ISBN 978-1-64871-927-1
DOI 10.36074/tmafmseoid.ed-2

THEORETICAL AND METHODOLOGICAL APPROACHES TO THE FORMATION OF A MODERN SYSTEM OF NATIONAL AND INTERNATIONAL ENTERPRISES, ORGANIZATIONS AND INSTITUTIONS' DEVELOPMENT

Collective Scientific Monograph

EDITION 2

Dallas
2020-2022

Primedia eLaunch
E-book conversion, distribution & marketing

UDC 331.1 *DOI 10.36074/tmafmseoid.ed-2.17*

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CORPORATE SOCIAL RESPONSIBILITY AS A MODERN STRATEGY OF ENTERPRISES AND ITS ECONOMIC AND SOCIAL CONSEQUENCES

ABSTRACT:

The paper is devoted to investigating corporate social responsibility as a modern strategy of enterprises, including the historical conditions of its emerging and further modification in response to the continuous social and economic changes around the globe. Additionally, the impact of social practices of business was studied regarding their direct and indirect impact on the creation of human and social capital within an organization and at the national level as well, which forms the stable foundation for further economic growth of a company and national economy, simultaneously leads to the improvements in the public wellbeing. It was proved, that the positive impact of social practices can lead to the social capital formation in developed economies, where the state encourages those policies by providing benefits, while in developing/transition economies this impact can be minimized or eliminated by economic, political and social instabilities. Moreover, the link between the voluntary involvement of private companies in providing some extra social services and the modern transformation and reorganization of the state social protection policy was studied to identify the mutual benefits that can be obtained by the two parties and the society in general.

INTRODUCTION.

The concept of Corporate Social Responsibility (CSR) is currently the most attractive business strategy within developed economies and an emerging approach for transitional and developing economies around the globe. The essence and need of CSR as a business strategy is determined by the constantly growing inequalities in economic and social perspective as well as the increasing financial pressure on the national budgets which limits the ability to invest in a socially important project or to provide additional social guarantees to the most vulnerable population. Moreover, as businesses are getting more transparent in their actions the population is expecting their

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involvement in dealing with social and environmental issues of the stakeholders. As a result, companies that follow the principles of CSR are seen as more reliable and attractive for consumers, suppliers, investors, and other market actors in general.

At the same time, the actual application of CSR practices in emerging markets exacerbates the need for the in-depth theoretical study of the historical background of the emergence and further development of the concept of CSR, the impact of SCR practices on the creation of human and social capital, the link between development and spreading of CSR strategies among businesses and transformation and modernization of the public system of social protection to expand the existing literature regarding the potential impact of CSR on the economy and society.

HISTORICAL DEVELOPMENT OF THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY.

The analysis of available scientific literature indicates that the first who draw attention to the need for social responsibility in the form of charity was the American scientist Andrew Carnegie, who in his work "Wealth" (1889) outlined the problem of unequal distribution of wealth and justified ways of overcoming such inequality. According to the researcher, before the Industrial Revolution, most industries were created based on family ties, where the master and apprentice shared the income and had the same living conditions, which indicated an equal distribution of income. Under the conditions of industrialization, which is characterized by the spread of hired labor, the distribution of income between capital owners and employees has become extremely uneven. Under these circumstances, the problem of overcoming inequality and ensuring the equal distribution of wealth, owned by the minority, became relevant [1].

To solve this problem, Carnegie proposed to implement a state policy in which the accumulated wealth will be directed to social needs. At the same time, the scientist paid special attention to the efficiency of redistribution of wealth, noting that wealth distributed among the poor in the form of charity will be spent solely on meeting needs. Thus, the most effective way of wealth redistribution can be seen in providing some durable goods or objects of infrastructure, which will lead to the long-term creation of new skills, knowledge, etc., that can raise the productivity of labor [1].

The term "social responsibility" was first used by the American scientist H.

Bowen in the work “Corporate Social Responsibility” (1953), in which the author emphasized the special influence of decisions made by entrepreneurs to produce certain goods or services and to use certain technologies on the level of unemployment, income distribution, economic growth of the country, the level of welfare, the state of natural resources, consumption, trade and international relations [2].

Studying a wide range of externalities, caused by business decisions, the author asked the following question: is business obliged to take into account the social consequences of making their own decisions? The answer, according to the author, is unequivocal: yes. Moreover, H. Bowen raised several other important questions, namely: What business behavior can be defined as socially responsible? Should corporate social responsibility be defined at the legislative level? How do the long-term goals of business and society relate? According to the researcher, the social responsibility of business can be assessed by the usefulness of the business decision for society, its focus on progress and improving the quality of life [2].

In this context, the work of a famous American economist M. Friedman's “Social responsibility of business lies in increasing its profits” (1970) should be mentioned, where the author states that in the system of free enterprise and private property a manager of a corporation is hired by business owners and directly accountable to them. The main responsibility of a manager is to do business according to their desires, which are usually to make as much money as possible, following the basic requirements of society embodied in law and ethical norms [3]. As for social responsibility in the traditional sense, according to M. Friedman, only people have a certain responsibility to society, which is their right to voluntarily dispose of their income in favor of charity or other socially important projects. Therefore, the author argues that solving social problems is a function of the public sector as the private sector pays taxes to finance those public functions, thus, the concept of CSR turns the economy into socialism, which contradicts all the principles of the market economy and free competition [3].

Additionally, it should be mentioned that the process of institutionalization of CSR began in the United States of America, where the Committee on Economic Development in 1971 declared a policy on corporate social responsibility of business to determine the role of business in a constantly changing social needs of the population. The document noted that with economic development, increasing incomes, and improving living conditions society places higher demands on owners and managers of business corporations.

Thus, since the 1960s, the American public sector has encouraged private corporations to provide social functions, previously provided exclusively by the public sector, such as training people with disabilities, helping minorities to start their businesses, and so on. Because private companies spent their resources for the implementation of social functions, the public sector gave them certain financial advantages in the form of subsidies, loans with better conditions, tax benefits, state guarantees, etc. [4]. Such trends have been termed as “privatization” of the public sector.

The crucial factor in this approach was that the state created “market conditions” to encourage private companies to participate in providing socially significant functions/projects. It initiatives that on a competitive basis, meaning that only the most efficient corporations will be given the right to get a contract with the state regarding the implementation of the project and receive certain state benefits (loans, subsidies, etc.). Under these circumstances, the public sector did not provide social functions but based on a contract transferred the right to provide such services to more efficient private corporations.

Thus, during the XIX-XX centuries, the concept of CSR was formed and developed, going through significant changes and transformations. However, the main idea of this concept has remained unchanged, namely: the transfer of certain social functions from the public sector to the private sector.

CORPORATE SOCIAL RESPONSIBILITY AND SOCIAL CAPITAL CREATION.

According to one of the definitions of CSR, it is voluntary involvement of private companies in socially important projects aimed at forming common values and building trust relationships between various market actors as:

- consumers and producers – by assuring the transparency of business activities, providing honest information about the product and its characteristics;
- employees and management or owners – by active protection of workers’ rights, organizing training to raise the awareness of employees about their rights and ways to protect them;
- suppliers and producers – by assuring the faintness of the terms of cooperation, following mutually beneficiary schemes of work;
- representatives of local communities and businesses – by organizing and

supporting social, environmental and sports activities for locals, engaging in solving local socially vital issues [5].

At the same time, according to the theory of Partha Sarathi Dasgupta, social capital, which is built on the trust relationship within the population, affects positively an individual productivity/income and the overall performance of the whole society [6]. The mentioned effect can be reached as trustful relationships contribute positively to the growth of institutional capacity and human capital. Additionally, according to Francis Fukuyama, trust relationships among market actors minimize the transaction costs and make the overall process of market coordination easier and faster [7].

It should be mentioned that there is a difference in the practice of CSR in developed and transitional/developing economies. The population in developed economies is aware of the benefits to the stakeholders out of CSR practices, so they are expecting this behavior from the producers, moreover, as some businesses are already involved in social projects, it becomes almost "compulsory" for other businesses to follow principles of CSR to keep their place and share of the market, to remain their loyal consumers and competitive position. CSR practices are relatively new for transitional /developing economies, the studies have shown that those practices are undertaken mostly by transnational companies that are following the competition requirements of developed countries [8]. At the same time, local companies are only on the way to launching CSR as a new business strategy as it is voluntary and there is no expectation from the public.

While talking about incentives of launching CSR strategy, it should be noted that there will be an internal need, formed by the company itself, as CSR also is seen as a way of promoting and advertising the company and its products, reducing the transaction costs of doing business, cutting the employees turnover as common values and believes promote strong and trust relationships between workers and managers, attracting new consumers who value this socially and environmentally oriented business practice, negotiating with suppliers and other companies about the terms of cooperation, getting better conditions that can be obtained because of the built trust relationship, generally speaking, this strategy will help to increase the competitiveness of the company at the national and global level.

Additionally, there are external factors that stimulate and encourage companies to follow the CSR practices, specifically it can be seen from the consumers who are interested in private businesses' participation in solving crucial social issues of the stakeholders and local communities, current market failures as well highlight the need of this intervention of businesses in public social policy through CSR, also this requirement can be shaped by foreign competitors that are following more advanced strategies and can overtake the shares of national companies, moreover, as a rule, in developed economies, the state motivate CSR by providing additional benefits to socially responsible businesses.

In this regard, it should be mentioned that because of the nature of CSR as it includes the relationships between various market actors and the formation of trust as an important foundation of social capital, which, when formed, spreads the benefits among all the population. Thus, here we can identify the synergy in action when the outcome of the efficient implementation of CSR practices will be greater than the sum of benefits of its participants (Fig.1.).

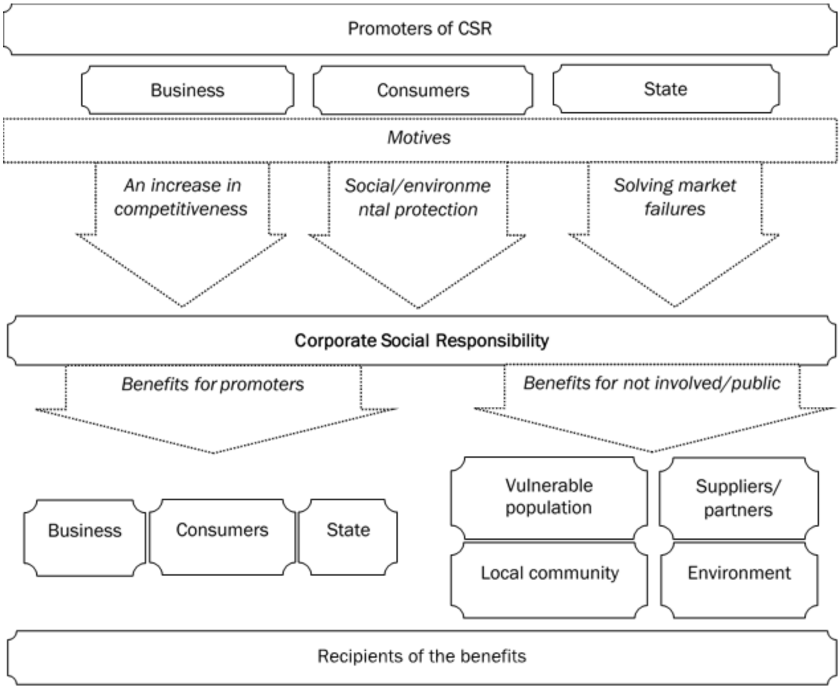

Fig. 1. **The synergy of CSR practices.**
Source: developed by the author.

According to the current studies, the efficiency of CSR also depends on other social, political, and economic factors, such as the level of corruption, advancement of legislation system, violation of human rights, discrimination, macroeconomic and political instability, lack of social guarantees from the state, as mentioned weaknesses can reduce or eliminate the overall positive effect of CSR on the population wellbeing [9].

THE LINK BETWEEN THE DEVELOPMENT OF CORPORATE SOCIAL RESPONSIBILITY AND MODIFICATION OF SOCIAL POLICY.

As a rule, state social protection system includes two main directions: 1) compulsory state social insurance of the employed population, which is formed through the payment of citizens' contributions and has four options for insured events: accidents at work and occupational diseases, temporary disability, job loss, and retirement; 2) providing social support to the most vulnerable groups of the population, which include: families with children, the disabled, low-income families, persons not entitled to a pension, war veterans and victims of disasters, forced migrants and others in the form of financial assistance, benefits, subsidies and equal provision of social services to the entire population.

Moreover, current studies have shown that the process of transferring some social functions of the state as the protection of the rights and freedoms of citizens, health and social insurance, education and training to the private sector in the form of corporate social responsibility can improve the efficiency of public financial resources, and also contributes to the accumulation of human and social capital, which is a prerequisite for long-term economic growth of the country [9].

In this context, it's important to mention a new approach to defining the essence of the social policy of the state. According to Anthony Giddens, modern social policy should be aimed at social investment, accumulation of human capital, and prevention of lowering the income level below the subsistence level, promotion an increase in the income level of the poor by providing retraining, as opposed to a classical social policy approach that seeks to provide social protection to the poorest [10]. So, the priorities for the development of the new system of social protection are an integration of social and economic policy; transition from distributive to stimulative functions; activation of innovative development based on the accumulation of human capital.

The strategy, developed by the European Commission and implemented in 2020 within the European Union countries, states that the government can stimulate and keep the high level of human capital creation by following these principles [11]:

- ensuring an increase in the level of elderly population employment by providing them with lifelong learning, especially about technical innovations and the Internet;
- guaranteeing the protection of personal, government and commercial digital data in the period of integration into the global market and the transition to digital document management;
- comprehensive support for inclusion in education, workplace and public life as a mechanism for overcoming poverty, as people with disabilities may be socially excluded;
- ensuring gender equality in the workplace and social life;
- promoting youth employment, education, and training on the conditions of transition to environmental technologies of production and digital transformation;
- assisting and minimizing the negative consequences of excessive household debt.

Besides changes in the perception of the essence of the public social policy, there is a change in the role of the private sector as well. Traditionally, the main purpose of a private sector was seen as a profit maximization for its shareholders [3]. But currently, the responsibilities of businesses were extended, mostly, by the forces of stakeholders, which required private companies to take into account their needs and interests while taking business decisions [2].

Thus, because of the active role of businesses in providing some additional social and environmental services, the priorities of the state social policy have changed, as a reduction was seen in the volume of needed investments and efforts aimed at protecting human and workers' rights, fighting against discrimination and environmental degradation, therefore, the released funds can be used on other directions of social protection or invested in projects which will ensure further creation of human and social capital, while businesses that follow CSR principles will also contribute positively to the formation of social capital. In general, this type of redistribution of social functions between the state and the private sector will be mutually beneficial for two parties as well as for a whole population.

CONCLUSION.

The development of theoretical ideas about corporate social responsibility helped to deepen the understanding of the need and essence of CSR, clarify the conceptual apparatus and institutionalize the interaction of the public sector and business representatives to improve the social environment and solve pressing problems.

Moreover, in the context of globalization, intensification of competition and aggravation of global problems, the urgent task of national economies is to build and keep the sufficient level of social capital to be able to reach the potential economic growth of the economy, to balance the relationships between market actors as well as to maximize the level of wellbeing of current and future generations. One of the possible ways to reach previously identified goals is to promote and encourage CSR as a novel business strategy.

Despite seen positive consequences of CSR practices among developed economies as the formation of shared values, reducing transaction costs, creating a trust relationship between companies, suppliers, consumers, employees, and the public, currently, in developing countries the implementation of CRS is just started and face the following constraints like a lack of a comprehensive legal framework for CSR, approaches for assessing CSR effectiveness, public support for CSR, trust to private companies, as well as the predominance of informal practices of interactions between the government and business over formal.

Based on previously mentioned, to get the positive effect of CSR in the form of social capital creation, mutually efficient cooperation between the public and private sectors, and associated impacts on social and economic development of the country the following recommendations should be implemented:

- institutional and organizational rearrangement of CSR practice;
- ensuring openness and transparency of interactions between private business and the state;
- active introduction of CSR principles in the work of state enterprises;
- state encouragement of private business to implement CSR by providing tax benefits and advantages;
- lending and microfinance of social enterprises and companies;
- providing information support for the development of CSR, in particular, promoting the image of companies that adhere to the relevant principles;
- positioning CSR as a global competitive advantage of national business in the global environment;
- popularization of the principles of corporate social responsibility, spreading of CSR ideas among employees, consumers, and other stakeholders;
- deepening cooperation between businesses, universities, and research

institutions on the adaptation of best international practices and training on CSR.

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