. This assessment focuses on the description of investment decision impact on the on-going changes from the point of comprehension and influence of some stakeholders.

A great number of scientists deal with the CSR economic efficiency with different assessment criteria, such as the size of the company, the life of the company, the costs of the equipment involved. Here the scientists note that the comparative assessment of CSR development level must be based on the procedures to ensure the compliance with the conditions of the company's work. Many scientists support the idea of using DEA (Data Envelopment Analysis) and KLD (Kinder, Lydenberg, and Domini) ratings and indexes to assess the CSR development level, these ratings and indexes being based on the data about one or several commercial companies mainly in the spheres of production, finances or services. DEA is an index of managerial decision efficiency assessment on the basis of the profitability (correlation between the result and the expenses). The methodology to calculate the index is based on the comparison of particular indicators with the best (reference) indicators from the previous research. The final version of the index is a scattering curve for economic efficiency indicator of social investment within the range from 0 (the least favorable) to 1 (the most favorable).

KLD index [Kinder, Lydenberg, and Domini] is supposed to be one of the most widely used indexes of CSR development level. Since 1991 this index has been used to analyze the data on 3,000 large American companies in different business sectors by such criteria, as the attitude to employees, corporate development, local community development, human rights, and environment condition. The integral value of the index was calculated by the importance of the CSR economic efficiency indicator. DEA and KLD indexes deal with the

comparison with the best CSR indicators and correspond with the final ratings of the companies only. These ratings significantly limit the possibilities for companies' self-assessment: even if a company knows its final CSR rating but does not see the calculations, then it is very difficult (sometimes even impossible) for the managers to identify the areas for improvement in CSR area.

Besides the indexes described above, Econometric Impact Index is widely used to assess CSR level. It evaluates the overall effect of company's impact on the local community and can be used by both the companies and the authorities dealing with the assessment of company's impact on the local community, including the issues of production expansion or reduction, price policy, tax payments, impact on decision making in regional development. In Russia, the practice to design CSR programs and their efficiency assessment is based on several methodologies to calculate CSR index, for example, on the rating calculation methodology proposed by Eko Prom System Company together with the National Service of Monitoring. This rating considers two sides of the company's activity in CSR sphere: the first side concerns the company's performance itself in CSR sphere, while the other side is about the media support for this activity. Each side is assessed by four criteria on a three-score band.

The Agency of Political and Economic Communications assesses the CSR development level for 100 most important companies from its point of view. The assessment methodology is based on an expert analysis done by the professionals chosen by the Agency, these

experts answering just one question - What score from 1 to 100 would you give to the social responsibility of the Russian companies? The assessment methodology of CSR development level from Reputatsiya Agency is based on the identification of an organization's social profile, its integration degree into the social life at its habitat territory, level of obligation fulfillment for the society, as well as the capacity to preserve the quality and the efficiency of corporate strategies in social policy, responsible entrepreneurship and ecological safety. It assesses the company's performance by the following main CSR spheres:

1. Economic efficiency and management.

2. Interaction with consumers.

3. Employer-employee relations and personal rights.

4. Interaction with society.

5. Ecology and environment protection.

The analytical overview of the existing methodologies in CSR development level assessment identified the following peculiarities in assessment procedures:

- Expert methods are mainly used in assessment; we believe that the application of these methods is justified since many indicators characterizing the level of social business

responsibility are difficult to be written quantitatively, while the expert assessment solves this problem;

-The calculation of the comprehensive (integral) indicator of CSR development level considers the importance of some parameters; the importance of these parameters is defined either statistically (for example, with correlation regression analysis), or through analysis of experts' opinions;

- Comprehensive assessment of CSR development level is based on the principles of clear logic. The grades like good-bad are the basis for many rating systems. This significantly limits the sphere of these grades application since the absolute value of rating does not hold any analytical meaning, thus the usage of these grades is of informative nature. Yes, companies' managers know that their companies have this CSR rating but what should be done to be higher on the list? What do we do better than the other companies? What sphere are we not successful at? Unfortunately, the ratings do not give the answers to these questions. We argue that this approach limits the analytical possibilities for rating application. In this case, there is a rational to use terminology and methods of fuzzy logic.

Despite a significant number of different approaches to assess CSR each of which contributes into characterizing the corporation's activity in different areas, still one requires to identify a rating status of a company, as well as to be aware of what it should do to develop

CSR. To manage CSR development one must both record the quantitative characteristics of this or that indicator and to understand the reasons for its value to be different from the values of the similar indicators achieved by other companies. The purpose of the research is to develop a methodological approach to develop a comprehensive assessment for corporate social responsibility level which helps both to evaluate its actual level of company's activity and to find the burning issues in terms of social responsibility support. The hypothesis underlying the research is that a model to assess CSR should comprehensively reflect the results achieved by the corporations in all their areas of performance in CSR sphere through correlating them with the standard indicators reflecting the best achievements in CSR area on a differentiating scale with five grades: very good, good, satisfactory, bad, and very bad(Nazarova et al,2018).

2. METHODOLOGICAL FRAMEWORK

With the hypothesis of the research, the methodology to develop a comprehensive model to assess CSR level should be based on the overall requirements in the approved international standards. Our research is based on the standard ISO 26000. The algorithm which accounts for the sequence of the stages to develop the model to assess CSR level represents the methodological approach of the research, Figure 1.

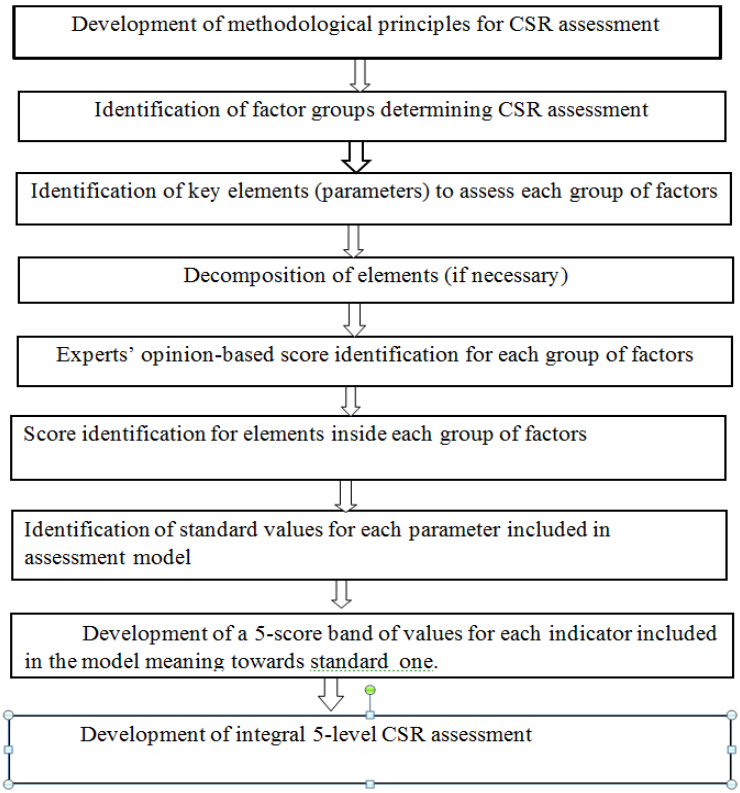


Figure 1 - Algorithm for the basic model of CSR development level assessment

The following methodological principles as the basis to identify the factors and indicators of the integrated assessment are defined to develop the basic model for the CSR level assessment. Integrity is a principle accounting for all parameters characterizing the company's performance in CSR area. Optimality is a principle for the assessment model to include the optimal number of indicators to characterize the company's activity in its performance in the CSR area which does not

repeat each other and is not interconnected. The scientists always face a problem of justifying a great number of indicators included in the assessment model in their integral assessment of different social economic indicators. On the one hand, it is necessary to support the level of grade preventability, while, on the other hand, the increase in the number of indicators is surely to complicate the model, to make the calculations difficult and intricate. Objectivity is a principle to develop a legal regulation base to compare the indicators and to define their rating in five levels characterizing five possible values for an indicator and to select the appropriate number of experts with regard to the purposes of the assessment.

Efficiency. The efficiency of the proposed methodology is assessed by comparing the expenses on assessment and the results from the application of these results. The impact of assessment application can be expressed both in providing the company's managers and other stakeholders with the social responsibility rating and in obtaining additional analytical information which helps to identify the position of an organization for a particular indicator with regard to the model-based standard (basic) level. The model is supposed to assess CSR development by considering and analyzing the main areas of company's performance within a five-score band with the boundary values indicating both the complete correspondence with CSR standards and their complete neglect. The following levels are identified which reflects the correspondence with the requirements in the company's performance in CSR area:

Very high (I)

High (II)

Middle (III)

Low (IV)

Very low (V)

Each level shows the correspondence with the requirements in the company's performance in the CSR area. Despite the quantitative and qualitative indicators achieved by a corporation the indicator impacts the score, with the maximum positive values for all indicators taken to be 4, while the lowest integral value of the indicators being 100. Methodology suggested by the author in a monograph adjusted to the assessment of CSR development level is on the basis of developing a multi-factor model.

3. RESULTS

The analysis of the requirements taken from ISO 26000:2010 Guidance on social responsibility defining the main spheres of social responsibility manifestations helped to specify the required areas of company's performance in CSR area (a group of factors), Figure 2.

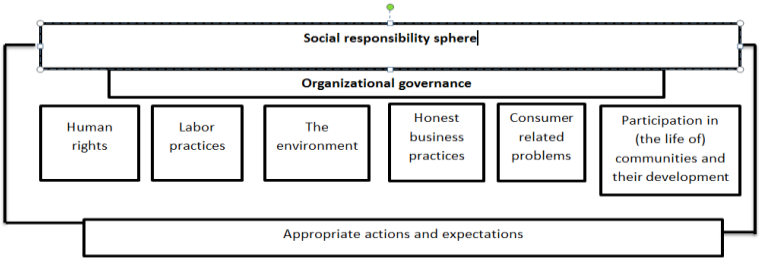


Figure 2 - Main spheres of social responsibility manifestations

With the standard analysis we can identify four groups of factors reflecting different forms of CSR embodiments:

1. Company's social policy with the investment into a person;

2. Company's activity impact on the environment;

3. the efficiency of production and managerial processes;

4. Interaction with the stakeholders.

These four groups are considered to be the main ones reflecting the compotation’s performance in the CSR area. Each element included in a group of factors is, in its turn, a set of specific parameters (indicators) with particular measurement units. It should be noted that the components of each group are not constant and can be changed. Their number and content can be changed as well with regard to the changes in our understanding of CSR. However, the

examined methodology to obtain an integral assessment does not undergo any changes. The survey among the experts revealed the components (parameters) for each of four groups of factors influencing the CSR development, Table 1.

Table 1– Components (parameters) defining the impact of factors on CSR

Group of social responsibility manifestation factors	Group components
1.Company's social policy	Human rights Salary Social benefits Occupational retraining Labor and recreation organization Labor safety Medical treatment Housing
2.Environment	Enterprise activity impact on the environment (water, air, soil)
3. Productivity and efficiency of the main business-processes	Cost-effective use of resources New production and management technologies
4. Interaction with the stakeholders	Corporation's involvement in the life of the society Charity Relationships with the counterparties

Source: made by the author on the basis of the expert survey

The task of integral CSR level assessment is to make a set of indicators measurable. With the accepted methodology to develop the model it is necessary to characterize each CSR level in a corporation. The analysis of different approaches to assess helps to describe the levels which are given in Table 2.

Table 2. Qualitative characteristics of CSR development level

CSR level	Level description
Very high (I)	All indicators included in each group of factors reflecting CSR embodiments correspond with the best national (world) practices
High (II)	All indicators included in each group of factors reflecting CSR embodiments slightly differ from the best values achieved by the national (international) companies
Middle (III)	All indicators included in each group of factors reflecting CSR embodiments correspond with the average values of indicators achieved by the national (international) companies
Low (IV)	All indicators included in each group of factors reflecting CSR embodiments are significantly lower than an average level of these indicators achieved by the national (international) companies
Very low (V)	All indicators included in each group of factors reflecting CSR embodiments have zero and/or negative values

Source: made by the author

The description of each CSR development level shows that ultimately putting a corporation into this or that level depends on the values of the indicators characterizing each factor (area). Comprehensive impact of all indicators from different factors on the final assessment of business social responsibility development level is supposed to be defined with due regard to the following statements:

1. Each factor and thus a set of indicators characterizing this factor can have both positive and negative impact on the final assessment of business social responsibility development;

2. Five levels of impact corresponding to five CSR development levels are used for each factor and its indicators:

- Very favorable (E+2);
- Favorable (E+1);
- Moderate (E);
- Unfavorable (E-1);
- Very unfavorable (E-2);

3. The chosen areas (factors) in CSR activity at the first stage define two groups of factors, uniting areas which on the whole have an equal negative impact.

4. A particular fixed number of scores which value depends on deviation degree of its actual value from standard value is defined for each indicator to assess the impact of the indicators referred to this or that factor. Deviation value defines which level out of five this indicator refers to and which score it is. Each level assessing an indicator defines a particular fixed number of scores characterizing the degree of its impact; this approach helps to transform the different dimensional value of the indicators into one score system of measurement.

5. Very favorable overall impact for each factor is taken to be the same- one score; so the overall impact of all factors equals four scores.

6. Very unfavorable overall impact for a cluster group is 50 scores, while for two cluster groups it is 100 scores. For each factor in a cluster group the power of the unfavorable impact is found through the expert assessment, Table 3.

Table 3 – Cluster formation based on scores in unfavorable impact of factors on CSR

Group of clusters	Group of social responsibility manifestation factors	Scores	Overall impact of cluster group, (scores)
A	1.Company's social policy	32	A-50
	2.Environment (E)	18	
B	3. Efficiency and effectiveness of he processes	18	B-50
	4. Interaction with the stakeholders	32	

7. For the other impact levels (favorable, moderate, unfavorable) the scores characterizing the impact of each factor on the resulting assessment of social responsibility level are determined by the expert survey within the range from 1 to the scores defined by the experts with regard to the negative impact, Table 4.

Table 4. Score distribution by the impact levels of factors with regard to the negative impact

Negative impact	Score distribution by the impact (status) levels				
	Very unfavo-rable	Unfavo-rable	Moderate	Favorable	Very favorable
	E-2	E-1	E	E+1	E+2
Impact degree - I	18	9 (6+3)	6 (18:3)	3 (6:2)	1
Impact degree - II	32	18	8 (4x2)	4 (3+1)	1

Source: made by the author

This distribution is based on some logical principles. Since the negative impact degrees in 18 scores, two degrees (very unfavorable and very favorable) have fixed values 1 and 18 respectively, then an average value representing a moderate impact is defined as a quotient from the maximum grade 18 divided by 3. Thus, the scores for the favorable impact are calculated as a quotient from 6 divided by 2, while the unfavorable impact equals 9 (6+3). For the groups of factors with the II degree of negative impact the scores representing the impact level of factors are distributed as follows:

- The level very unfavorable impact is defined by the experts' grade (32 scores);

- The next level unfavorable impact of factors is taken to equal the scores matching the grade for very unfavorable degree for the groups of factors referred to the I degree of negative impact,

which shows some consistency in the scores for the first and second groups of factors;

- The level very favorable impact for the second group of factors, as well as for the first group is given one score showing the similar impact of factors on the final assessment at their very favorable impact;

- Grade favorable impact is taken to equal 4 scores; this value is a sum of scores presenting the level of this impact of the first group of factors (3 scores) multiplied by one score to increase the impact of the second group of factors;

- The scores presenting the grade moderate impact are a doubled sum of scores defined for the favorable impact of a factor (4x2=8).

The integral grade is taken from the sum of the scores for each group of factors with regard to CSR development level.

8. Each group of factors can have an unlimited number of parameters (indicators) which impact on CSR development level assessment is defined by the experts (α_i), Table 5.

Table 5. Definition of scores for each parameter (indicator) with regard to its value

Indicators to assess a factor	Share of indicator impact in a group of factors	Quantitative assessment of factor assessed indicator impact on the final result with regard to indicator's actual value:				
		Very good	Good	Moderate	Bad	Very bad
indicator $_1$	α_1	α1 x E+2	α1 x E+1	α1 x E	α1 x E-1	α1xE-2
indicator $_2$	α_2	α2 x E+2	α2 x E+1	α2 x E	α2 x E-1	α2xE-2
……	αi					
n indicator	α n	α_n x E+2	α_n x E+1	α_n x E	α_n x E-1	α_n x E-1
TOTAL	100					
Scores in factor impact level		E+2	E+1	E	E-1	E-2

9. Integral grade comes from the sum of the scores in each of four groups of factors representing their impact level on CSR. Method of the integral grade is presupposed to have a stage-by-stage summing up of the scores defined in each group of factors. The first stage is characterized by summing up the scores in each area (factor) referred to one cluster. Here the scores characterizing this or that level of overall impact of two factors in a cluster are determined by the associated impact levels, as well as by the scores directly referred to the analyzed impact level of each factor. For example, if we look at the intervals between the scores characterizing the moderate overall impact of two factors in a cluster, then the scores characterizing this

state include the scores referred to the higher impact level - favorable, very favorable, and to the lower levels - unfavorable and very unfavorable. Table 6 shows an example for calculating the intervals determining the summarized moderate impact of two factors in a cluster.

Table 6. Algorithm to receive the intervals to find the moderate impact of two factors

Number of intervals characterizing the assessed condition	Calculation formula	Quantitative value
1	$E^{I} + E^{II}$	8+6=14
2	$E^{I} + (E-1)^{II}$	8+9=17
3	$(E+1)^{I} + (E-1)^{II}$	4+9=13
4	$(E+1)^{I} + (E-1)^{II}$	4+18=22
5	$(E+2)^{I} + (E-2)^{II}$	1+18=19

*Note:

I and II indexes refer to the indicator defining the first or the second factor

E - Assessed condition - moderate impact

E+1 –favorable impact

E+2 – very favorable impact

E-1 – unfavorable impact

E-2 very unfavorable

The same algorithm can be used to find the intervals of the impact of two factors for the other levels: very favorable, favorable, unfavorable, and very unfavorable. The second stage is characterized by summarizing the scores for two clusters A and B with the same algorithm. Table 4 illustrates the results to calculate the sums of the intervals referred to this or that overall impact level of two and four factors.

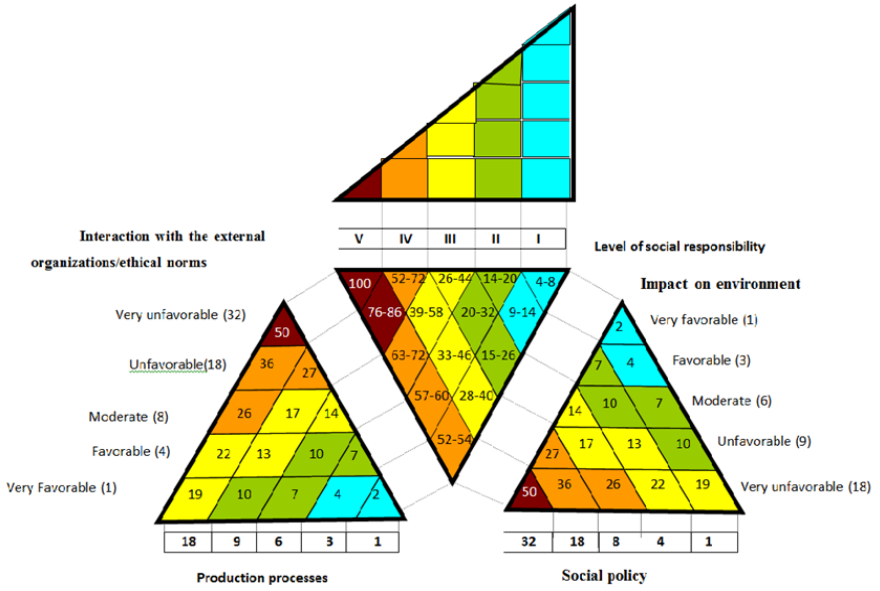
Table 4. Score distribution by five levels of overall factor impact assessment

Factor impact levels	Integral assessment in scores	
	Two factors	Four factors
Very favorable	2-4	4-8;9-14
Favorable	7-10	14-20;15-25;20-32
Moderate	13-14-17-19-22	26-44;28-40; 33-46; 39-58
Unfavorable	26-27-36	52-54;52-72;57-60;63-72
Very unfavorable	50	76-96, 100

Source: made by the author

We suggest considering the graphic representation of the model of comprehensive assessment of CSR development to illustrate the proposed methodology to assess CSR development level (Figure 3). Five levels of CSR development in the graphic interpretation of the model of comprehensive CSR development assessment are represented by the upper triangle with its square divided into five parts. One part of this triangle' square labeled with a Roman number I corresponds to the

highest CSR development level, while another part of the triangle's square labeled with V - to the lowest CSR development level.



Left triangle denotes cluster B, while right triangle denotes cluster A. Two sides of the left and right triangles denote the impact power of the factors specified on the basis of ISO-26000 standard. The triangle's sides of cluster B correspond to a factor Interaction with stakeholders and a factor Environment. The right triangle's sides show the factors Social policy and Efficiency and Effectiveness of the processes respectively (cluster B). Polygons inside each triangle show the joint impact of two paired clusters. The triangle in the center denoting the overall impact of all four factors on CSR development

level has five zones each of which corresponds to this or that CSR development level.

4. DISCUSSION

The obtained model shows all possible conditions of factors and their combinations, the model being the basic one which is grounded on the best practices in social responsibility manifestations in the chosen performance areas. Each element included in a group of factors is a set of private parameters (indicators) with particular measurement units helps to evaluate the actual status of a corporation in CSR area objectively. The model is unique in the possibility to assess each out of five resulting CSR conditions by the combination of the values for each indicator characterizing this or that factor out of four. The suggested model for CSR level assessment is peculiar in reference value for each indicator in the model and in its value range for five specified conditions. The methodological approach developed in the research contributed into the implementation of an idea underlying the hypothesis for developing the model of CSR integral assessment where the indicators characterizing the areas of corporation's activity in CSR sphere and correlating with the best achievements in this area in a differentiating scale are taken into account in a comprehensive manner.

No other model for CSR assessment being based on the qualitative and quantitative indicators: SIA (Social Impact Assessment), SRA (Social Return Assessment), SCBA (Social Costs-

Benefit Analysis), SVA (Stakeholder Value Added), helps to obtain a comprehensive assessment by characterizing only this or that activity of corporation in CSR area. Reporting standards AA1000, GRI, ISO, SA8000 show CSR level on the basis of non-financial reporting provided by the companies. These standards are about the statistical record for social responsibility level, but they do not help managers of the companies in carrying out a comparative analysis, in identifying the reasons for this or that place a company holds in CSR level rating. The model is of practical relevance since it contributes into defining the level of CSR development for a particular corporation through the analysis of the overall impact of all factors and, what is particularly important, into specifying its further development strategy.

In this case, the model can be used both as an analytical and informational management tool. Decomposition of the integral CSR level assessment represents the analytical function of the model. The managers can comprehend the overall picture of rating formation and identify the weakest points in their CSR rating, and articulate the measures (programs) for CSR expansion with this in mind. In comparison with the above-mentioned methodologies of repetitive rating-based CSR level assessment the proposed model assesses the company's activity in a comprehensive manner and accounts for a wide range of CSR manifestations. It should also be noted that the combination of the indicators in each activity area can be changed, their quantitative and qualitative values can be changed depending on our understanding of CSR. However, the examined methodology to obtain a integral assessment does not undergo any changes.

5. CONCLUSION

The proposed methodology to develop a comprehensive integrated assessment of the achieved CSR development level is universal and helps to assess the performance of a corporation, its structural departments on the basis of their success in achieving the indicator taken to be the criterion reflecting CSR activity. The model is universal in its methodology of a step-by-step combination of the indicators taken for the assessment initially at the level of a factor, then at the level of an area and further combination at the level of a cluster. The resulting integral indicator is formed at the final stage where the resulting indicators of two clusters are combined. Transformation of different measurement units of indicators and their quantitative assessment into a score-based system help to include different indicators into the model and to have one measurement unit.

Identification of the quantitative and qualitative indicators characterizing each area of corporation's performance in the CSR area is a question of concern in implementing this model. The criteria for comparison are required to specify the criteria to categorize the values of these indicators achieved by the corporations in a five-score band, thus the legal regulation base reflecting the best achievements in CSR area and the differentiation of indicators in five levels are the areas of concern. Further research connected with the practical implementation of this model should be focused on the development of the legal regulation base for the indicators characterizing the corporation's performance in each activity sphere in CSR area with due regard to the

peculiarities of the objects for assessment. If there is a need to find the best company in an industry, then the highest value of this indicator could be the reference value for the best value of the indicator, while the average value of this indicator in the industry can be a criterion to assess its moderate impact on CSR development. If a holding is an object to assess CSR development, then the best value of the indicator for the holding is taken to be a criterion reflecting the very favorable impact on CSR development, while its average value is a criterion of moderate impact.

6. RECOMMENDATIONS

The model can be used to assess CSR level of business in the context of region and industry, thus identifying leaders and outsiders and developing a set of measures to improve the corporation's performance in CSR area. We believe it is reasonable to apply the suggested model to assess the social responsibility of the state management bodies, public organization and other participants of the market, thus modifying the areas and assessment indicators.

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