Core Organizational Stakeholder Impact – An assessment model

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Abstract
Measurement of organizational social impact is a pressing issue in corporate social responsibility research. This paper proposes an alternative measurement model – Core Organizational Stakeholder Impact (COSI) – based on economic, legal and ethical responsibilities of organizations. The model allows understanding organizational social footprint, i.e., how organizations impact each stakeholder. It has 40 indicators, easy to apply, dividing internal and external stakeholders in equal number (20), and corresponding to equal maximum scores (35 points each). A first exploratory application of COSI shows that it captures well the strengths and the weaknesses of the organizational performance in terms of social impact. The model also sensitizes managers to the importance of being sustainable and stakeholder oriented in order to accomplish organizational mission, and to contribute the welfare of society.

Keywords: corporate social responsibility, social footprint, sustainability, stakeholder, measurement model, core organizational stakeholder impact.
1. INTRODUCTION
In the beginning of the XX century, Sheldon (1924) wrote that an enterprise should not only take the economic and legal duties, but also the social responsibilities beyond these duties. The debate started on various research strands in sociology, philosophy, medicine, theology, law and the public domain. The meanings of corporate social responsibility (CSR) and of sustainability have evolved over the last decades. We defend that organizational responsibility is basically to have success accomplishing its mission, and this result can be better achieved if the organization cares about all its stakeholders. This kind of satisfaction includes ecological, social and economic concerns (Székely and Knirsch, 2005). And we think that is very important to measure all these impacts on stakeholders in order to allow comparing organizations, economic sectors and even countries. Based on literature and on opinions of scholars and managers, we construct a tool for assessing the social footprint of an organization. The advantages of this tool are to sensitize managers and shareholders/owners to the importance of doing the right thing with stakeholders, allowing the sustainability of the organization in the long run. It must be a tool easy to apply to achieve its aims.

2. CONCEPTUAL BACKGROUND
After Sheldon (1924), there were some references to a concern for social responsibility and social consciousness of managers (e.g. Barnard, 1938; Clark, 1939; Kreps, 1940). These and other works from that period can be considered as theoretical foundations of a new social view of the purpose of any organization.

Peter Drucker, in 1954, included the concept of public responsibility as one of the eight key areas in which business objectives should be set. He defends that organizations must promote the public good, and contribute to society stability, strength, and harmony.

In 1960, William Frederick asserted that businessmen should be concerned with total socio-economic welfare and not simply with the narrowly circumscribed interests of private persons and firms. In the same year, Davis presented a similar definition of social responsibility but he added the notion of “long-term needs and wants of the
broader social constituencies”. Corporations must have social responsibility beyond economic and legal obligations and have to consider the ethical consequences of their decisions and actions on the whole social system. We can see here that these authors have concerns about what we call now stakeholder’s satisfaction. This concept was clear when Johnson (1971), refers that “a responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation”. The further elaboration of this idea was made by Freeman (1984), who became known as the seminal author of the stakeholder concept.

In 1979, Archie Carroll defined CSR in four dimensions, where the economic and the social responsibilities of managers are complementary to each other:

(1) organizations should be productive and profitable and meet the needs of consumers and investors (economic responsibility);
(2) they are compelled to work within existing legal frameworks (legal responsibility);
(3) organizations must follow socially established moral standards (ethical responsibility);
(4) and their voluntary corporate activities (philanthropy) must attempt to help other people and contribute to the wellbeing of society (discretionary responsibility).

Drucker (1984) reinforce the idea that profitability and responsibility are complementary notions, and that it is desirable to transform social responsibilities into business opportunities.

In the end of the century, Maignan and colleagues (Maignan, 1997; Maignan, Ferrell and Hult, 1999; Maignan and Ralston, 2002) developed an instrument to measure CSR practices. They replaced “society” with “stakeholder expectations” in their definition of CSR, which includes the economic, legal, ethical and discretionary responsibilities of an organization.

Nowadays, CSR is related to issues such as environmental protection, health and safety at work, and relations with all stakeholders. Thus, companies are supposed to voluntarily integrate those issues in their operations. In fact, most of the authors who study ethics and social responsibility issues have drawn on stakeholder theory.
Recently, they are emerging new concepts like “social environment”, which also includes organizational effects on people and small groups, or “social footprint” that involves the impact on society due to management decisions (Pfeffer, 2010). As Jonker (2010) said: “responsibility implies mastering the art of balancing diverse needs and expectations of various stakeholders at the same time”. This is organizations must create a shared value to their stakeholders, as a new way to achieve economic success. So, we defend that CSR must be seen intimately in connection with the needs, desires and expectations of each company stakeholder. Philanthropy is only a plus. We think it is a schizophrenic behaviour to spend part of the profit in philanthropic activities instead of being social responsible in economic, legal and ethical performance.

The better way to achieve a close link with stakeholders is to be market-oriented or stakeholder-oriented. We agree with Crittenden et al. (2011) who developed a market-oriented sustainability framework. If an organization satisfies the human needs of its stakeholders, then presents a natural social responsibility.

Thus, it is important to measure CSR or the sustainability outcomes to assess the authentic social contribution, namely the stakeholder impact of each organization. There have been several attempts to measure CSR (e.g. Maignan, 1997; Maignan, Ferrell and Hult, 1999; Maignan and Ferrell, 2000; Maignan and Ralston, 2002; Turker, 2009); or corporate sustainability management (e.g. McElroy, Jorna, and Engelen, 2008); or business sustainability (Labuschagnea, Brent, and Erck, 2005), which are based only on managers’ perceptions (Maignan and Turker’s models), or too complicated to apply with many indicators and subjects (McElroy and Labuschagnea’s models). Our contribution is based on the idea that only an easy and effective measure of organizational social footprint can contribute to the success of spreading the social responsibility notion.

3. CORE ORGANIZATIONAL STAKEHOLDER IMPACT (COSI)

Based on the work of Carroll (1979), we defend that CSR is related with economic, legal and ethical citizenship. This means that organizations should be productive and profitable and meet the needs of all stakeholders; they are compelled to work within
existing legal frameworks; and they must follow socially established moral standards. Voluntary corporate activities (philanthropy) are related with donation and assistance, and is only a plus that contributes to the wellbeing of society. Of course, there are environmental concerns linked to sustainability, but they can be equated as an ethical and legal responsibility of current entrepreneurs.

The entrepreneurs should think about doing things differently. If they are good players in the market, respecting organizational stakeholders, then they send a message that can creates a new mentality in management and change organizational culture for better.

Our definition of social footprint is intertwined with the question of the mission of the organization, this is, its reason for being. The organizations are created in order to gather resources for the production or distribution of goods, services and ideas. These products will only be successful in the market if they meet human needs. Thus, we believe that an organization is, first hand, socially responsible if it fulfils its mission well, satisfying all stakeholders involved. This behaviour can be assessed by the evaluation of organizational performance and management decisions in economic, legal and ethical issues, i.e., through organizational social footprint. What it is done beyond that, such as social support of all kinds or philanthropy, will be extra activities for the welfare of society.

We propose the concept of Core Organizational Stakeholder Impact (COSI) that intends to measure the organizational outcomes in people’s life, direct or indirectly, considering its stakeholders. Through this measurement model we can perform analyses and create a ranking of companies that contribute most to the welfare of society by stakeholder.

We wanted to create a simple and comparable method, thus we assume only the common stakeholders to the majority of organizations, namely: Employees, Owners/Shareholders, Managers, Suppliers, Competitors/Distributors, Customers, Community and the State.

Sure some indicators will be measured differently in the organizations, or it is also possible not have available data for non-use of those indicators. This can be the case,
for example, of indicators about communication system and internal organization, satisfaction level of top and middle managers, success of the main product or service launched last year, or customers’ satisfaction level. However, if organizations use reliable measurement systems to be sure of its results, then it will be possible to compare those outcomes. Probably, another important issue is that some of the indicators could be related to the dimension of organization. So, the results with COSI will be comparable among organizations with similar dimension.

To determine the COSI indicators for each stakeholder, this methodology was followed:

1. A literature review of other models already proposed and used;
2. Meetings with some businessmen and scholars in the area of business sciences, in order to know what measures could be adjusted to include in the new assessment model;
3. Determination of adjusted COSI indicators and their pre-testing in a sample of three companies;
4. And then carry out a study on a larger number of Portuguese companies.

We rely on the most important scale of the literature at the organizational level, that was developed by Maignan and Ferrell (2000, p.284) based on the concept of corporate citizenship, which is defined as the extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed by their stakeholders.

We identified formative indicators and we established their metrics to obtain the desired results.

With the aim of obtaining a balanced result between the internal and external stakeholders, the scores were divided in 35 points for each group (Table 1). The relative importance of each stakeholder is manifested in their ranking of maximum points, although this ponderation is arbitrary, it aims to explore several issues related to social footprint, and sensitize managers to the importance of being sustainable and stakeholder oriented in order to accomplish organizational mission, and to contribute the welfare of society.
Table 1 – Score by stakeholder

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Maximum score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>21</td>
</tr>
<tr>
<td>Owners/Shareholders</td>
<td>9</td>
</tr>
<tr>
<td>Managers</td>
<td>5</td>
</tr>
<tr>
<td><strong>Subtotal internal stakeholders</strong></td>
<td><strong>35</strong></td>
</tr>
<tr>
<td>Customers</td>
<td>12</td>
</tr>
<tr>
<td>Community</td>
<td>11</td>
</tr>
<tr>
<td>State</td>
<td>8</td>
</tr>
<tr>
<td>Suppliers</td>
<td>3</td>
</tr>
<tr>
<td>Competitors/Distributors</td>
<td>1</td>
</tr>
<tr>
<td><strong>Subtotal external stakeholders</strong></td>
<td><strong>35</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>70</strong></td>
</tr>
</tbody>
</table>

In order to easily show the situation of the organization evaluated by COSI model, we propose a circular graphical presentation of the results. The ideal is to have the complete geometry, this is, 100% plotted, corresponding to the maximum of 70 points that is possible to obtain with these indicators (Figure 1). Points are awarded depending on a range of pre-defined results, taking into account, in some of the indicators, the evolution between year t-1 and year t.

Figure 1 – COSI Conceptual Model
We intend that the graphical analysis presented, quickly identified the aspects that need improvement by companies to the satisfaction of its stakeholders, this is, we can easily recognize the strengths and weaknesses of the organization. After identification, the company may choose to take corrective measures to improve the level of satisfaction of its stakeholders and consequently improve their social performance.

All the categories of response (levels), in each variable, were considered a reasonable average at the moment. However, it is recommended that these categories are adjusted to which situation or country.

Table 2 – Indicators related to employees

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Levels</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of employees who had access to internal training</td>
<td>&lt;10% ; 10 to 50% ; &gt;50%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Number of employees studying in higher education*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Number of employees with 40 or more years old*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Number of workers laid off in the last year</td>
<td>&gt;1 ; 1 ; 0</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Ratio of workplace accidents*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Ratio of absence from work*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Communication system and internal organization</td>
<td>Insufficient; Reasonable; Good</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Existence of incentive programs rewarding merit</td>
<td>No; In part; Always</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Existence of health insurance</td>
<td>No ; Yes</td>
<td>0-1</td>
</tr>
<tr>
<td>Existence of a pension plan</td>
<td>No ; Yes</td>
<td>0-1</td>
</tr>
<tr>
<td>The company has certification in Health and Safety at Work</td>
<td>No ; Yes</td>
<td>0-1</td>
</tr>
<tr>
<td>Average salary of employees*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
</tbody>
</table>

* in relation to the last year

Employees have a key role, since they influence directly and indirectly the performance of the organization. By contributing to the success of the organization they are contributing to their own personal and professional fulfilment. Beyond that,
employees are also major drivers of the economy, both locally and nationally, either through its role of producers, whether as consumers.

A review of how the company values and has positive impact on their employees is done by a set of 12 indicators (Table 2), which corresponds to a maximum score of 21 points (30%).

We believe that organizations exist only for the direct influence of the shareholders or owners, which are the key stakeholders for their existence. They always expect to have a quick and profitable return on equity. The impact of the company on the owners or shareholders was analysed by 5 indicators (Table 3), corresponding to a maximum score of 9 points (13%).

<table>
<thead>
<tr>
<th>Table 3 – Indicators related to shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicators</td>
</tr>
<tr>
<td>Distribution of profits or dividends</td>
</tr>
<tr>
<td>Net return*</td>
</tr>
<tr>
<td>Value of the results distributed to shareholders*</td>
</tr>
<tr>
<td>Return on equity*</td>
</tr>
<tr>
<td>Social profitability of the company: net added value generated by invested capital unit*</td>
</tr>
</tbody>
</table>

* in relation to the last year

The primary role of the managers is to ensure the development of the company, by generating sustained profits. In relation to the impact on this stakeholder we analysed three indicators (Table 4), to which corresponds a maximum score of 5 points (7%).

<table>
<thead>
<tr>
<th>Table 4 – Indicators related to managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicators</td>
</tr>
<tr>
<td>Overall satisfaction of top managers working for the company</td>
</tr>
<tr>
<td>Overall satisfaction of middle managers working for the company</td>
</tr>
<tr>
<td>Increase in the income of most of the managers in the last year</td>
</tr>
</tbody>
</table>
Customers are obviously crucial for a company to be sustainable, i.e., has viability. Six indicators were analysed (Table 5), corresponding to a maximum score of 12 points (17%).

### Table 5 – Indicators related to customers

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Levels</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of complaints*</td>
<td>&lt;-10%; -10 to 10%; &gt;10%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Success of the main product or service launched last year*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Incorporation of customer opinion on the products or services in the last year</td>
<td>Rare ; Sometimes ; Always</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Existence of Quality Certification</td>
<td>There is not / There is / Maintains quality in everything</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Percentage of customers satisfied or very satisfied</td>
<td>&lt;95% ; 95-98% ; &gt;98%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Obtaining a prize of recognition from customers</td>
<td>0 ; 1 ; &gt;1</td>
<td>0-1-2</td>
</tr>
</tbody>
</table>

* in relation to the last year

### Table 6 – Indicators related to community

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Levels</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of scholarships or internships</td>
<td>0 ; 1 ; &gt;1</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Number of employees hired in the last year</td>
<td>0 ; 1 ; &gt;1</td>
<td>0-1-2</td>
</tr>
<tr>
<td>The company follows environmental preservation policies in consuming resources, the mode of production and distribution, in how it treats the waste, recycles, etc.</td>
<td>No ; In part ; Always</td>
<td>0-1-2</td>
</tr>
<tr>
<td>The company subcontracts to local activities</td>
<td>No ; Yes</td>
<td>0-1</td>
</tr>
<tr>
<td>They hired at least one employee with no experience</td>
<td>No ; Yes</td>
<td>0-1</td>
</tr>
<tr>
<td>The company supports organizations in the social sector</td>
<td>No ; Yes</td>
<td>0-1</td>
</tr>
<tr>
<td>Average contribution to welfare: labour costs per employee*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
</tbody>
</table>

* in relation to the last year
The community plays a larger role, as it absorbs all kinds of relationships and interrelationships between the organization and its stakeholders. The community can benefit from the support of the organization to the employment, to non-profit activities, and to ecological issues. For the community we consider 7 indicators (Table 6), corresponding to a maximum score of 11 points (16%).

The State is a stakeholder with a very important role, either by managing the revenue obtained from taxes paid by citizens and businesses, either by the law and other regulations affecting businesses, either by representing an entire country. The impact of the company on this stakeholder was analysed using 4 indicators (Table 7), corresponding to a maximum score of 8 points (12%).

Table 7 – Indicators related to the State

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Levels</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of export sales*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Percentage of national incorporation in the production of goods and services*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Amount of income taxes paid to the State*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Amount invested at the level of ecological responsibility*</td>
<td>&lt;-5% ; -5 to 5% ; &gt;5%</td>
<td>0-1-2</td>
</tr>
</tbody>
</table>

* in relation to the last year

Suppliers have more or less relevance depending on the specific activity and the degree of dependence on the companies they supply. We analysed two indicators (Table 8), to which corresponds a maximum score of 3 points (4%).

Table 8 – Indicators related to suppliers

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Levels</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average payment, in days, to suppliers*</td>
<td>&lt;-10% ; -10 to 10% ; &gt;10%</td>
<td>0-1-2</td>
</tr>
<tr>
<td>Existence of partnerships with suppliers</td>
<td>No ; Yes</td>
<td>0-1</td>
</tr>
</tbody>
</table>

* in relation to the last year
Finally, competitors and distributors also influence the organizational level of success, the type of market strategy chosen and competitiveness. The analysis was performed using one indicator (Table 9) which corresponds to a maximum score of 1 point (1%).

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Levels</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence of partnerships with competitors or distributors to do co-marketing, co-production or co-R &amp; D</td>
<td>No ; Yes</td>
<td>0-1</td>
</tr>
</tbody>
</table>

So, we have 20 indicators for internal stakeholders and 20 for external ones, corresponding 35 points to each one. This assessment model can be a good proxy to evaluate the real impact of an organization on society through their stakeholders, what we can call the organizational social footprint.

An organization with a high punctuation means that it is more focused in the key factors which can allow its sustainability in the market and the satisfaction of all people involved in the business.

It is possible to adapt this model to new organizational contexts, inclusive with different stakeholders and impact indicators. However, if we agree with the basis of this model, than we can have a tool to rate the organizations and to assess their evolution.

For us, this is Corporate Social Responsibility in action, linked to the core organizational stakeholders.

4. AN APPLICATION OF THE ASSESSMENT MODEL COSI

A study (Mesquita, 2012) was performed in 15 large companies\(^2\), which allows obtaining a general rank by total scores, by internal and external focus, and by stakeholder. In this paper we only present the main conclusions of that application (Figure 2):

\(^2\) Brisa, Bial, Anónima da Saúde, CTT, Eletricidade dos Açores, MOG, REN, SONAE, CIMPOR, Anónima de Semicondutores, Manuel Fernando Azevedo, Jerónimo Martins, SCC-Central de Cervejas, CP-Comboios de Portugal, ALTRI.
• The Community is the a stakeholder with high scoring (6,5 points – 59,1%) because, in fact, environmental policies and philanthropic strategies have been more common in these companies;

• In general, there are partnerships with competitors and/or distributors (percentual score = 80%, but only one indicator), and suppliers (50%), which is also a strategical tendency in large companies;

• Companies must pay more attention to employees (27,6%), encouraging and supporting personal success in order to increase their satisfaction, because this type of collective attitude is what makes organizations most successful;

• The impact on State seems to be the worst result (22,5%), which could be a result of the economic crisis and of the restrictive government policies due to excessive public debt;

• It seems that the impact on managers (42%) is the best percentual result among internal stakeholders. Probably, they feel they are rewarded by their efectiveness related to organizational economic sustainability. However, managers also have to change their view about organization objectives. Their
duties must not always be to get “value to the shareholder”, because this posture can lead them to make some decisions that harm the company's reputation and even lead to dissatisfaction among many stakeholders. A good social performance usually results in good reputation (Callan and Thomas, 2009).

- It was noted that companies clearly have to change their strategy in relation to the customers (39.2%). They create barriers and not allow customers to take an active position, this is, to incorporate their views in the products or services, jeopardizing organizational future sustainability.

These results demonstrate that there is much to do in terms of economic and social responsibility to the stakeholders. The strategic orientation to stakeholders, or market orientation as we advocate, is, on the one hand, fundamental to ensure economic and financial sustainability, and, on the other hand, crucial to the idea that organizations must be at the service of mankind and human communities.

5. CONCLUSIONS

There are many perspectives about what corporate social responsibility is, is not, or should be. However, what is probably the most important issue in this debate is the organizational behaviour in relation to its stakeholders. A positive impact on the stakeholders allows the organization to be more sustainable in the long run.

The conjunction of economic, social and ecological responsibilities can be measured through what we define as social footprint, i.e., via economic, legal and ethical dimensions in relation to the key stakeholders: Employees, Owners/Shareholders, Managers, Customers, Community, State, Suppliers, and Competitors/Distributors. We propose the concept of Core Organizational Stakeholder Impact (COSI), which intends to constitute an alternative approach for measuring the organizational outcomes in people’s life, direct or indirectly, considering these stakeholders. The COSI measurement model facilitates comparative analyses (e.g. per stakeholder, per internal or external focus, per economic sector, per organizational dimension), which
eventually may shed light into which organizations contribute the most to the welfare of society.

A first exploratory application of the model was implemented in 15 large companies, showing that there are many aspects organizations need to improve in relation to their stakeholders. The feedback from these companies shows that the measurement model can help sensitizing managers to several key issues that may be crucial to the sustainability and social impact of the companies. The decision to publish this kind of rankings can also contribute to the reputation of the companies and to put additional pressure in how they deal with their social responsibilities.

However, it is also important to apply COSI in Small and Medium Enterprises and be open minded to improve this kind of management tools. There are many points which were not assigned due to lack of data or lack of response, which is a problem that must be improved in future research.

Thus, we conclude that COSI may be an effective way to measure social impact. This kind of models is useful if their application is simple, and if they point out strengths and weaknesses in organizational performance related with each stakeholder. And it seems that COSI may be able to perform this task effectively.

6. REFERENCES


