

CORPORATE SOCIAL RESPONSIBILITY IN SERVICE SECTOR IN UKRAINE

OLGA NOSOVA

University of Banking Kharkiv Scientific Educational Institute, UKRAINE
e-mail: nosovaov@yahoo.com

RECEIVED
ACCEPTED

20 February 2017
8 May 2017

JEL
CLASSIFICATION

G34, G38

KEYWORDS

corporate social responsibility, service sector, corporate governance, corporate investments

ABSTRACT

The article considers development of corporate social responsibility policy of multinational corporations, and suggests changes to existing management practice in Ukraine. The article studies the typical characteristics affecting on the development of corporate social responsibility and proposes the development of policies to encourage the adoption of corporate social responsibility practices in Ukraine. The article outlines the positive public image of multinationals in corporate social responsibility in service sector, which enhances profitability models, and shows the benefits and values of the company's activities and corporate investments in the society.

Introduction

Corporate Social Responsibility (CSR) has emerged strongly as a popular policy in many US and Western European corporations. In strong competitive markets it is necessary to differentiate themselves, to build a more positive public image, and to enhance profitability. This is part of the corporate image of the company. The concept of

corporate social responsibility defines a contribution of companies and all stakeholders to sustainable development of economic, social and environmental benefits of society.

The practice of CSR has not been widely adopted by corporations in Ukraine, and has not been utilized the benefits of corporate investments in the society. The considerable research on the subject of CSR adoption and its impact on corporations and society have been made in the developed countries. The actual relationship between CSR adoption and corporate profitability remains unclear, although the available research has identified some balance between CSR and corporate operating performance.

A critical review of the scholarly and refereed literature suggests that, while there has been some exploration of the impact of CSR policies on corporations in Western European countries on financial outcomes. Less work has been done on the impact of CSR on societies or national economies and none of this has been applied effectively to Ukraine or other emerging economies.

At the same time, we are seeing the growth of large successful multinational corporations headquartered in emerging economies such as India or Eastern Europe. If this trend continues, it will be an opportunity to develop policies that encourage Ukrainian corporations to adopt these practices that provide benefits for their economies. The formation and development of democratic, legal, political and social institutions will be directed at minimizing agency costs. CSR in the Ukraine is increasing and promotes socio-economic development and will bring the corporations in a better international competitive situation.

Research method of the study

The analysis of CSR research methods shows different techniques of content analysis (Sapkauskiene, Leitoniene, 2014), the motivation approach in the tertiary industry (Levizkay, 2012), and usage of different indicators and sources of information in service sector (Arias, Patterson, 2009).

A critical review of the scholarly and refereed literature emphasizes various points of views characterizing nature and scope of motives, factors affecting companies' behavior and forms of CSR. The research method used in this article will be based on the application of comparative analysis and systematization of the basic approaches. The main reason of selecting service sector is explained by its role in providing services for all spheres of economy. The testing hypothesis is defining the typical characteristics affecting on the development of CSR, and proposes the development of policies to encourage its adoption practices in service sector in Ukraine. In order to solve this problem we will study how to identify adjustment measures for CSR improvement in corporations and business environment in Ukraine.

Theoretical part

In world practice of the concept of CSR business has become synonymous with the concept of an effective and transparent business with sustainability effects. Economic growth, social progress and high living standards as strategic goals of social development are associated with the processes of providing comprehensive CSR, which considered being an essential component of the concept of sustainable development not only in the business world, but also humanity as a whole. CSR means the ability of an organization or enterprise to evaluate the consequences of their actions for sustainable social development.

The concept of CSR started in 60th XX century as a philanthropic activity directed at solving socially important issues. With the development of society a further redefining of the concept took place for a strategic philanthropy,

linking to the solution of social problems with the strategic objectives, and later it transferred to social projects or social investments. Its notion is transformed into strategic goals; which apply in the ideology of social investments and meet the long-term interests of all stakeholders.

The company considers investment in CSR as input in its future development. Significant number of scientists examines the relationship between CSR performance and financial performance, for example, Pijourle (2013) argues that firms with high CSR performance issue equity in larger amounts, and are less dependent on market conditions for their equity issuances. A good CSR performance may increase productivity and financial performance because it implies a good relation with key firm's stakeholders, can provide a competitive advantage, increasing innovation capacity. CSR performance may also create value by developing intangible assets. The firms take into account financial consequences of implementing CSR policies in their financing decisions. The research to date on the relationship between corporate profitability and social responsible behaviours showed mixed results; what was surprising, though, was that there has been such a paucity of reliable measures that can accurately assess the impact of these actions on a company's financial performance (Arias, Petterson, 2009).

By sharp contrast, social demandingness theorists maintain that corporations have a fundamental responsibility to protect and to promote certain interests of the general public (Arias, Petterson, 2009). The proponents of this approach argue that managers consider that corporations are responsible for carrying out those activities that stakeholders and the public are expected or demanded of them by society. Executives should make decisions that promote the welfare of the general public as set out by these expectations. Ghobadian, Money & Hillenbrand (2015) explore the mechanisms by which CSR affects stakeholder behavior and suggest ways in which one may want to apply to advances from psychology to link CSR strategy to human motivation and the notion of balance in organizations and society.

The systemic-functional approach defines protection of general public interests. Using this approach under the main feature of socially responsible business behavior some authors consider the presence of non-market elements in the reproduction the company behavior related to the formation of partnership relations (Savina, 2014).

Blindheim Bjorn-Tore (2015) proposes a multilevel understanding of CSR. Four institutional models of CSR analysis combine the explicit-implicit distinction with these two differences: explicit expansionists CSR, implicit contractive CSR, implicit expansionists CSR, and explicit contractive. The suggested approach for CSR aims to help societal actors to more clearly understand and envision the institutional embedded alternatives available to responsible company. A stable company development and its ability to invest in the environmental and other social projects are directed to increase well-being of society. The comparison demandingness theory and systemic functional approach proves the common multilevel perception of CSR concept which insures social and economic values for social welfare improvement.

Features and peculiarities of corporate social responsibility model in Ukraine

The study of CSR model shows the important role of corporations and large organizations engaged in production, distribution, exchange, and consumption of goods and services. The lack of coordination mechanism between civil society, government agencies, business groups, and unions encourages the search for ways to solve problems of health and safety, environmental effects, working conditions and contribution to economic development. These organizations have a major financial leverage and material resources that enable them to participate in decision-making-process for a sustainable development of society.

Ukrainian companies manage to achieve the basic goals via taking part in various socially oriented projects and programs: to increase investment attractiveness, to be included and involved in global network, and to improve the quality of corporate culture within the company. Corporations define independently the extent of their contribution to public participation in CSR projects and programs.

The critical literature review and analytical reports provide the basis for highlighting specific features of CSR model in Ukraine, and to define adjustment measures (see Table 1) (Saprykina, 2015; CSR, 2011).

Table 1. Characteristics and adjustment measures of corporate social responsibility model in Ukraine

| No. | Title | CSR Model in Ukraine | Adjustment measures |
|-----|--|--|---|
| 1. | Global Aim | Improvement of the well-being of society and the sustainable environment development | Focus on social values of society |
| 2. | Tasks | Investment attraction Companies' inclusion in the global network Improvement of the quality of corporate governance | Civil society formation with a fixed formal and informal rules and regulations Orientation on training standards of corporate ethics. Investment in personal development (education, training programs) |
| 3. | Motivation | Moral duties Authorities' appeals Positive copy experience of competitors' actions and activities | Priorities changing towards social projects and public goods Formation of common moral values in society |
| 4. | Factors which influence the social projects implementation | The growth of corporate earnings Threats to environment safety of the society | Audit of cultural and social environment of the society |
| 5. | Legal and economic mechanism of projects implementation | Tax code Civil code State institutions at national, regional and local levels | Adjustment of national legislation with norms and rules of international legislation for CSR |
| 5. | Practical application | Social investment in sustainable development Social projects Social partnership programs | Expansion of the scope of the implementation of socially-oriented projects |
| 6. | Forms for stimulating activities | Tax incentives and privileges Additional business contacts and etc. | Expansion of various forms for social acknowledgement of company's and employees achievements in CSR activities |
| 7. | The results of the implementation of CSR programs | Company's goodwill improvement Gaining competitive advantages Financial indicators improvement Sustainable development | Reorientation on the business company's criteria, including goodwill, brand value, investment attractiveness, competitive advantages |
| 7. | The role of the state | An absence of state policy in the field of CSR An absence of the concept of public goods in favour of all stakeholders' interests | The adoption at the state level regulations, stimulation of corporate activities towards the development of CSR |
| 8. | Results | Company's image improvement Increase of individual groups of citizens well-being | Changing priorities and expansion the scope of corporate activities from local to national level |

Source: author's approach based on Saprykina (2015); CSR (2011).

Having a strategy based on market operations, corporations try to create for their own needs the image of a responsible socially businesses. CSR's perception means how these companies meet the society expectations, satisfy needs in their goods or services. It forms high technical standards, and contributes for improving the quality of living standards in the country. The companies provide efforts to extend the range of educational projects for enhancing the quality of education in Ukraine. The necessity of CSR principles adoption explains companies'

confidence increase, which confirms their commitment in attracting, retaining qualified staff, and positive companies' image formation and company's goodwill. This process should be escorted by different campaigns in media. The best example is J. F. Kennedy's speech: "Don't ask what the society can do for you – ask yourself what you can do for your society!" (Kennedy, 1961).

In Ukraine an example of successful implementation of CSR standards by companies could be seen via substantial increases of their contribution to the sustainable development of the society, including all economic, social and environmental aspects of the company activities.

Social responsibility of business means the company which is responsible for usage of its activities by all people and organizations with which it faces during the normal course of business, and whole society. In order to implement the best practices of CSR in the Ukraine NGO and other organizations should provide an assessment of business environment which stands in relationship to public authorities and different social projects etc. It is a part of the assessment of the current legislative framework. The necessity of integration of environmental, ethical, human rights and consumer issues concerns into business operations and core strategies in close collaboration with stakeholders' interests defines the companies' behavior for CSR promotion in Ukraine (Nosova, 2015). The basic forms of business operations of CSR include investment in environmental protection projects, personal development (education, training programs), and improvement of the company's goodwill. Company's motivation for social projects participation is moral duties, authorities' appeals, positive copy experience of competitors' actions and activities. The distinctive feature of CSR model formation in Ukraine demonstrates companies' initiatives for socially significant projects t implementation through government authority's involvement, NGO, consumers, and stakeholders. According to the data of analytical survey in Ukraine the stimuli for CSR activity realization of the majority of Ukrainian companies consider tax exemptions (76.5%), reduction of administrative pressure (38.5%), positive examples of successful implementation of the appropriate programs, and events in the world (35%) (CSR, 2011).

In Ukraine in 2005, researchers found no dependence awareness of social responsibility on the size enterprises (small enterprises – 78.1%, average – 78.5%, large – 79.2%). In 2010 the assessment of awareness of social responsibility of enterprises in terms of their size in Ukraine observed a direct correlation – the more company, the higher the level of awareness.

The results of the survey of 1423 service companies in January 2017 provided by the State Statistics Service of Ukraine demonstrates a decrease in the number of employees in the service sector, an increase in prices for its products, a reduction of the insufficient demand and the growing role of limited financial resources factor in the service sphere. Majority of respondents points out that the competitive positions of service companies will not change in the future period of time in January–March 2017 in service sector (see Table 2).

Table 2. The survey of service companies in January 2017 (% of the number of surveyed enterprises from total)

| How competitive positions will change in January–March 2017 | Improve | Will not change | will worsen | Did not answer | Balance |
|---|---------|-----------------|-------------|----------------|---------|
| Total | 8 | 65 | 15 | 12 | –7 |
| In Ukraine | 10 | 69 | 16 | 5 | –6 |
| In the European Union | 1 | 5 | 5 | 49 | –4 |
| Outside of the European Union | 1 | 5 | 5 | 50 | –4 |

Source: data of the State Statistics Service of Ukraine (2017).

Methods of company's assessment of the social responsibility of involve the calculation of the integral index of social responsibility which includes the enterprise activity indicators in service sector, and criteria which characterize the degree of compliance with the principles of social responsibility in the business enterprises (Levizkay, 2012).

The basic factors influencing the implementation of social projects in Ukraine are the growth of corporate earnings and threats to the ecological security of the society. Legal framework for CSR defines by tax code, civil code and regulatory acts. Companies provide social investment, social projects, and take part in social partnership programs. They support entrepreneurship development, investments in educational and environmental programs. Companies apply various forms for company's CSR activities stimulation which offer tax exemptions, additional business contacts and etc. The assessment of results of the implementation of company's CSR programs demonstrates the priority for company's goodwill and financial indicators improvement, and gaining competitive advantages.

The creation of the independent expert organization of CSR Development Center in Ukraine allowed uniting the efforts of the 38 leading Ukrainian companies on the organization of charitable activities aimed at improving the welfare of citizens. The Center's mission is to provide consultancies for HR managers, training programs, including teaching corporate volunteering, studying the social return on investment etc.

Form encouraging companies investing in social development programs is the reward of CSR which is given to companies that provide assistance in the amount of \$ 10,000 for the year in Ukraine. "Auchan", "International Airlines of Ukraine", "PrivatBank", "Uria-Farm", "DTEK", "Interhim", "WOG" Companies, one of the few Ukrainian agricultural holdings "AgroGeneration" etc. are honored to receive an award sign of social responsibility, assigned proactive socially responsible companies that recognize their interdependence with society, implementing social projects and allocate funds for charity.

The company Nova Poshta took an active part in a number of large-scale social projects in the sphere of services. In 2015 the project "Humanitarian Mail in Ukraine" involves more than 100 volunteer organizations and initiative groups who permanently engaged in the collection and delivery of various humanitarian aid. For more than a year and a half of the project the company has delivered more than 11,000 tons of relief supplies to Ukrainian soldiers who served in the ATO zone, wounded soldiers, residents of the affected areas and internally displaced persons in the Eastern part of Ukraine.

In 2015 SE NNEGC "Energoatom" received the first place among the largest public Ukrainian companies according to the transparency index. Thus, in 2015 SE NNEGC "Energoatom" became the first public enterprise which approved the anticorruption program in accordance with the requirements of the new anti-corruption legislation. The establishment of a corruption non-acceptance system creates the new level of perception and consciousness in the company.

The obstacles preventing an effective CSR in Ukraine include not efficient coordination mechanism with local authorities. It restricts satisfaction of social needs for personnel development and participation in environmental protection programs. Shortage of available regulatory acts and positive experience for best practices for CSR implementation, insufficient number of specialists in CSR, the lack of comprehensive training programs in this area limit its wider application by a number of Ukrainian companies.

The concept of the public goods is not completely understood by the large part of the population which explains not significant role of the state in defining corporate strategy for social well-being. The company's activities assessment shows that the management is often limited and oriented on the company's image improvement,

a short-term goal for success, an increase of individual groups of citizens' well-being. Management hasn't motivation in achieving common goals of the society. The corporates development can be used to address critical economic, social and environmental issues, and in favor of achieving national interests for improvement of well-being of society in Ukraine.

Conclusions

Ukraine today has set a goal to form a qualitatively new institutional environment that will promote entrepreneurial activity and economic growth based on structural reforms and application of innovations. Corporate social responsibility model in Ukraine faces with global challenges. The positive public image of CSR multinationals enhances use of profitability model application. It shows the benefits and values of the company's activities and corporate investments in the society. CSR model needs the following adjustment measures for its improvement, and making more effective in Ukraine.

Global aim of CSR should be focused on social values of society, and sustainable environment development. The task of such model is civil society formation with a fixed formal and informal rules, regulations, orientation on training standards of corporate ethics, education, investment in personal development (education, training programs), and imports of absent western types of institutions.

Development of social responsibility in service sector will help the consumers to perceive the company as a service industry, to choose it as a permanent place for making purchases and delivering services, to improve the quality of services.

Taking into account national cultural traditions CSR model shows the necessity of personal staff education, formation of norms for contract obligations fulfillment, discipline, trust, transparency and etc.

Priorities of motivation social activity should be changed towards the concept of public goods, and social projects implementation. The formation of common social values in society could create the solid base for entrepreneurial culture formation and rational economic behavior.

Cultural and social environmental audit of the society will be directed to the social projects implementation. In order to reach these goals and to evaluate, monitor the company's conditions establish CSR accounting and auditing system in Ukraine, strengthen disclosure of CSR's information.

Acknowledgements

The project has been financed with the resources of an Academic Bilateral Exchange Program funded by German Academic Exchange Service (DAAD).

References

- Arias, J.C. & Patterson, K. (2009). Relationships between Corporate Social Responsibilities' Promotion and Corporate Performance in the Multinational Corporations. *Business Intelligence Journal*, 2, 93–112.
- Blindheim, B.T. (2015). Institutional Models of Corporate Social Responsibility: A Proposed Refinement of the Explicit-Implicit Framework. *Business & Society*, 54 (1), 52–88.
- Ghobadian, A., Money, K. & Hillenbrand, C. (2015). Corporate Responsibility Research: Past – Present-Future. *Group & Organization Management*, 40 (3), 271–294.
- Griffin, J.J. & Prakash, A. (2014). Corporate Responsibility: Initiatives and Mechanisms. *Business Society*, 53 (4), 465–482.

- CSR 2005–2010 (2011). Status and Development Prospects. *Analytical Report*. Retrieved from: <http://csr-ukraine.org/library/wp-content/uploads/2014/04/ksv-2005-2010-analitychnyy-zvit.pdf>.
- Levizkay, E. (2012). Theoretical and methodological principles of the development of social responsibility of domestic enterprises in the tertiary industry. *Efficient Economy. Dnepropetrovsk State Agro-Economic University*, 2. Retrieved from: <http://www.economy.nayka.com.ua/?op=1&z=1139>.
- Nosova, O. (2015). Corporate Governance Model in Ukraine After the Global financial Crisis. *International Journal of Innovation and Business Strategy, UTM, International Business School*, 3, July. Retrieved from: <http://www.ibs.utm.my/ijibs/issue/vol3-no1/46-corporate-governance-model-in-ukraine-after-the-global-financial-crisis>.
- Pijourlet, G. (2013). *Corporate Social Responsibility and Financing Decisions. Université d'Auvergne*. Retrieved from: www.efmaefm.org/0EFMAMEETINGS/.../2013-Reading/.../EFMA_avril_2013.pdf.
- Rodriguez, L.C., Montiel, I. & Ozuna, T. (2014). A Conceptualization of How Firms Engage in Corporate Responsibility Based on Country Risk. *Business & Society*, 53 (5), 625–651.
- Savina, T.N. (2014). Institute of Corporate Social Responsibility as an Innovative Socially-Oriented Project. *National Interest: Priorities and Security*, 2 (239), 33–42.
- Sapkauskiene, A. & Leitoniene, S. (2014): Corporate Social Responsibility Research Method Analysis. *European Scientific Journal*, 1.
- Saprykina, M.A. (2015). CSR Practices in Ukraine 2015. In: M.A. Saprykina (ed.), *Centre for CSR Development*. Kyiv. Retrieved from: http://csr-ukraine.org/wp-content/uploads/2015/12/cases_practice2015.pdf.
- State Statistics Service of Ukraine. Retrieved from: <http://www.ukrstat.gov.ua>.

Cite this article as: Nosova, O. (2017). Corporate Social Responsibility in service sector in Ukraine. *European Journal of Service Management*, 22 (2), 53–60. DOI: 10.18276/ejism.2017.22-07.