

STATE POLICY IMPACT ON THE SOCIAL RESPONSIBILITY OF BUSINESS IN UKRAINE

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State authorities should create an environment for more active development and establishment of the social responsibility for business (hereinafter — SRB). Therefore, key bodies of the SRB regulation in Ukraine are the central and local authorities. Society and the state in particular always gets additional benefits from the socially responsible business.

Ways of the government influence on the social responsibility of business shown in Figure 1 below

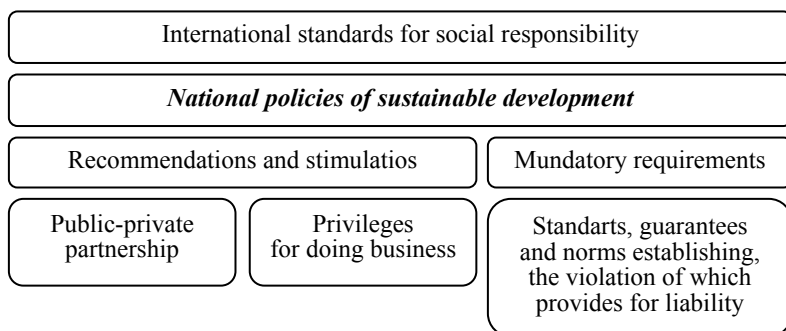


Fig. 1. The influence of authorities on SRB

Source: author's development from the publication¹

Absence of unified formal government assessment of corporate social responsibility is the reason for the SRB practices by businesses non-establishment and noncompliance with certain standards. This is the obstacle of government direct impact on SRB in Ukraine². Adop-

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¹ Granovskaya I.V. International standards of reporting of social responsibility of business [Electronic resource] — Access mode: http://archive.nbuv.gov.ua/portal/soc_gum/evu/2012_19_1/Granovsk.pdf.

² Zatyshchikova O.O. Analysis of approaches to the assessment of social responsibility of business // Bulletin of socio-economic research. — 2014. — №. 2, pp. 189-194.

ted in 2014 new Law of Ukraine named «On Standardization» defines the yardstick for putting criteria for evaluation but proposes guided by the international standards.

Public authorities can assess the level of SRB implementation by two key measures:

- the amount of funds allocated by business to social initiatives;
- the qualitative indicators establishment and implementation (for example, measuring the level of employees and consumers satisfaction with the business activities).

The small and medium enterprise's in Ukraine formation factor of mentality is domestic economy with high import dependence. Professor S.M. Makukha noted¹, «irresponsible government policy was the root cause this problem». Doing business circumstances in Ukraine after signed the Declaration of independence shown in Figure 2

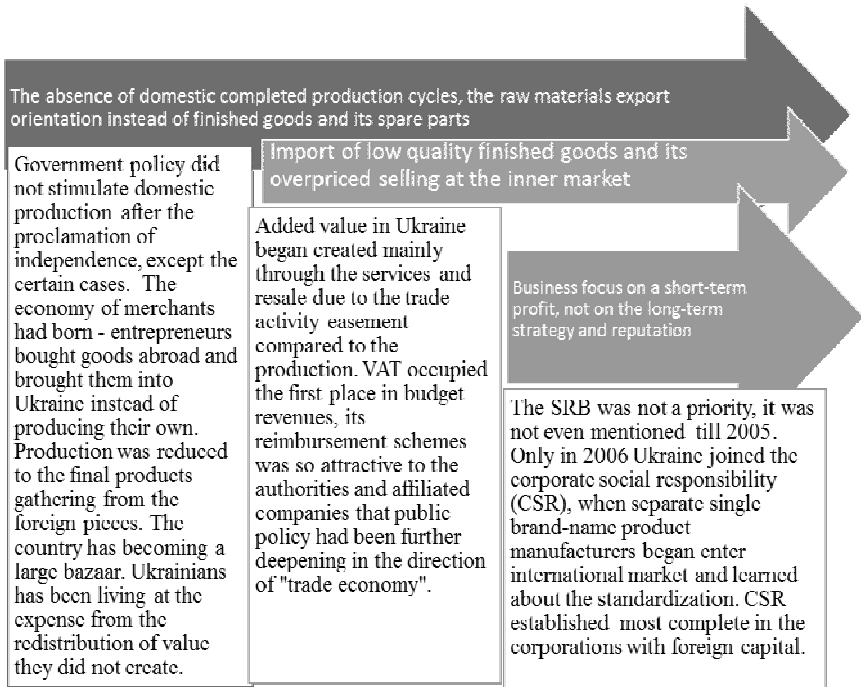


Fig. 2. Government economic policy features in Ukraine

¹ Makukha S.M. Social responsibility of the state in the process of inclusion of the national economy in the global economic space // Series: Economic Theory and Law: Coll. Sciences. / National University «Yaroslav the Wise Law Academy of Ukraine». — H.: Law, 2012 — 2012. № 3 (10). — P. 271–286.

The SRB practices implementation peculiarities correlated with the enterprises activity circumstances in Ukraine, among them:

- the garbage sorting system and utilization of hazardous waste (batteries, lamps, detergents, etc.) hardly developed;
- widespread plastic packaging culture — bottles, packages and film. Often it will not be collected, sorted and processed after use;
- symbolic punishment for the damage of environment, the garbage dumping in unidentified places, the waste and dry grass burning;
- the standardization, the storehouses, production sanitary conditions, the food products storage and sale poorly controlled;
- widespread practice of illegal purchase the medical certificates and medical examination results for employees;
- poor labor efficiency, the alcohol and drug addiction problem.

Despite activity of small and medium business in Ukraine had strong regulatory guidance, social activity significant development did not happened. The Ministry of Economic Development and Trade of Ukraine lifted 41 % of permit documents, removed 100 regulatory barriers and had shortened the registration period to 2 days during the announced deregulation in 2015¹. But at the 22.12.2016 lately established State Regulatory Service of Ukraine pointed the non-fulfillment and failure for the one-third of Deregulation Business Plan for 2016–2017 years in provided evaluation reports².

Table 1 show some entrepreneurship activity examples in Ukraine, when business works «with a negative result» for the social responsibility on the contrary, harms the consumer and society in a whole. Although such entrepreneurs have been violating the Law of Ukraine «On Advertising» sometimes for example, but their activity at the state regulation level mostly allowed.

The SRB promotion by the Government in Ukraine have been focused mainly on the tax incentives. Figure 3 shows the tax levers that stimulate SRB, in accordance with the Tax Code of Ukraine, the Law of Ukraine «On Charity and Charitable Organizations», the Law of Ukraine «On Environmental Protection» and other normative documents.

1 I. Izotov. 8 facts about small and medium-sized businesses that prove that Ukraine will not survive without it [Electronic resource] — Access mode: <http://businessviews.com.ua/ru/business/id/ukrajina-dosjagla-maksimalnoji-kilkosti-malih-ta-serednih-kompanij-dali-lishe-dereguljacija-1002/>

² Deregulation Plan 2016 [Electronic resource] — Access mode: <http://www.drs.gov.ua/deregulation/plan-deregulyatsiyi-2016-2017-rr/>

Payments aimed as compensation for social rights and freedoms violations (restrictive means of motivation)

- Ecological tax;
- Fines (for example, for the goods non-compliance with the legislation requirements)

Privileges and preferences (stimulating means of motivation)

- Charitable organization do not pay income tax;
- Privileges in taxation for the enterprises where more than 50 % of employees are disabled;
- Tax incentives for the using alternative energy sources and introducing innovative environmental technologies by the enterprises

Fig. 3. Financial levers of SRB stimulation through the public policy

Source: author's development from the Tax Code of Ukraine.

Table 1

**HARMFUL TO THE SOCIETY ENTREPRENEURIAL ACTIVITY
IN UKRAINE SAMPLES BY REASON OF THE GOVERNMENT POLICY
DISADVANTAGES**

<i>№</i>	<i>Field of activity</i>	<i>Activity essence and social impact</i>
1.	<p>Fraudful services (for example, pseudo-medical «treatment» of incurable illnesses by expensive false drugs or devices).</p> <p>Example: «Movement without Pain» campaign.</p>	<p>Targeted mostly retirees massive advertising company have been provided through the public radio, the press and television channels. The «doctor» from advertising several times per day had offered make a phone call, get a consultation free and finally buy a panacea for a number of common incurable diseases. Who phoned then had received the medical consultation fee requirement and the threats after. Who ordered the drugs — received worthless instruments or ointment for 3000 UAH (nearly \$380). The self-medication with that stuff had lethal consequences sometimes.</p>

Continuation of the Table 1

№	Field of activity	Activity essence and social impact
2.	<p>The fraudulent sales:</p> <p>1. Distance selling without reservation. The seller have sent on personal addresses letters marked as «Confidential», «Urgent» and «You have won». For example, «Family Club» http://rodyinna.com/</p> <p>2. In stores. «Goods for health» selling. For example, Desheli, Nuga Best.</p>	<p>1. Target audience — the retirees who do not understand marketing. The letter, certified by the personal signature of the company representative and marked «Payment approved», contains a statement that you have won hundreds of thousands UAH. However, in order to pick up the prize, you have to buy goods from the catalog for more than 239 UAH urgently within 7 days. This fraud is very widespread, the letter contains a whole package of documents and high-profile statements with masking as official ones, such as «Your winning had approved at the Board of Supervisors Meeting».</p> <p>2. Target audience — retirees, housewives. Organized «communities» lease the premises, where, with the help of influence technologies on the consciousness of people «experts» forced the guests to buy (often on credit) extremely expensive things of unproved efficiency.</p>
3.	<p>Shifty advertising that has had all the signs of fraud. For example: 1. The mobile Internet offer from Kyivstar company;</p> <p>2. «Cognitive Programs» at the Ukrainian Radio: «The World of Health» etc.</p>	<p>1. The interference in personal life of customers had no lead to direct responsibility of the companies, which have been advertising their services in Ukraine. For example, companies' representatives called by personal phone numbers at evening and holidays (the phone numbers list had sold to the all interested persons is additional issue). Also such an advertisement often contained the words «discounts», «concessional terms», which in reality not existed.</p> <p>2. Another way — the form of hidden advertising as cognitive programs or publications with invitees «experts». According to the law, the end of such programs or articles should note «as advertising».</p>
4.	<p>Irresponsible natural resources using. For example, deforestation, amber mining, hunting and prohibited in the world tourism (like auto quests in forests).</p>	<p>State policy does not stimulate local government and community to preserve the natural environment. Natural resources are greatly destroyed by everyone who has physical access and opportunities. Authorities does not even receive legal taxes in full from this activity because a shadow business.</p>

Continuation of the Table 1

<i>№</i>	<i>Field of activity</i>	<i>Activity essence and social impact</i>
5.	Kiosks, cafes, mobile cafes with no sanitary waste collection points. <i>For example, floating restaurants.</i>	Established cafes in green areas with the sewage disposal in the natural water bodies, floating eating places without properly sewage connection too. Mobile coffee houses with technical water from the fire hydrants in plastic reusable bottles, the same about kiosks. Such establishments often have throwing its garbage and impurities spontaneously wherever. Kiosks are located on the grass or interfere with the safe pedestrian movement.

Source: author's development.

The Law of Ukraine «On Charity and Charitable Organizations» provides for benefits largely introduced in tax legislation. However, stipulated by the Law of Ukraine «On Environmental Protection» exemptions in taxation of innovative technologies, as well as accelerated depreciation in order to reduce, for example, the production energy intensity were applied obscure. Therefore, such privileges in profit of enterprise taxation are not applied in fact. VAT incentives had been envisaged for enterprise purchase equipment for switching to the types of fuel alternative to gas until 2019. Environmental taxation would also be a significant advantage for failure, for example, from plastic «one-time» supermarket packages (such an initiative is being introduced in the EU).

Not surprisingly, a philanthropy in Ukraine is the most widespread activity aimed at the SRB manifestation. But it is a great field for fraud at the same time, because charitable foundations could work apart, collect the personal donations from crowd just at the streets. These entities do not even belong to the certain corporations' structure, so the charitable could cover begging for the personal needs. Religious organizations do not pay a land tax, which caused the large number of people emergence wants to get plot of land for construction the religious buildings complexes within the residential neighborhoods of the city (capital).

Main implications ways for the increase social responsibility of the civil servants providing public services to small and medium businesses summarized in table 2. These criteria relate to licensing services, tax services, interest protection, investment or financial support.

Table 2

SOCIAL RESPONSIBILITY OF CIVIL SERVANTS DEALING WITH THE ENTREPRENEURS

The social responsibility criterion	When paid little attention to the social responsibility	When social responsibility is a prerequisite for the professional competencies of the civil servant
<i>Understanding the appointment of a civil servant</i>	Low motivation to the result in favor of the businessperson, high dependence on the desire to obtain personal benefits.	Motivation to understand their role importance and purpose, work in favor of the taxpayer and whole society.
<i>Work procedure</i>	Bureaucracy for a certain purpose, which is always far from facilitating the business.	An optimal service procedure for the business.
<i>The state service performance level</i>	Lack of interest in improving their own competencies.	High competence, training and advanced training, interest in optimizing the provision of services.
<i>The public services provision development</i>	Methods of service rendered worse on the simulating changes background as unsystematic requirements approved by regulatory documents.	Changes to procedures and documentation formalize procedural steps that have proven to be effective.

Source: author's development.

It should be noted that in most developed countries there are two vectors of influence on the state decisions regarding the regulation of the social responsibility of business, as shown in Figure 4.

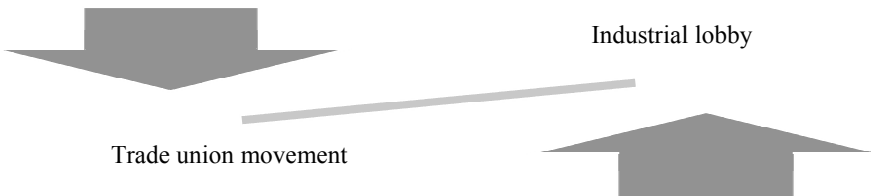


Fig. 4. Impact on the regulation of social responsibility in the state

Source: author's development.

The stimulating effect on SRB carried out by such a powerful tool as public-private partnership. Its capabilities shown in the Table 3.

Table 3

**POSSIBILITIES OF USING PUBLIC-PRIVATE PARTNERSHIP
IN UKRAINE**

Social responsibility variety in PPP	The form of Public-private partnership	Opportunities (possible consequences)
Public Private Partnership	Primary and secondary education bodies integration into public-private partnership.	The government defines and provides a basic list of educational services. The institutions as legally autonomous bodies have the right to receive payment for educational services beyond the basic public package of services, provide alternative services and compete for the students.
Public Social Private Partnership	The development of transport, building affordable housing, joint destruction of fraudulent businesses stimulating through the creation of alternative services for protection and assistance to the community.	The authority cannot control and maintain services like BlaBlaCar, more likely the main function of the state authority here is punishing unscrupulous participants.
Global International Public Social Private Partnership	Common international priority goals setting, such as energy saving, waste management.	The government helps to buy and distribute the latest know-how. The authorities working on joint benchmarking.

Source: author’s development from the publication1.

Questions for discussion:

(a) *How do you see the public authorities (at the central and regional level) role in creating the prerequisites for SRB? The authority’s interference with SRB implementation should be active or minimal? Which levers for SRB promoting should be prioritized in Ukraine: mandatory rules or only recommendations for the social responsibility strengthening?*

(b) *Should national or international (European) SRB standards be developed and used in Ukraine? Please state the criteria for assessing SRB level of development taking into account the domestic business peculiarities.*

¹ Fandel, G., Giese, A., & Mohn, B. (2012). Measuring synergy effects of a Public Social Private Partnership (PSPP) project. *International Journal of Production Economics*, 140(2), 815–824.

(c) *Should central government and local authorities use tax levers to stimulate SRB? How could realize this more effectively at the regional level (the «rubbish from Lviv» problem, for example)?*

(d) *Which ways you could offer for the strengthen SRB in small and medium-sized businesses with the public-private partnership?*

(e) *What criteria of civil servants qualification do you see in their dealing with business?*

Since public authorities are responsible for the SRB development general conditions, their intervention determined by the business environment peculiarities of the certain country. Until now, the social responsibility of small and medium-sized businesses needed the stimulation by the government in Ukraine. For example, local authorities can directly contact entrepreneurs by engaging in the partnerships for implementing useful initiatives. Governments can create initiative groups that will follow the advancement of ISO standards, such as ISO 26000. However, mandatory rules may have greater corruption risks and market threats than same recommended rules. The creating opportunities possibility more needful than forbidding actions.

Ukraine should develop national standards for corporate social responsibility taking into account the experience gained from the European Union at the level of domestic business development. These conditions have own peculiarities, and the situation requires targeted adjustment in spheres where the problems are absent or not acute in the other countries. May be the one explanation for the low-level implementation of international standards in purely domestic companies — them have not entered the international market yet. Protection of consumer rights, environmental friendliness (including energy efficiency), and legal conditions for hired workers should be the domestic criteria for SRB. Taxation of the business activity results (profits) in Ukraine still defective, so the fines for unfair business should be primary. Business which strives adhere to the social responsibility criteria, namely creates appropriate conditions for hired workers, should receive preferences.

The local authority's special role — close cooperation with small business, which lacks start-up capital, knowledge or skills. For example, for «wastes from Lviv» it was necessary to remove the corruption component in the local authorities, which prevented the waste processing plants construction or other business activities for the garbage disposal. A transparent public-private partnership in the field of small-scale trade, the promotion of the small business enterprises establishment could help to get rid of ugly kiosks and adapt existing retail space to the small business's needs.