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## STRATEGIC PRIORITIES FOR THE FORMATION OF SOCIAL RESPONSIBILITY OF BUSINESS

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**Abstract.** The social function of business is most effectively implemented through the mechanism and tools of the concept of corporate social responsibility (high quality standards, responsible manufacturing, employee care, social and progress reporting, law-abiding cooperation with the state, transparent business, refusal to produce harmful to health products, etc.). The purpose of the paper is a comprehensive analysis of theoretical-methodological principles of corporate social responsibility, the dominants of its formation and implementation in modern world models, as well as substantiation of strategic priorities of Ukrainian socially oriented model of corporate social responsibility in the national economy. The fundamental methodological basis of the study is a set of methods of scientific cognition, the principles of dialectical, structural-functional and empirical approaches. It is argued that the Ukrainian model of corporate social responsibility is in its infancy. The specifics of the Ukrainian model of corporate social responsibility include the lack of basic principles of responsible behavior of enterprises throughout the country, weak motivation for such practices, lack of state support for the formation of the institutional environment of corporate social responsibility, significant corruption barriers. It will be effective to implement the model of corporate social responsibility within a socially oriented model, in which public institutions and the state play a key role, under conditions of minimizing the level of corruption and strict adherence to socially oriented strategic priorities of the country development on the basis of systematic monitoring, analysis and practical measures for qualitative improvement of macroeconomic indicators of the economy. Priority areas for effective formation of the national model of social responsibility of Ukrainian business have been identified.

**Keywords:** business; social responsibility; business transparency; national model; social report

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## 1. Introduction

The concept of sustainable development, which is based on the principles of harmonization of the three defining spheres of public life by ensuring the development of an efficient economy, the formation of civil society, the preservation of natural potential, has become the global trend of overcoming the negative consequences of global economic, social and environmental problems at the turn of XX-XXI centuries. In today global competitive environment, this concept is a strategic vector of sustainable development of countries seeking to fully reproduce the national resource potential, to minimize the negative impact of irrational use of natural and human resources in all spheres of public life.

Undoubtedly, entrepreneurship (business) plays a leading role in the formation of a market economic system and ensuring progressive socio-economic development (Dwivedi & Weerawardena (2018); Mura, & Hajduová, (2021)). Given the complexity of goals and multifaceted priorities of sustainable development strategy, corporate social responsibility is one of the main ideological and practical tools for its implementation, the effective implementation of which has significant potential in solving a number of socially significant problems of today for ensuring the economic, social and environmental security of the state through reducing unemployment, dramatically increasing the efficiency of the productive potential of the country, maintaining social balance in society during economic and political crises.

The vast majority of studies on the phenomenon of corporate social responsibility is devoted to solving current problems of formation and development of corporate social responsibility, as modern companies and large corporations have the most promising tools to influence society not only at the micro level but also globally (Chou (2018)).

Deepening of theoretical-methodological approaches to identifying the dominants of the formation of national models of corporate social responsibility, identifying ways to effectively implement them in the economy require systematic study and justification (Aquino et. al (2018)). Therefore, the study of the specifics of the formation of global models of corporate social responsibility will make it possible to identify the most significant and priority areas for the development of corporate social responsibility in the national economy.

There is an objective need to study current issues of social responsibility with further development of ways to achieve a synergistic effect from its introduction into business practice to the development of an efficient Ukrainian economy and socially oriented market system of national economy. Such goals correspond to the strategic priorities of the development of the state and society as a whole. The theoretical and practical importance of the above issues explains the selection of the study subject.

## 2. Literature review

In the process of comprehension of the concept of corporate social responsibility, scientists are increasingly inclined to the theory of social contract, according to which the social contract, which is created by society itself, imposes responsibilities on the business sector, but at the same time, society shows its commitment to those enterprises that comply with the requirements of the social contract (Gupta Bansal et. al (2020)). That is, society expects the following components as dividends to improve the life of society: improvement of the quality of products and services in accordance with international standards (Zahra & Wright (2016)), strict compliance with applicable laws (Saebi et. al (2019)), lack of corrupt schemes of activity (Spence (2016)), prevention of harm to the population (Haugh & Talwar (2016)), and the environment (Bansal et. al (2019)), etc.

The theory of the social contract boils down to the fact that businessmen must follow a balanced strategy and consider social goals not as derivatives, but as the main ones at the same level as economic ones (Rawhouser et. al

(2019)). In our opinion, this concept is optimally balanced in the modern social, political and economic realities of all developed countries.

Today, the concept of effective business activity in addition to innovation and risk includes the concept of responsibility to society, the creation of new values in society and the formation of social patterns of behavior of individuals (Perić & Delić (2016)). The social component of business in the XXI century. includes a fairly wide range of responsibilities to employees, investors, the community, the state, the environment, in particular (Ferreira et. al (2017)): observance of norms and standards of quality of the manufactured products, creation of jobs and comfortable working conditions, care of own workers, environmental safety, formation of business culture, maintenance of balance of nature use and conformity to principles of sustainable development.

In the new millennium, the social function of business of the XXI century has acquired a global nature. Today, the growing global interest of business of various scales in the issue of their own social responsibility and social reporting to society, the state and the world community is becoming an obvious fact (Chell et. al (2016)). To achieve long-term development goals, large business is increasingly selecting a strategy of social responsibility to solve the problem of maintaining a high level of competitiveness in the market and to help solve global problems of today (Macke et. al (2018)).

However, Ukraine lags far behind in the adoption of world standards of doing business under the influence of political and socio-economic reasons, and social responsibility is perceived in Ukrainian society not as a philosophy of doing business, but as imposing of social demands and pressure from the state. On the one hand, Ukrainian science does not pay enough attention to the study of theoretical aspects of establishing the relationship between corporate social responsibility and the level of development of social capital of society.

On the other hand, Ukraine is characterized by the lack of a balanced state policy, an effective legal framework and an effective institutional mechanism for the implementation of corporate social responsibility, the absence of pressure from civil society and non-financial organizations. In conditions of political and economic instability, military conflict and terrorist threats, only a combination of both theoretical and practical actions to form a socially responsible Ukrainian business will allow to overcome the social and economic crisis in the country.

### **3. Research Methodology and Data**

The fundamental methodological basis of the study is a set of methods of scientific cognition, the principles of dialectical, structural-functional and empirical approaches. The scientific results of the study were obtained as a result of the application of general scientific and special methods: methods of analysis, synthesis and generalization; system method (to determine the dominants of the formation and implementation of corporate social responsibility in world models, instruments of regulatory influence of the state and institutional support for the development of corporate social responsibility; visual-graphic method and structure of corporate social responsibility; method of SWOT analysis (to assess the possibilities of implementation of the principles of socially responsible business in Ukraine.

The information base of the study was monographs, scientific publications of scientists in periodicals, reports and analytical publications (United Nations, International Anti-Corruption Organization, Organization for Economic Cooperation and Development, European Commission, International Organization for Standardization), laws of Ukraine, author's calculations based on the official information of the State Statistics Service of Ukraine, which ensured the representativeness of the initial data, provability and reliability of conclusions, practical recommendations and proposals.

The purpose of the paper is a comprehensive analysis of theoretical-methodological principles of corporate social responsibility, the dominants of its formation and implementation in modern world models, as well as substantiation of strategic priorities of Ukrainian socially oriented model of corporate social responsibility in the national economy.

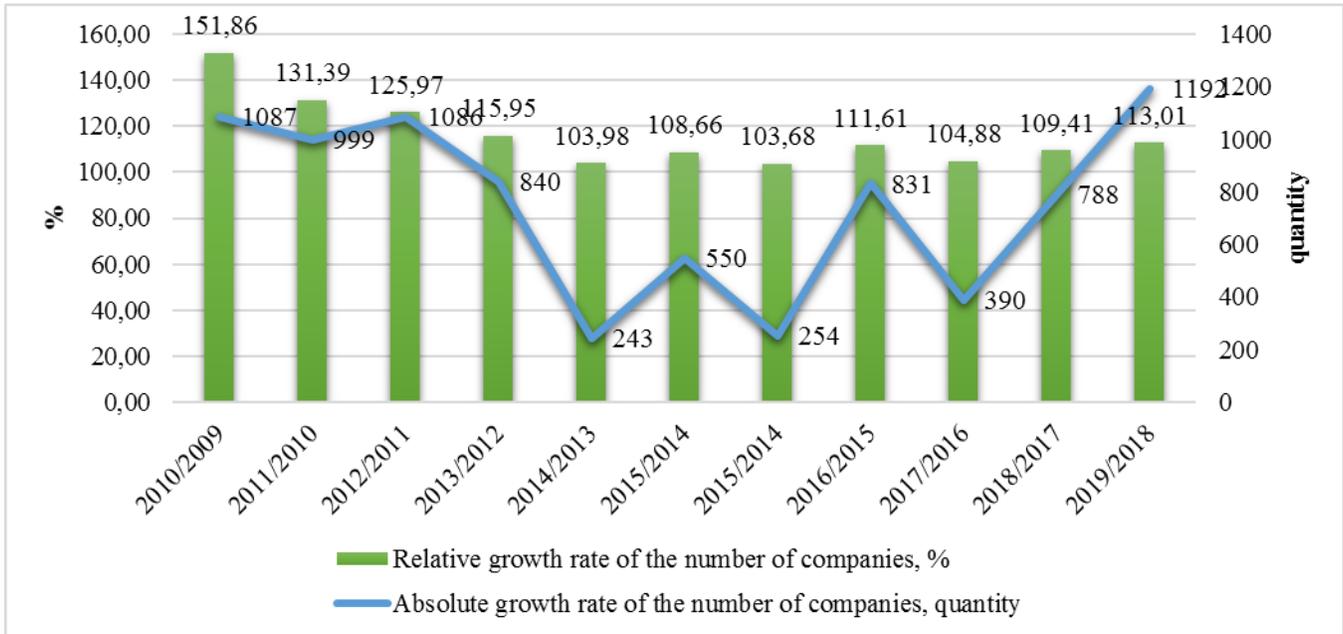
#### **4. Results**

World practice proves that the development of the economy, improving the quality of life, strengthening social ties contribute to the spread of the practice of corporate social responsibility at all levels of economic activity. Conversely, political and economic instability, lack of financial resources, weakness of legal protection cause minimal participation of small and medium-sized businesses in staff development, accumulation of human capital, greening of production.

In the economies of developing countries, social responsibility is mainly implemented by large corporations, which activities meet international standards. This situation is typical for the economy of Ukraine, as only large companies are able to autonomously, regardless of the political situation and pressure from the authorities to demonstrate a tendency to the ideas of social responsibility, to implement certain social and environmental strategic programs. And medium and small businesses mostly stay away from high ideals and direct all their energy to profit maximization.

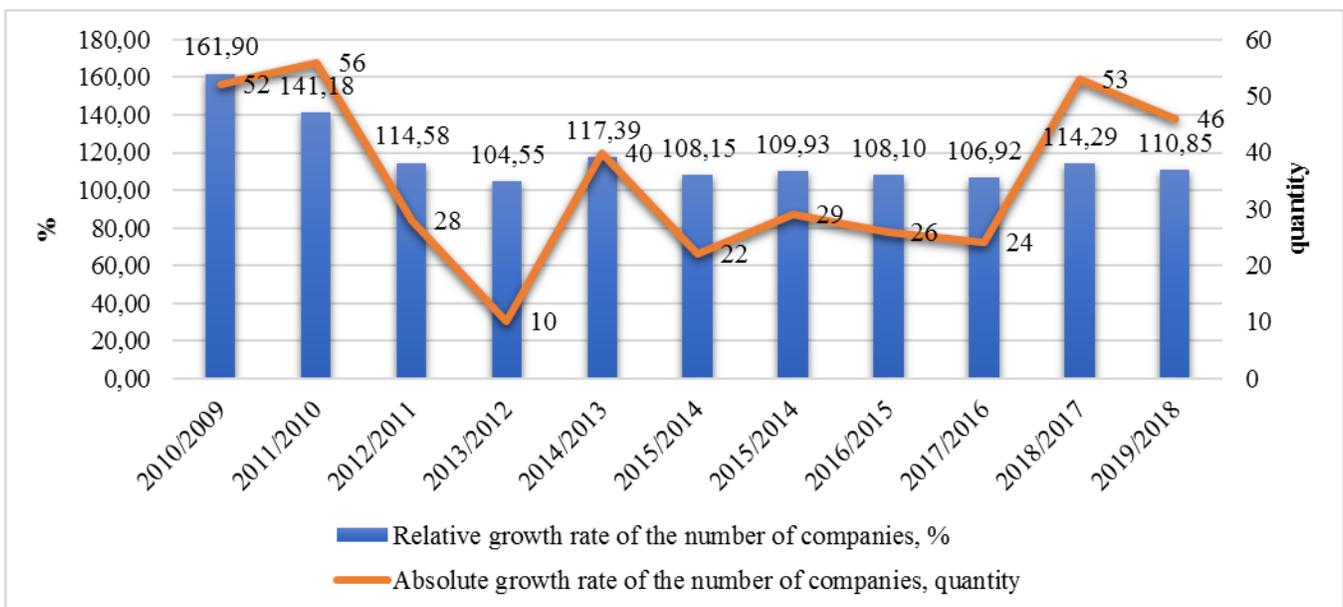
Corporate social responsibility is sometimes called corporate conscience, or social work of the enterprise. It is a form of corporate self-regulation, which is integrated into a business model of behavior. Therefore, the analysis of social responsibility is conducted through the prism of corporate social responsibility, as actually large corporations have the most powerful potential for innovation in business and have the most tangible social effect in society.

The number of participants joining the UN international social responsibility initiative, namely the Global Compact is growing steadily every year (Figure 1). The main purpose of this agreement is to demonstrate progress in addressing the issues of human rights, labor relations, the environment and the fight against corruption.



**Fig. 1.** Dynamics of growth of companies participating in the Global Compact  
 Source: author's calculations based on Global Compact Network Ukraine (2020)

According to Figure 1, for the period under review, the highest growth rates relative to the number of companies were in 2010/2009. During 2010–2015, there was a decrease in the number of companies, and from 2017 — a gradual increase. In 2006, Ukraine joined the UN Global Compact. As of 2015, the number of Ukrainian companies, social organizations, business associations and non-governmental organizations that joined the Global Compact is 292, although in 2006 there were only 46 (Figure 2).



**Fig. 2.** Dynamics of growth of Ukrainian companies participating in the Global Compact  
 Source: author's calculations based on Global Compact Network Ukraine (2020)

A necessary condition for the effective formation of the institutional environment of the phenomenon for the implementation of corporate social responsibility is the low level of corruption in the economic system, and therefore the level of transparency of business activity should be high. A study of the level of transparency of doing business in Ukraine proves that the underdevelopment and unpopularity of the principles of corporate social responsibility is a consequence of the high level of corruption in the Ukrainian economy.

In the rating of the level of transparency of doing business, Ukraine has a very low place, which is recognized by experts and social organizations. In 2019, the country was ranked 142nd (Ukraine in the rankings: how the positions of the country changed in 2014–2019 (2019)). Unfortunately, this trend has been going on for a long time and Ukraine has not risen above the 99th position, which characterizes Ukraine as a country with unformed institutional preconditions for the development of corporate social responsibility, although at the time of the collapse of the USSR in 1991, the country ranked 5th in the world in terms of both economic and intellectual development potential.

Despite the large number of codes, laws, instructions and regulations governing aspects of corporate social responsibility in Ukraine, the direct practical implementation is regulated only by certain elements (labor relations, social protection, state subsidies) of corporate social responsibility. The results of the content analysis of the legal support of corporate social responsibility in the Ukrainian economy state the inability to effectively implement most of the existing positive examples of world practice of implementing the national model of corporate social responsibility.

However, despite the significant negative trends in the process of legal regulation of corporate social responsibility in Ukraine, there are some positive changes in this direction. In particular, Article 48 of the Law of Ukraine “On Environmental Protection” as amended (1991) outlines the instruments to stimulate the rational use of natural resources and environmental protection through:

- benefits in the taxation of enterprises under the conditions of their implementation of measures for the rational use of natural resources, the transition to low-waste energy-saving technologies, as well as under conditions of production greening;
- granting short-term and long-term loans on preferential terms to implement measures to ensure the rational use of natural resources and environmental protection;
- exemption from taxation of environmental protection funds;
- transfer of part of the funds of environmental protection funds on contractual terms to enterprises for measures to ensure the reduction of emissions of harmful substances that adversely affect the state of the environment, as well as for measures aimed at the development of environmentally friendly production technologies.

Effective development of Ukraine should be strategically closely linked to the concept of integrated development, in which economic development does not contradict the maintenance of environmental and social balance of the country. The formation of a national model of corporate social responsibility is a strategically important factor for achieving stable economic development of the country, especially in conditions of political and economic instability. To stabilize economic and social processes in Ukraine, a necessary condition is to identify and use potential opportunities for the implementation of socially responsible activities of enterprises.

It should be noted that none of the existing models can be applied in Ukraine in the outlined version, as the current stage of development of social responsibility of Ukrainian business is characterized by blurred trends in following the principles of socially responsible activities and lack of support for social initiatives by the state and society as a whole. Each company is not responsible for its own activities and its consequences on a full-scale basis and in accordance with international standards, which is a consequence of the presence of an element of

political pressure and significant corruption of government structures that hinder the effective formation of civil society and social capital as the main drivers of corporate social responsibility.

In general, the Ukrainian model of corporate social responsibility, which is in the process of formation, tends to a socially-oriented model. However, today social responsibility is perceived by Ukrainian businessmen rather as a marketing or PR technology, i.e., it is at the stage of initial formation in terms of global perception, and is limited to social actions and, accordingly, in this form can not contribute to sustainable development both at micro- and at macro levels, as well as increasing the competitiveness of the national economy in the long run.

Ukraine has long enough suffered from various social, economic and political problems caused by corruption, high levels of criminalization of society, the outflow of intellectual elite to developed countries (according to various sources, between 5 and 7 million people left Ukraine during the period of independence), inefficient industrial and agricultural policy, lack of modernization strategy. As a result, there is a rapid degradation of the environment, a growing gap between the incomes of the richest and the poorest citizens of the country. To overcome these problems, a necessary conditions is a systemic transformation of political and economic development strategy of Ukraine, large-scale personnel change and intensification of pressure of non-governmental organizations on the government and business, which would actively promote the principles of corporate social responsibility and active state participation in this process, monitor transparency of business activities and management efficiency.

The strategy for the implementation of corporate social responsibility and support based on the results of the SWOT analysis should take into account the theoretical negative consequences of the implementation of the concept in Ukraine (Table 1).

The potential dangers and difficulties for businesses and society are as follows:

- Due to the insufficient level of social capital and the corresponding development of civil society, there is a risk of rejection of business as a carrier of social benefits, which will ultimately lead to a strengthening of the negative relationship between society and business;
- Existence of probability of non-fulfillment by businessmen of declared social programs in case of political and economic crises in the country.

**Table 1.** Matrix for evaluation of the options of introduction of corporate social responsibility in Ukraine

| Factors, level         | Option impact   |  |   |
|------------------------|---|--|---|
| Option use probability | Maximum   | Moderate   | Minimum   |
| High                   | Integration of all characteristics of corporate social responsibility into the national model of development of the country | Increase in the transparency of the practical implementation of activities related to social responsibility (through the spread of social reporting) | Impact of global socio-economic processes on the informatization of society regarding the corporate social responsibility |
| Average                | Development of public-private partnership and institutional support of socially responsible businesses                      | Long-term formation of the environment of competitive advantages of national business  | Cooperation with local communities to address local social and environmental problems                                     |
| Low                    | Short-term increase in investment in the social and environmental areas   | Partial modernization of the quality management system in production at the cost of introduction of the principles of international standardization  | -   |

*Source: author's research*

In order to form the Ukrainian model of corporate social responsibility in the conditions of unstable political and economic situation in the country it is necessary to carry out the analysis of advantages, promising areas, restraining factors and possible threats. The ratio of positive and negative consequences is important in this case. Table 2 contains the results of the analysis of advantages and restraining factors, prospects and threats of the introduction of corporate social responsibility in Ukraine.

**Table 2.** Advantages and restraining factors of development of socially responsible business in Ukraine

| Advantages   | Restraining factors  |
|--|--|
| Support of business socialization processes by international organizations and non-profit organizations; the presence of examples of effective doing business on the basis of social responsibility, which significantly increase the reputational capital of enterprises.   | Lack of effective institutional support of the state for socially responsible programs of companies and appropriate incentives for its implementation; misunderstanding by the state of the mechanisms of implementation of social responsibility of business, its subject and economic model; widespread corruption, which undermines the values and principles of socially responsible behavior of enterprises; closedness of Ukrainian companies to the general public; the internal nature of the direction of socially responsible activities of enterprises. |
| Prospects  | Threats  |
| Spread in Ukraine of production organization quality management systems; development of innovations in the social area; formation of a positive attitude and public confidence in the participation of enterprises in solving social problems; creation of competitive advantages for the national economy; formation of social dialogue as a consequence of public-private partnership in solving social problems in society. | Lack of management staff in this area and intellectual content can lead to failure to obtain the desired social effect from the implementation of social responsibility by business; the risk of the lack of active position formed in the minds of citizens on participation in the implementation of social responsibility on the basis of social partnership may lead to the leveling of the potential of this area of business development.  |

*Source: author's research*

At the initial stage, priority areas for the development of corporate social responsibility for the national economic system should be identified. In our opinion, there should be five such areas, namely:

- 1) Social: timely and full payment of wages, rejection of "shady" wage schemes; compliance of companies with the standards of the International Labor Organization in the area of workplace safety, health care; certification of management of enterprises of the region for compliance with international standards; certification of company management for compliance with ISO 26000; an audit of corporate responsibility or its separate parts at

enterprises (audit of social and labor relations and environmental audit); preparation at the initial stage of non-financial reports of companies in any form and bringing them to the public through a special section of the corporate website, corporate press, through the global Internet, through the media; preparation of non-financial reports in accordance with leading international standards (GRI, AccountAbility 1000); development of corporate philanthropy, creation of social programs aimed at solving social problems in the territories of companies, the use of criteria for evaluation of their effectiveness to continue programs or develop new ones; co-financing with local government organizations of projects for the development of social infrastructure, development of social services.

2) Environmental: active participation and assistance in the development of environmental policy of the city, region; creation of a consortium of universities, development together with the authorities, scientists and ecologists of the environmental program of the most problematic, polluted regions of the country; introduction of environmental management of companies operating in the region, its certification for compliance with ISO 14000 series (environmental management system); introduction of modern technologies and voluntary participation in environmental compliance certification of manufactured products; an independent public environmental expertise regarding establishing cooperation with regional environmental authorities in order to develop and implement joint environmental programs; cooperation with educational institutions regarding improvement of the environmental education of graduates (possibly within the framework of mentoring programs), the organization of excursions to enterprises to get acquainted in practice with the latest technologies for environmental protection.

3) Legal: agreements between business managers and local authorities on cooperation within the framework of the national strategy for integration of socially responsible activities of enterprises; legislative consolidation of the participation of business and public representatives in the development of regional development strategies, ensuring the consideration of the interests of regional companies in the development of draft documents that form the legal framework in the area of taxation, subsoil use, ecology and other areas.

4) Organizational: creation of the association of large businesses of Ukraine including the center of social responsibility of enterprises with training and consultation functions; creation of public councils for territorial development together with business representatives; creation of similar structures for local governments; establishment of organizational-methodical bases of interaction with the office of the regional authorized representative; establishment of constructive cooperation with the authorities on the implementation of relevant government programs and major projects to forecast the strategy and prospects for the development of corporate social responsibility; organization of interaction with similar organizations of development of principles of the center of social responsibility of enterprises of the developed states; involvement of companies in dialogue with external stakeholders (including public organizations representing the interests of the population), holding public hearings at the stage of preparation of investment projects; creation of funds of local communities, which accumulate money of corporate and private donors to solve local socio-economic problems.

5) Image: active participation of the media in forming a positive image and informing the public about the social activities of companies operating in the region; organization of the competition and establishment of the award "The best company of the region" in various nominations, including the center of social responsibility of enterprises; holding conferences, creating a permanent forum for the exchange of experience and best practices in the area of corporate social responsibility with the participation of experts from leading companies operating in other districts and foreign experts.

The mission and philosophy of an enterprise developed taking into account the principles of social responsibility in combination with a critical assessment of the internal and external environment of its own operation is the basis for developing a strategy of interaction with society and business. The practical implementation of corporate social responsibility can enhance the internal constructive potential of business and, as a consequence, prevent the onset of economic and environmental crises, and in case of their onset — reduce the cost of overcoming them.

Political and economic instability form the preconditions for reducing the level of corporate social responsibility, as the main issue of business activity is the idea of "survival" in the market and, accordingly, to obtain the maximum possible benefits in the short term. But if the company is able to withstand social and economic

pressure and maintain an integrated strategy of its own long-term development, without deviating from the key points of the theory of social responsibility, then, over time, a much higher level of trust and commitment will be formed in society, in contrast to the enterprise, which aimed only at its own selfish interest. If the activities of a company are not socially oriented, the preconditions are formed for the application of unpopular measures to reduce the costs of the enterprise, namely: dismissal of employees, reduction of wages, reduction of bonuses, surcharges, etc. As a result, there is a further development of crisis phenomena of a socially oriented nature.

Priority areas for effective formation of the national model of social responsibility of Ukrainian business have been identified: stimulation of the growth of the level of transparency of companies (mandatory social reporting and reporting on progress based on internationally established standards); application of tax preferences, public investment programs, public-private partnership projects to solve problems in the area of social services, basic infrastructure and environmental safety; informing the public about the role and consequences of corporate social responsibility in the development of socio-economic relations in society by forming an appropriate level of social capital in society; stimulation and support for discretionary types of corporate social responsibility; scientific-research and technical-organizational support of the state for the study of theoretical-methodological and practical methods of improving the effectiveness of the introduction of corporate social responsibility in the strategy of national development.

## **5. Discussion**

For Ukraine at the initial stage of formation of the model of corporate social responsibility in the transitional and extremely difficult period of formation of civil society the most common is the creation of a social reporting mechanism at the state level, the main purpose of which is to supplement financial information with a clear demonstration of social activity and usefulness to society.

It should be remembered that the state and its methods of influence play a huge role in the formation of social responsibility of Ukrainian business (Tiba et. al (2019)). In itself, the social responsibility of Ukrainian business is not able to develop on a national scale. Only the state has the ability to provide legal and economic support.

Moreover, only the state can stimulate, motivate, and even to some extent morally inspire the business sector to activities, which are socially responsible. State methods must be used to create institutionally favorable conditions for enterprises to conduct socially responsible activities (Urmanaviciene & Arachchi (2020)). These aspects relate to statutory rules and regulations for doing business. This also applies to the reassessment of state economic incentives for corporate social responsibility, namely (Cheema et. al (2020)): tax benefits, government financing programs, lending, protectionist policies, etc.

Elements of the development of corporate social responsibility constitute a complementary system of incentives, conditions and motivational mechanisms for responsible behavior of enterprises (Szegedi et. al (2016)). The degree of responsibility of business to society and the environment depends on the effectiveness of relations between the state and business (Johnstone-Louis (2017)).

The advantages of the effective implementation of a model of corporate social responsibility are the establishment of rules for dialogue between the state and business, the values of respect for the rights and responsibilities of each party, increasing the effectiveness of state regulatory mechanisms. Therefore, even those possible threats that society may face will have only temporary nature. In the long run, it is strategically correct for the progressive development of the country as a whole to fully introduce theoretical approaches to corporate social responsibility in practical recommendations for action.

In essence, this means that if corporate social responsibility becomes an integral part of activities of Ukrainian companies, the likelihood of improving the overall well-being of society and the effectiveness of crisis management will be obvious. In order to increase the transparency of companies, it is necessary to develop a state program of a motivational mechanism for preparation of non-financial reports in accordance with international standards. At the same time, to verify the veracity of non-financial reports, it is advisable to establish a National Service for Auditing of Corporate Social Responsibility and Non-Financial Reporting, as an effective system of social and environmental reporting of business, which has a national character, is an instrument to address social and environmental issues in the long run.

## Conclusions

The paper identifies the restraining factors of the formation of an effective national model of corporate social responsibility in Ukraine: extremely high level of corruption in economic relations, inefficient development policy of the country in all areas (economy, ecology, social sphere, international relations, etc.), unprofitable state social policy and lack of social investment, lack of effective institution of social partnership between employees and employer, lack of analysis of real socio-economic indicators of life and their effective adjustment, insufficient level of pressure of local communities and non-profit organizations on business, lack of institutional preconditions for the formation of mechanisms for socially responsible activities of companies.

At the same time, there are some progressive trends in the formation of a national model of corporate social responsibility, the main forms of which are: ensuring the labor rights of staff, creating internal codes, tools and social standards of management, compliance with basic state requirements for providing social guarantees for employees, payment of statutory compensation. At the same time, these aspects of Ukrainian corporate social responsibility have only a nominal relation to this business development strategy, as they do not fulfill the main task — promoting the welfare of society and the implementation of the principles of sustainable development.

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