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THE FINANCIAL COMPONENT OF CORPORATE SOCIAL RESPONSIBILITY

The necessity of providing the corporate social responsibility as the tool for cooperation and partnership between the state and businesses as well as the way of improving social and labor relations during economic transformations were grounded based on scientific research. Social responsibility of corporations is a socioeconomic institution that operates as a partnership of corporation and stakeholders, reduces the transactional expenses, finds the solution to the conflict of interest and obtains stable competitive positions by the corporation by means of social responsible investment, social reporting, social partnership, dividend policy and corporate communication. The study, generalization and adaptation of progressive world experience are quite important for establishing this institution in Ukraine. It is reasonable to consider the first instrument of corporate social responsibility that is socially responsible investment and to offer mechanisms how to adapt the best world practices in Ukraine. The genesis of socially responsible investing in global corporate governance practices has been studied at the article. The financial component and benefits of socially responsible investing has been identified. The socially responsible investments and their methods have been classified. Problems that prevent the formation and development of social responsibility and socially responsible investment of corporations in Ukraine have been identified. Directions to encourage social responsibility have been proposed at the article.

Key words: corporate social responsibility, corporate governance, socially responsible investment, social investment of the business.

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ФІНАНСОВА КОМПОНЕНТА КОРПОРАТИВНОЇ СОЦІАЛЬНОЇ ВІДПОВІДАЛЬНОСТІ

На основі проведених досліджень обґрунтовано доцільність впровадження соціальної відповідальності корпорацій як інструменту співпраці та партнерства держави і бізнес-середовища, засобу удосконалення системи соціально-трудових відносин в період системної трансформації економіки. Доведено, що соціальна відповідальність корпорацій – це соціально-економічний інститут, що функціонує як відкрита система взаємодії корпорації та її стейкхолдерів і сприяє скороченню транзакційних витрат, розв'язанню конфлікту інтересів та набуттю корпорацією стійких конкурентних переваг шляхом використання соціально відповідального інвестування, соціальної звітності, соціального партнерства, дивідендної політики та корпоративних комунікацій. Обґрунтовано, що доволі важливим для розбудови цього інституту в Україні є вивчення, узагальнення та адаптація передового світового досвіду. В статті досліджено генезис соціально відповідального інвестування в світовій практиці корпоративного управління, визначено переваги соціально-відповідального інвестування і запропоновано класифікацію соціально-відповідальних інвестицій, наведено методи соціально відповідального інвестування, визначено проблеми, що перешкоджають формуванню та розвитку соціальної відповідальності та соціально відповідального інвестування корпорацій в Україні, запропоновано напрями державного стимулювання соціальної відповідальності.

Ключові слова: соціальна відповідальність корпорацій, соціально відповідальне інвестування, соціальні інвестиції бізнесу.

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ФИНАНСОВАЯ КОМПОНЕНТА КОРПОРАТИВНОЙ СОЦИАЛЬНОЙ ОТВЕТСТВЕННОСТИ

На основе проведенных исследований обоснована целесообразность реализации социальной ответственности корпораций как инструмента сотрудничества и партнерства государства и бизнес-структур, а также совершенствования системы социально-трудовых отношений в условиях системной трансформации экономики. Доказано, что социальная ответственность корпораций – это социально-экономический институт, функционирующий как открытая система взаимодействия корпорации и ее стейкхолдеров, который способствует сокращению транзакционных издержек, разрешению конфликтов интересов и приобретению корпорацией устойчивых конкурентных преимуществ путем использования социально ответственного инвестирования, социальной отчетности, социального партнерства, дивидендной политики и корпоративных коммуникаций. Обосновано, что достаточно важным для развития этого института в Украине является изучение, обобщение и адаптация передового мирового опыта. В статье показан генезис социально ответственного инвестирования в мировой практике корпоративного управления, определены преимущества социально-ответственного инвестирования и предложена классификация социально-ответственных инвестиций, описаны методы социально ответственного инвестирования, а также определены проблемы, препятствующие формированию и развитию социальной ответственности в Украине, предложены направления государственного стимулирования социальной ответственности.

Ключевые слова: социальная ответственность корпораций, социально ответственное инвестирование, социальные инвестиции бизнеса.

Introduction. Corporate social responsibility (CSR) has become the big business's contribution to the sustainable growth; which means its responsibility for the impact of their decisions and activity on society and environment, as well as providing stakeholders with full and reliable information. CSR has become an essential component of business over the past decade. More and more companies are feeling the pressure to implement some type of social responsibility initiative. CSR means different things to different companies, but generally each CSR program will fall under one of the seven categories. There are [18]: general donations; in-kind giving grants; scholarships & sponsorships; disaster relief; employee volunteer programs; matching gifts; dollars for doers. Many companies choose to leverage multiple CSR programs in order to encourage more philanthropy and increase engagement in the workplace.

Problem definition. The concept of corporate social responsibility as the tool for cooperation and partnership between the state and businesses as well as the way of improving social and labor relations during economic transformations has become the subject of the active discussion in scientific and business circles. The leading international agencies such as the United Nations, International Standardization Organization, World Bank, UNESCO and others carry out varied research projects in this sphere. Problems of corporate governance and social responsibility of corporations have been researched by the following foreign scholars: Y. Blagov, A. Berli, G. Bowen, M. Van Marreviyk, N. Jacob, K. Devis, T. Donaldson, P. Draker, A. Carroll, G. Minz, J. Moon, D. Matten, L. Preston, G. Fitch, W. Frederick, M. Friedman, R. Freeman, V. N. Yakimets and Ukrainian scientists: A. I. Amosha,

V. A. Yevtushevskii, D. G. Lukianenko, A. S. Povazhnii, V. S. Ponomorenko, I. L. Sazonets, M. G. Chumatchenko, O. M. Yastremska and others.

Today a growing number of corporations have come to understanding that focusing only on financial aspects of the activities is not enough for the successful business. The increase of social funds, and pro-active attitude of the company in the sphere of social responsibility of corporations form their positive image, and raise the confidence of the shareholders, investors and other stakeholders.

Social responsibility of corporations is a socioeconomic institution that operates as a partnership of corporation and stakeholders, reduces the transactional expenses, finds the solution to the conflict of interest and obtains stable competitive positions by the corporation by means of social responsible investment, social reporting, social partnership, dividend policy and corporate communication [2; 3]. The study, generalization and adaptation of progressive world experience are quite important for establishing this institution in Ukraine. It is reasonable to consider the first instrument of corporate social responsibility that is socially responsible investment and to offer mechanisms how to adapt the best world practices in Ukraine.

The aim of the article is to determine the financial component of corporate social responsibility and socially responsible investments in particular that is one of the most important tools for improving CSR.

Research results. Today more and more investors understand the significance of nonfinancial factors in forming capitalization. They have an opportunity to contribute to the sustainable growth through socially responsible investment (SRI) in order not only receive profit from the money invested, but also create positive social changes, to reduce negative impact on the environment.

SRI is a process when the company chooses social responsibility and uses the appropriated social investments to benefit the main stakeholders and local community.

Summarizing the definitions of banks social investments given by V. N. Yakimtsev, L. I. Sazonets, Y. E. Blagov we come to the conclusion that social investments of the business are material, technological, administrative resources, financial funds of the corporation, that by the management decision are channeled to implement social programs, that are of interest to the main internal and external interested parties with a view to receive certain social and economic strategic effect [1, 10, 14].

SRI on the stock markets began to develop in 1960th and during next 20 years it was in congruence with the term „ethical investing" in a greater or lesser degree. Later it became only one of social responsible investment trends. The reaction of the civil society to the ethical problems became an impulse for SRI development in the USA. The establishment of PAX World Fund in 1971 that refused to invest money in those companies that received profit from the Vietnam War became a historical event. At that time Sullivan Principles were developed in the USA that confronted companies trying to invest into Republic of South Africa supporting existing apartheid regime there.

The European nations' concern about the problems related to human rights and labor practices had determined social criteria for making investment decisions. As a result, in the 1980th the transfer of „ethical investing" into „social responsible investment" started. In the 1990th the concept of sustainable growth and climate change hypothesis received international recognition. In view of that, the concept of SRI also included an environmental aspect.

The Russian scholar Y. E. Blagov states that after high-profile corporal scandals at the beginning of the 21st century such as the crash of Enron and WorldCom, the governors of the stock markets began to emphasize corporate governance. In 2002 in the USA the Sarbanes-Oxley law was adopted. It stated the demands to the emitters about internal audit, administration

and information disclosure. The investors began to treat emitters' corporate government with more attention. It was accomplished by turning it into one of SRI's directions [1].

The corporate's investments into socially responsible programs in the USA raised five times during 1995-2010. It accounted for 3 billion US dollars in 2010 (Figure1) [12].

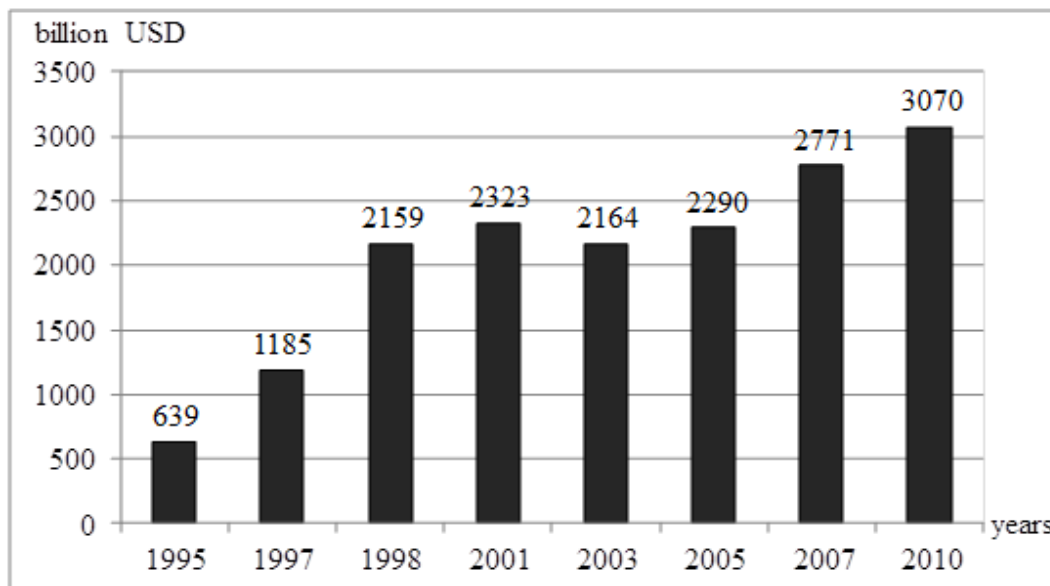


Figure 1. Volume of socially responsible investments in the USA in 1995-2010

Source: Stock markets in context of „Ernst&Yang" stable development, 2011

Within 40 years SRI has evolved from individual practices of ethical investments to the separate segment of stock market with its participants and substructure.

At the beginning of 2010 the world volume of SRI was rated at about \$10,9 trillion that is 50 % more than in 2007 before the world economic crisis (Figure 2).

Since PAX World Funds establishment in 1971 the number of investors who use SRI methods has considerably increased. There have been formed groups of institutional and individual investors in developed countries that follow the SRI established directions, criteria and methods. Financial institutions that invest their own funds, insurance companies and retirement funds, investment banks (companies), that exercise administration of legal bodies' holdings, including churches, public and education institutions belong to the institutional investors in socially responsible investments.

Nowadays, at 2017, US and UK companies in the Fortune Global 500 spend \$15.2bn a year on corporate social responsibility (CSR) activities, according to the first report to quantify this spending. The research, carried out by economic consulting firm EPG, found that there was a clear difference in how US and British companies approached CSR, but that on both sides of the Atlantic spending was dominated by only a handful of groups. In-kind donations, such as donating free drugs to health programmes or giving free software to universities, accounted for 71 per cent of the \$11.95bn US spending on CSR. Oracle, for example, which is one of the biggest CSR spenders, grants its software to secondary schools, colleges and universities in about 100 countries. Cash contributions were just 16 per cent of the US total, with employee involvement and fundraising making up the remaining 13 per cent. In the UK, while donating goods and services in kind was the largest component of the \$3.25bn CSR activity, it totalled just 46 per cent of the total. Employee volunteering and fundraising made up 34 per cent and cash contributions 20 per cent. Life assurance group Prudential involved employee volunteers in delivering an education programme to children in an impoverished community in central Jakarta. Drugs companies are particularly prominent in CSR activity, with Merck and Johnson

& Johnson being among the six groups providing almost two-thirds of the US CSR spend, while London-listed AstraZeneca and GlaxoSmithKline were two of the four companies accounting for more than three-quarters of the British total. Companies often prefer to direct their CSR activity to areas where they are familiar, and this appears to be a factor in why spending on health CSR far outstrips that on education [11].

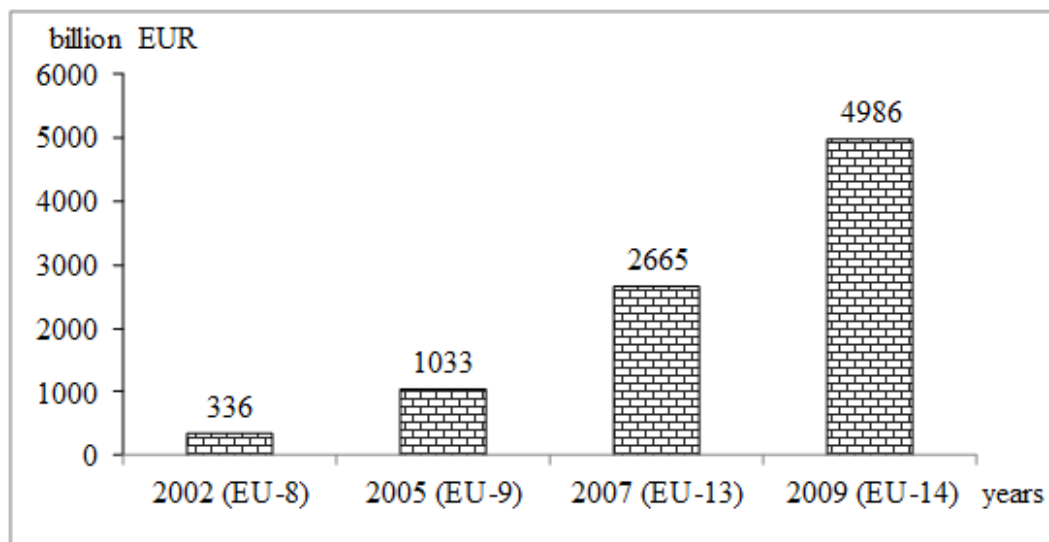


Figure 2. Volumes of social investments in the world

Source: Stock markets in context of „Ernst&Yang" stable development, 2011

The Ministry of Finance in Norway stated in the monitoring survey that retirement funds appeared to be SRI development catalysts. Thus, in 2000 there were some changes in pension legislation introduced in Great Britain and then in other countries of the EU and the USA. According to these amendments the retirement funds were obligated to broaden the degree of their participation in the SRI. For example, Norwegian State Fund has to „avoid the investment, which is bound with an unacceptable risk of assisting unethical conduct, particularly the violation of the fundamental humanitarian principles, serious human right violation, corruption or essentially negative environmental impact" [9].

The most popular form of SRI realization for the individual investors is unit (mutual) investment funds. In 2010 there were 879 mutual SRI funds in Europe, their volume accounted for about 75 billion euro, in the USA there were 250 mutual funds with the volume about \$ 316 billion.[15, 17]. From 2002 to 2009 the number of countries of the EU that also included their reports of the amount of socially responsible investment into the list of necessary statistical accounting reports: if in 2002 there were 8 countries that had such statistics, in 2009 14 EU countries provided the SRI statistics, besides, the volume of social investments during this period grew almost by 14, 83 times.

There are several forms of social programs realization, however the most popular forms are traditional charity and social investment or venture philanthropy. The advantages of the socially responsible investments in comparison with traditional charity are in that fact that social investment is a long-term program that expects:

- integration of company's goals with social programs strategies;
- strategic approach to social programs realization and strategy development;
- corporation's initiative in social programs realization and development;
- investment is not only monetary and in-kind aid, voluntary work and financial participation of the corporation employees, but also partners' resources (government and self-governing authorities, noncommercial organizations other companies etc.);
- taking into account partners' interests on the condition of getting benefits for corporation;

- the programs of social investment are stable and economically grounded just as any other business ventures;
- program package is formed on the basis of indirect investment principles, that allows to combine different community activities.

According to V. V. Dorofiienko and V. M. Goncharov social responsible investments as a process develops towards social partnership with the idea of establishing constructive cooperation among three parties: governmental establishments, organizations and society in order to solve a social issue. The effectiveness of the mechanism is due to the joined efforts of the three parties. Thus, ideally, social partnership is the interaction of two or three parties to address the important social issues. This is beneficial to all participants and to the community where the project is implemented [13]. Social investment when classified according to investment objects and the impact level on the corporation and society can be divided into three groups: the first group comprises social investments that affect the corporation income directly and society indirectly, the second group is made up of the investments that affect both corporation income and society directly within medium- and long-term period, the third group contains the investments, that affect the corporation and certain focus-groups directly (Table 1).

Table 1

Social investment kinds and their impact on interrelation "corporation- society"

Level of impact	Kinds of investment
Direct profit of the corporation; indirect (through commodity and services market) on the society	investment in quality goods production and quality services provision
	investment in development of production (including modern and sufficient investment in basic methods), growth of economic efficiency and competitiveness, innovation management
	investment in staff development
	investment in support and development of honest business punctual and full-scale payment of the taxes and charges
Direct on the corporation and society (mainly in medium- and long-term period)	growth of the dividend yield and punctual distribution
	investment in local community development within the territory of the residence
	investment in environmental defense
	rendering of monetary, financial and other kind of aid to the authorities completing complex social tasks (poverty, unemployment) and other in extraordinary circumstances
Direct on the corporation and certain focus-groups, projects	investment in programs of corporative philanthropy and clarity realization

The formation of SRI portfolio is based on the same approaches, as the formation of the traditional investment portfolios, including determination of the investment policy, short- and long-term goals, tolerance and risk, and also understanding of the tasks during the process of portfolio management.

The task of the traditional portfolio management is to achieve the optimal balance between risk and profit during a certain period of time. During the SRI portfolio management social, ecological and ethical investment aspects as well as emitters corporate governance practices are being considered.

It is reasonable to divide the SRI methods into two groups: screening (selection) of the investment object and influence of the shareholders. They supplement each other allowing taking SRI issues on different stages of investment cycle into consideration. The investment objects selection takes place before papers are obtained. Shareholders may have influence after the portfolio was formed.

Basic method of the SRI is negative screening or discarding. Generally because of ethical consideration investors remove from their portfolios emitters' papers of the companies from alcohol and tobacco industry, gambling and nuclear power.

Screening belongs to negative methods and based on the exclusion of the companies that do not follow SRI principles stated in the United Nations Global Treaty „The Millennium Development Goals", basic International Progress Organization's conventions; OECD for global companies leadership [16].

Since the beginning of the 1990th investors have used positive screening when selecting those companies that realize active social policy and programs and minimize their business activities impact on the environment. The most common kind of the positive screening is the choice of the papers that belong to „the best" companies in their sector (best-in-class). This allows to guarantee portfolio diversification.

Institutional investors also use reciprocal procedure that uses shareholders' rights to influence emitters' activity in SRI. The reciprocal approach implies meetings with the corporate management, voting during the general meeting of shareholders, signing shareholders' resolutions and interaction with MSM. The difference between this method and screening lies in that fact that the reciprocal action has the influence not on the security selection, but on the emitters' behavior with formed portfolio.

Objective and subjective problems of social investment are caused by external and internal reasons. External reasons include the following: the public is not ready yet for an adequate perception of such kind of information; the state tries to use it in its interests; experts, partners and investors need it only occasionally, that's why the management of the corporation discloses only general information about socially responsible investing without „risking" the details of the relevant financial flows. These disadvantages are associated primarily with the imperfection of the existing collaboration model between business, society and state. Internal reasons include lack of common idea of social investment and SRI; the lack of combination of social investment with expenses, associated with the main activity; unsystematic approach to socially responsible investment as a result of differences in goals, facing different centers of corporation's power; the presence of different, sometimes conflicting, requirements for accounting in internal and external programs; the lack of generally accepted standards of domestic companies' public social reporting, etc.

On the other hand, modern business environment forms principles that stimulate corporations to arrange and disclose information about social investment. Those principles are the following: the urgent need for disclosure of business problems to find common solution; the formation of a positive image of corporations and loyal public opinion; achievement of high degree of transparency with a view of further entering international stock markets and cooperation with foreign partners, investors, experts, and expansion of activities etc.

One of the main reasons that prevents transparency in social responsible investment is potential conflicts. This reason is mentioned in many works on social responsibility of corporations by V. S. Kuznietsov, O. S. Povazhnii, V. S. Ponomarenko, I. L. Sazonets. [2; 7; 8; 10] that take place after social investment information disclosure. The conflicts can come up between such stakeholders' groups as managers and investors; producers and consumers; corporation and tax authorities; corporation employees and people with low income; corporation government and society; recipients and distributors of social investments including senior executives and employees of corporations; distributors and recipients of social investments, a group of social investment recipients.

There is a number of possible ways in resolving this conflict that are successfully used in business environment:

- to establish noncommercial funds with social tasks at majority stakeholders' cost;
- to have a board of trustees with broad participation of the public and experts;
- to form the constructive partnerships with the state in order to establish effective standards and supervise social duties execution by all market entity.

With a lens toward sustainability, business leaders are thinking long-term and demanding a new standard of management that prizes constructive stakeholder engagement. Over the summer 2017, Warren Buffett, Larry Fink, Bill McNabb and some of the other biggest institutional investors in the world released a letter called The Commonsense Corporate Governance Principles [5].

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