SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY: NEW CHALLENGES AND OPPORTUNITIES FOR COMPANY’S REPUTATION

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Abstract

The sustainable development paradigm emphasizes the need to redefine the term development. Sustainability in products, processes and services has been increasingly emphasized by placing environment at the center of some industrial transformations. These transformations are characterized by economical, social and ecological changes which have to be harmonized with the basic values of society. Many well-known corporations have been subjected to international pressure to ensure that the welfare of the employees manufacturing their products (generally in third world countries) is considered and enhanced. Corporate social responsibility is the form of purposeful activity, which is made by organizations to attract the strategic stakeholders (consumers, partners, employees, local community, public institutions). Despite of significant difficulties in the development of socially responsible management in Ukraine, we have identified the possible prospects of socially responsible business. The results of researchs allowed defining the core characteristics of socially oriented enterprises. These characteristics can be used in the process of identifying the levels of social orientation of enterprises. We identified a set of quantitative and qualitative indicators which can estimate the state of socially-oriented business management. The results of calculating the integral indicators of socially-oriented management allowed defining the coefficients which show the level of company’s reputation.

Key words: management, sustainable development, corporate social responsibility, company’s reputation.

Introduction

The dominant tendencies in development of the global business community confirm the importance of corporate social responsibility. The discussions about the content and significance of social responsibility have been passed in leading academic and business circles since 60s years.

As mentioned in the Report about development of social responsibility in Ukraine, corporate social responsibility is one of the key factors for building an effective dialogue between the government, business and civil society [1]. The development of corporate social responsibility displays the level of partnership between companies, governments and main persons of civil society in solving social problems and accelerate the development of society.

Corporate social responsibility is the form of purposeful activity, which is made by organizations to attract the strategic stakeholders (consumers, partners, employees, local community, public institutions). The main task of this cooperative activity is to provide legislative implementation of organization mission and vision by voluntary and targeted social investments to solve social problems in the long-term perspective.

1. Preconditions for Sustainable Development of Companies

1.1. Social Responsibility as a Component of Sustainable Development

The development of modern economic science is aimed at providing the sustainable economic growth by achieving social, economic and environmental priorities of society. The doctrine of “sustainable development” ensures inter-generational equity (better quality of life for present and future generations). The interaction of social and economic components requires to achieve fairness (equal distribution of wealth among groups or individuals) and legal assistance for poor people. The integration of ecological and economic components requires assessing the anthropogenic impacts on the environment. These components contribute to human welfare, both directly and indirectly, and therefore represent part of the total economic value of the society. Integration of science and business seeks to integrate the economic, environmental and societal aspects to achieve sustained financial success, safeguard the environment and develop the company’s reputation as a respected corporate citizen.

1.2. Corporate reputation

Corporate reputation is the concept that focuses on held company’s profit based on its ef-
effective partnership with internal and external stakeholders. Corporate reputation is formed by the company’s various publics on the basis of information and experience. The company may have a slightly different reputation with each stakeholder according to their experiences in dealing with the organization or in what they have heard about it from others. Many companies put the importance of a good reputation to the back of their minds while they attend to more hard-edged, day-to-day urgencies. On the other hand, many organizations consider their greatest asset to be their good name or reputation. This is especially true in knowledge-based organizations such as professional services firms in the consulting, legal, medical and financial sectors. They work actively to build their good reputation, to develop their core competencies.

2. Challenges and Opportunities for Company’s Reputation in Ukraine

2.1. Components of Corporate Social Responsibility

We have conducted extensive researches of 57 Ukrainian industrial enterprises, being different by size, ownership, sectors of industry and regions. The results of researches are based on surveys and questionnaires of managers. 175 persons were involved in the process of the research, 75 of whom worked by managers in big companies, 46 in medium enterprises and 54 in small firms.

At present, majority of companies perceive the social responsibility as the direction of internal social programs. Such social programs aim to meet the needs of staff for providing decent wages, health and safety personnel, training and development of human resources (Table 1).

<table>
<thead>
<tr>
<th>The components of social responsibility</th>
<th>Companies (%)</th>
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<tbody>
<tr>
<td></td>
<td>Small (till 50 persons)</td>
</tr>
<tr>
<td>Concordance with social standards in the sphere of employee payment and personnel safety</td>
<td>70,5</td>
</tr>
<tr>
<td>Training and staff development</td>
<td>68,4</td>
</tr>
<tr>
<td>Meeting the needs of customers for product quality</td>
<td>58,7</td>
</tr>
<tr>
<td>Payment of taxes and fees to the state budget in time</td>
<td>40,9</td>
</tr>
<tr>
<td>Creating new jobs</td>
<td>9,5</td>
</tr>
<tr>
<td>Reliability in relations with partners and customers</td>
<td>26,5</td>
</tr>
<tr>
<td>Openness and transparency of activities</td>
<td>26,5</td>
</tr>
<tr>
<td>The implementation of environmental programs</td>
<td>3,4</td>
</tr>
<tr>
<td>Charity</td>
<td>3,2</td>
</tr>
<tr>
<td>Meeting the demands of shareholders and investors</td>
<td>10,4</td>
</tr>
<tr>
<td>The development of social infrastructure</td>
<td>1,2</td>
</tr>
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2.2. Challenges and Incentive Measures for Promoting Business Social Responsibility in Ukraine

We have analyzed the factors which hinder the development of social responsible management in Ukrainian enterprises. According to survey we have found that the main obstacles for the development of social responsibility industry are lack of financial resources, absence of the acceptable legislation, low level of motivation in business (Figure 1). In addition, the lack of appropriate tax incentives in state leads to loss of interest of Ukrainian enterprises to implement the social responsible programs.
Despite of significant difficulties in the development of socially responsible management in Ukrainian enterprises, we have identified the possible prospects of socially responsible business in Ukraine. These results showed that tax relief, reduce of regulatory and administrative pressure are the most important incentives to develop the social responsible business in Ukraine (Figure 2).

2.3. Basic Characteristics of Socially-Oriented Companies

The results of researches allowed us to define and systematize the core characteristics of socially oriented enterprises:

1. Presence of harmonized management system which includes values and strategic goals of social responsible activity. This statement characterizes the capabilities of enterprise to harmonize its activity with the strategic interests of stakeholders. It should assess the needs of staff, owners and investors.

2. Positive dynamics of key financial and economic performance of companies over the past 3 years. Government spending increased sharply as an increasing number of unprofitable enterprises required state support in Ukraine.

3. Implementation of social responsible policy development by enterprises. Such policy must be aimed to the implementation of mandatory social benefits (social benefits according to national legal system, benefits to Social Insurance and Pension Funds etc.).

4. Meeting additional social needs of workers by improvement of life-limiting conditions, benefits of long-term housing loans, payment of financial assistance, getting health insurance and medical care etc.

5. Development of social infrastructure. Social infrastructure is a subset of the infrastructure of the enterprise and typically includes assets that accommodate social services. Ex-
amples of social infrastructure assets include medical centers, recreation and health centers, kindergartens, cultural institutions, housing etc. Social infrastructure characterizes the level of enterprises social activity. In Ukraine only big comprehensive companies with employees more than 500 persons have modern social infrastructure.

6. Effectiveness of corporate policy in health and safety personnel, including comprehensive technical and organizational measures, appraisal jobs, training and testing of employees, reducing the number of accidents and fatalities etc.

7. Training and staff development through a variety of training activities, including training as individual learning, training of various categories of personnel, coaching, mentoring and other forms of training.

8. The financing of social projects related to the charity, sponsorship and patronage. Implementation of this component describes the development of philanthropic responsibility of the enterprise to internal and external stakeholders.

9. Effective environmental policy of the company. The policy is the corner stone of its intent to reduce its carbon footprint, improve recycling, reduce reliance on packaging, minimizing waste, improve efficiencies on finite natural resources in all of the company’s operations and all departments.

These characteristics can be used in the process of identifying the levels of social orientation of enterprises. We used the A. Shyhverdiyeva and A. Seryakova’s approach to determine the quality index of social investments [3]. So the quality index of social orientation of any company (SOI) can be calculated by formula (1):

$$SOI = \left( \frac{1}{m} \sum_{i=1}^{m} X_i \right) \times 100\% \quad (1)$$

where

- $X_i$ – a boolean variable, which can be used to hold the integer values 0 or 1;
- $m$ – number of attributes of social orientation of enterprise.

The calculation of degree of availability j-th attribute in the statistical sample of companies can be made by formula (2):

$$SOI_j = \left( \frac{1}{n} \sum_{i=1}^{n} X_i \right) \times 100\% \quad (2)$$

The calculation of these indexes allows determining the appropriate level of social orientation of company. We propose three levels of social orientation of enterprises: unsatisfactory (SOI $\{1-30\}$), acceptable (SOI $\{31-60\}$), optimal (SOI $\{61-100\}$).

Creation of conditions for socially oriented management of enterprises requires the investigations of measuring the impact of corporate social responsibility on business reputation. According to fundamental scientific researches in the area of social responsibility [4, 5, 6] the business reputation is a valuable treasure. Some people make the argument that company’s profit is one of the factors that gives a company a positive reputation. However, a company’s reputation is often one of the factors that contributes to its ability to make profits in the first place. When companies are known to be reputable, customers feel more comfortable doing business with them. Consequently, shareholder value rises along with a company’s bottom line. Companies who invest in social projects, such as development local communities, can expect a very positive return on this investment.

Measuring the corporate social responsibility is one of the main conditions of the effective modelling the impact of social indicators on business reputation’s level. In economics, a model is a theoretical construct that represents economic processes by a set of variables and a set of logical and/or quantitative relationships. We identified a set of quantitative and qualitative indicators which can estimate the state of socially-oriented business management. We have analyzed the performances of 16 mechanical engineering companies for the period 2004-2009. The complex and ambiguous dependency between different groups of quantitative and qualitative indicators was defined. In such way we decided to use the methodology of fuzzy sets in the analysis of parameters that have indirect statistical relationships among the indicators of measuring of corporate social responsibility.

Conclusions

Corporate social responsibility is the form of purposeful activity, which is made by organizations to attract the strategic stakeholders (consumers, partners, employees, local community, public institutions). Despite of significant difficulties in the development of socially responsible management in Ukraine, we have identified the possible prospects of socially responsible busi-
ness. The results of researches allowed defining the core characteristics of socially oriented enterprises. These characteristics can be used in the process of identifying the levels of social orientation of enterprises. The results of calculating the integral indicators of socially-oriented management allowed defining the coefficients which show the level of company’s reputation. The most important activities which impact on the corporate reputation are good business practice in relation to suppliers and other business partners, competency management system, charity and sponsorship activities, regional employment rate. The main quantitative indicators which impact the company’s reputation are net income, net assets, social costs on social welfare programs in relation for netted income etc.

References
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