

## STRATEGY OF DEVELOPMENT OF SOCIALLY ORIENTED BUSINESS ENVIRONMENT OF LVIV

### **Statement and relevance of the problem.**

Effective institutional organization of domestic business environment, creation of civilized competitive conditions for stable business entities' activity, first of all, are particularly important due to the strategic role of entrepreneurship in the social and economic development of the country, economic restructuring, saturation of the market by goods and services, competitive environment maintenance, filling of the budget, creating jobs, middle class formation etc. Second, the incompleteness and inconsistency of public policy of economic activities regulation, especially counteraction to such deformations of institutional business environment as corruption, raiding, shadow economy and economic crime are the obstacles to the entrepreneurial capacity maximal usage and development. Third, formal institutions of the business environment were created in Ukraine through the import of the most liberal rules and regulations of developed countries, while informal institutions of business ethics, fair competition, socially responsible behaviour and entrepreneurial culture requires the gradual institutionalization. Changes in the relationship between business and society through the formation of socially oriented business environment is determined by the elimination of the institutional deformations under the conditions of the increasing role of intangible factors of economic growth, which are associated with the development of human, intellectual and social capital, as well as the lack of budgetary resources for adequate social and economic policy.

Domestic reforms of 90-ies of the last century were carried out according to the liberal market economy model, where the central figure is the "economic man" with rational and selfish behaviour of personal interests' achievement. This to some extent has led to the deformation of the business social role, moreover the values and moral guidelines changes were not accompanied by the emergence of new socially attractive ideas of society cohesion. National economy development on the basis of business environment social orientation is possible within the social agreement between government, business and society that guarantees the rights and responsibilities of economic agents' maintenance and will stimulate their socially responsible behaviour.

**The main material.** Socially oriented business environment is determined as the system of institutional

preconditions, factors, values and mechanisms of legal, political, economic, social and cultural nature that promote the socially responsible business culture behaviour and increase the degree of solidarity around the interests of social development. In its turn, social responsibility to society is the system of requirements, rules and regulations of business community, companies' and individual businesses' behaviour, which is focused on the production of quality products and services for consumers, creation of decent jobs, payment of official salaries, investments in human capacity, compliance with tax, labour, environmental legislation, efficient business conduction for creation of added value and contribution to the civil society development through the partnership projects and programs for the local community development. Social cohesion as the ability to cooperate for the implementation of public purposes serves as the factor of knowledge, skills and experience consolidation. The higher level of business environment social cohesion ensures the better long-term opportunities for unpopular but economically crucial structural reforms implementation.

Socially oriented business environment as a social institution is a form of organization, management and streamlining of public activity and behaviour of individuals in society. As an economic institution it is a system of rules and restrictions of behaviour in business activities. Business assumes the obligation of market "failures" compensation by their own resources in an ideal by extending the values range in economic, social and ethical aspects of activities.

Analysis of the socially responsible behaviour of economic agents makes it possible to distinguish four levels of socially-oriented business environment. On the basic level of socially oriented business environment formation business entities are carrying out the direct obligations to the society and state regarding the fair wages, timely payment of taxes, compliance with standards of product quality, performance of contractual obligations according to the institutionally enshrined formal and informal rules and norms of behaviour. Intermediate level is associated with institutional consolidation through the mechanisms of stimulation and revitalization of the business entities' activities in the direction of social services and investment in human capital at the level of the workforce members. Regional

and national social programs, projects of state-private partnership, participation in the development and implementation of social and economic state and regional policy, cooperation with non-profit organizations and charity are included into the social investments objects at the third level of the socially oriented business environment. The highest level of socially oriented business environment suggests the presence in the domestic community of business associations and organizations – the members of socially significant projects not only internal, but of other countries through the investment in humanitarian and environmental projects of international and megaregional importance.

Institutionalization of socially oriented business environment principles and criteria is based on: structuring of the formal rules of social responsibility and cohesion, their consolidation in the relevant laws and regulations and informal conventional norms of economic relations (contract culture, values systems, activities ethics, codes of honour, dignity and traditions); mechanisms of the goals and values system implementation for the stimulation of the development of socially-oriented business environment, public recognition of its necessity and benefits.

The establishment of socially oriented business environment institution is inextricably connected with transplant dysfunctions that cause the following socio-economic threats: incompatibility of the social responsibility standards and business cohesion with cultural traditions and established formal institutions of the national economy leads to their atrophy, and consequently, degeneration, mainly destructive; lack of demand in society for new formal rules or their coercive transplantation without adequate replacement generates exclusion of certain norms and activation of alternative in order to deviate from the accepted rules and principles that provokes institutional “traps”.

Tax and administrative stimulation of socially responsible behaviour and consumers support, including through investing of savings in stocks of socially responsible companies are currently among the preconditions of socially oriented business environment formation. The latter, in turn, gains competitive advantages caused by the increase of demand for their products and the ability to attract additional investments and high-quality human capital. Expanding of the number of socially responsible business entities reduces risks and economic expenses of socially responsible behaviour, contributes to the institutional foundations for new moral and cultural norms and rules in the economic relations socialization process. In return, the avoidance of responsibility in solving social problems by business entities leads to social polarization, exclusion (deprivation

of the access to social rights), destabilization and, consequently, increase of tax burden on business. In other words, socialization of business environment is the basic requirement of business competitiveness increasing.

Conducted survey of Lviv city enterprises in 2011 showed that social responsibility policy is directed primarily at their employees and customers. Socially responsible activities are related to the development of its own staff. Particularly, social investments were attracted to its professional training, retraining and professional development; the programs for the improvement of organization and enrichment of the labour content, labour safety and health protection of the employees as well as health protection and safety of consumers.

Social investment into programs of regional and national importance, particularly in transport infrastructure and landscaping are the least widespread. Investments in social and environmental projects of international importance are not practically conducted (Fig. 1). Less than the third of the business entities have developed social responsibility strategies approved by the mission and behaviour codes. Herewith, the understanding of social responsibility as a tool for the enterprises competitiveness improvement is increasing, but their informational openness to the public and the rate of cooperation with other organizations in social programs development and implementation still remains quite low.

The motives of moral and ethical nature (74.9%) and internal principles of the company activities (50.1%) are in the foreground among the key factors that motivate companies to implement social responsibility activities according to the research results at 2011. Such factors as sales growth (23.4%), the desire to get ahead of the socially responsible competitors (13.5%) and religious reasons (16.7%) are quite significant.

An effective system of incentives, such as tax preferences for socially responsible businesses, regulatory burden of regional authorities reducing, positive experience of social policies implementation of different companies, public recognition and trust from the authorities, consumers and communities are the main incentives of social responsibility development and formation of a socially oriented business environment for the vast majority of respondents from Lviv enterprises (Fig. 2). Significant obstacles of social investment remain to be the following: lack of social investment funds, tax burden, inadequate legal and regulatory framework for the social responsibility promotion, incompleteness of information and experience in the implementation of social programs, insignificant public interest.

The process of socially oriented business environment formation in the country is generally

complicated and constrained by the unsolved problems and the effects of transition period, which are associated with the following:

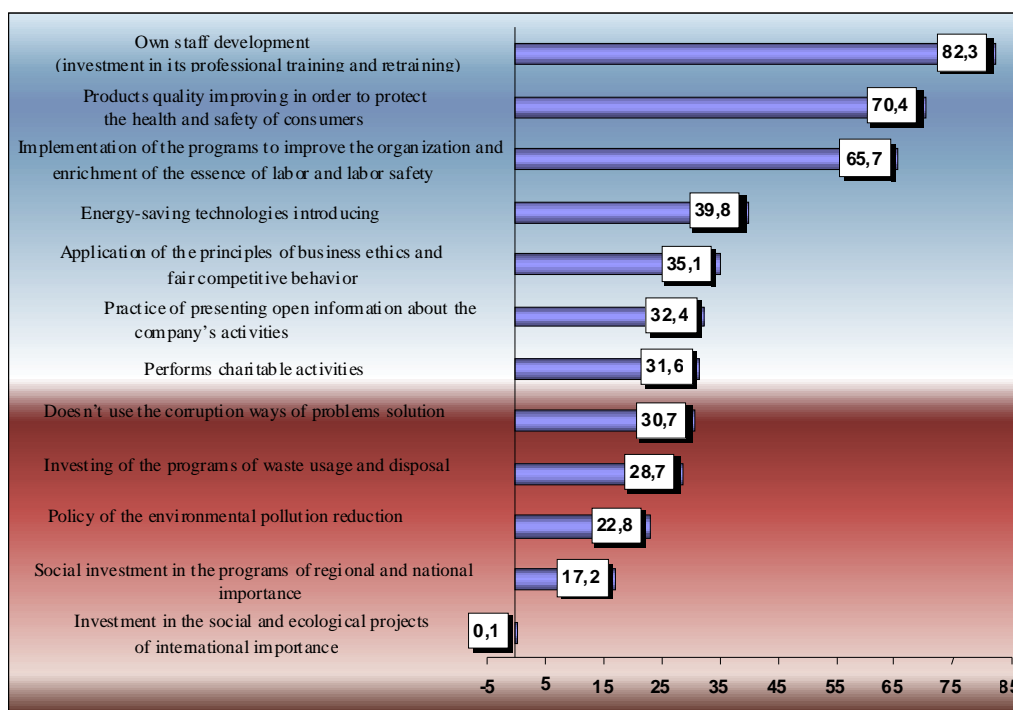
- social programs decrease and lack of social infrastructure support;
- underestimation of the potential to improve market position, competitiveness and economic efficiency through the social investments and social policy by top managers and business owners;
- spread of the shadow economic relations and insufficient level of adherence to legal requirements, which distorts the principles of social responsibility beyond the fulfillment of the obligations on wages and taxes;
- low level of organizational culture and business ethics;
- inefficiency of trade unions activities in conditions of lack of their status of an independent real participant in the negotiations between business, government authorities and employees;
- underdevelopment of civil society and social partnership due to paternalistic treatment of workers that is depriving them of independence and discourages the development of corporate citizenship in partnership basis;

- the absence of scientifically based policy of the socially oriented business environment formation, including the mechanisms for social investment stimulation;

- ineffectiveness of domestic macroeconomic regulation system, which is manifested in imbalanced direct and inverse economic relation and is aggravated by the resistance of particular social groups' representatives (government officials, business and public associations) with rent-seeking behavior model.

Strategy of the socially oriented business environment formation includes the complex of organizational and economic instruments for its implementation towards the following strategic goals: the institutionalization of socially responsible behavior norms of business (development and implementation of proper legal regulations); satisfaction of the social citizens needs; social cohesion of the business, government and society; increasing of the prestige of economic agents' socially responsible behavior; justification of the public policy for social responsibility stimulation.

Institutionalization of socially responsible business behavior norms is the process of establishment of formal institutions that regulate (provide) proper behavior



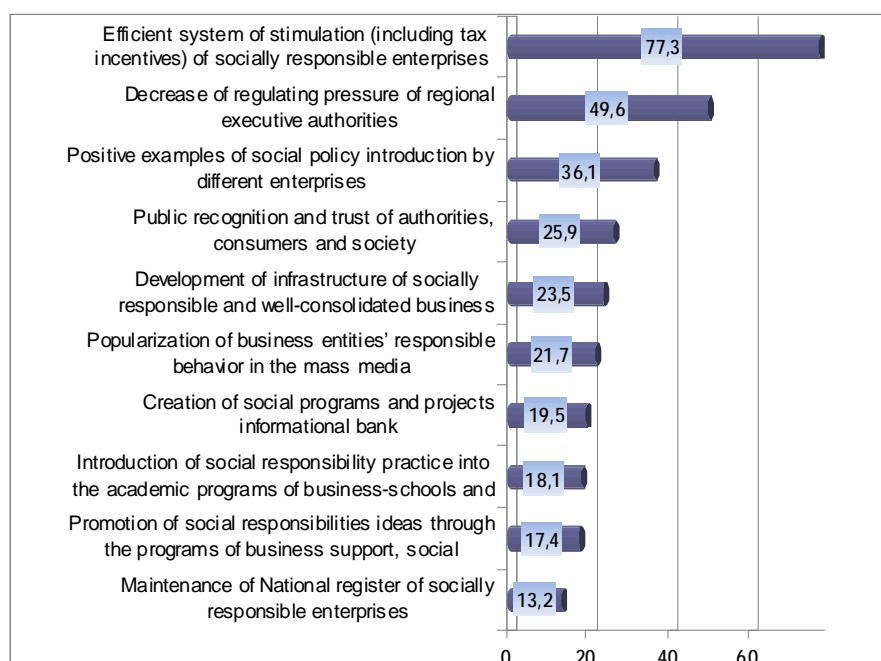
**Fig. 1. Distribution of answers to the question "Which of the following social responsibility activities your company introduces?", % of respondents \***

\* Source: own research

of business entities and complementary to them informal voluntary agreements, “game rules”, behavior stereotypes, business activities traditions and contractual relationships. Gradual replacement of inefficient informal institutions by the legitimate standards ensures the transformation of economic actors’ spontaneous behavior to the predictable one, which is based on the institutional field expansion, achieving of synchronization of the institutions functioning, localization of economic uncertainty as well as institutionalizing of the mechanisms of interaction between business and the state. The main purpose of the informal norms transformation into the institutional is the stable economic development, because the forecasted rate of economic growth is correlated with the formal rules and regulations development as well as with the satisfaction of public demand for them, which also provides a more localized informal activity. Particularly, the most effective way of combating ’illegal shadow economy is the legalization of shadow capital and assets that will surely provide economic growth through more efficient allocation of financial resources and eliminating of their illegal restrictions. Thus, the process of informal institutions displacement by the legitimate standards ensures the predictability of the business entities’ economic behavior in the business environment.

In our opinion, the same named conception and law should become the consolidating regulatory, legal and institutional framework of the socially-oriented business environment development under the current civilization requirements. However, the following fact remains: laws can be perfectly and properly prescribed, but the desired result from their adoption can not be achieved without the organizational, contractual and business culture and ethics as well as without the elimination of the informal nature negatives in economic relations.

As for the second strategic goal of the socially oriented business environment formation – the satisfaction of citizens’ social needs – taking into account the importance of higher stage of business positioning in society for meeting its social needs the domestic enterprises should replace its mostly charitable activity and one-time donations by the substantiated corporate social policy, developed strategy and social projects and programs planning with evaluation of the implementation results, i.e. to move to productive social investments. Social investments gain more importance in the conditions of the economic growth slowdown, because it is possible to enhance the competitive positions through the preservation and development of the human capital, relationships with partners, improvement of the reputation and prestige not only in economic but also in social space.



**Fig. 2. Distribution of answers on the question “What can encourage the socially responsible behavior of your company and the formation of socially oriented business environment?”, % of respondents \***

\* Source: own research

Social investments may have an internal nature that means their focusing on the enterprise for enhancing of the competency, health, labor safety, safety conditions, corporate culture, etc., and external nature – landscaping, environmental protection, housing and communal services, social support and protection of certain population groups, support and development of health care, education, culture, etc.

Social cohesion is ensured through the institutionalization of effective mechanisms for coordination of interests and strategic goals of government, business and society (lobbying, social and public-private partnerships, social marketing and fundraising, charity, sponsorship, patronage and social welfare), which serves as the basis for absorption of new social, ecological and management technologies, resolving of contradiction at the macro, meso and micro levels and implementation of the unpopular but important for the development of the national economy, industries, sectors, and regions structural reforms and corresponding to them institutional transformations.

Institutional support of the public-private partnership efficiency in Ukraine as one of the institutions of social cohesion requires a systematic approach in taking into account the public tasks of governmental authorities, international experience in various forms of partnership implementation, factors that influence its effectiveness and effective functioning barriers. Main factors that ensure the effectiveness of public-private partnership are the following: understanding of the importance and institutional support of private sector participation in the social projects implementation, transparent governmental authorities activities to justify the cooperation perspectives, evaluate the opportunities of the potential private partners and their competitive selection with ensuring of maximum level of competition between them, the common approaches usage for the partnership management, calculation of costs, revenues and risks. The main barriers to the effective functioning of the public-private partnership in Ukraine are the imperfect and incomplete legal support for its implementation, regulatory policy instability, lack of initiative from the government authorities to implement partnerships, inequivalence of financial support for the private partner, allocation of functions and risks.

Socially responsible behavior prestige increasing is possible through its promotion in the media, business encouragement programs, competitions of social business projects, exhibitions, awards, implementation of public service announcements projects, maintenance of National Register of socially responsible companies and their social policies effectiveness comparison.

**Conclusions.** State policy of the social responsibility stimulation should include the establishment of the following mechanisms:

- of open, constructive and equitable dialog of business with social groups, state and local authorities, public organizations for the common solution of the important social and economic problems and priorities of the development; application of the procedures and rules for the social groups interests harmonization;
- of the approval of international, primarily European, standards of corporate social responsibility;
- of the introduction of effective legal and organizational support of the social investment stimulation system;
- of the creation of conditions for business and competition freedom, demonopolization of the economy, development of the entrepreneurship self-regulation mechanisms, public recognition of socially responsible companies and their political and legal support at highly competitive foreign markets;
- of the promotion of the ideas of socially oriented business environment in higher and special education systems (educational programs of business schools, economics departments of higher education institutions) and the public and non-profit organizations activities in the media.

Possible economic instruments of the social responsibility stimulation policy are the following: fiscal stimulus through the expenses list expanding (into the human capital and social investments development), which may be included into the enterprises expenses; exemption from the taxation of the part of profit that goes to socially responsible projects (according to the international experience these incentives are approximately equal to 5% of before-tax profit); granting of regional preferences to socially responsible businesses regarding land acquisition and construction and the support through the government orders system; state guaranteeing of loans; relief from customs duty of the equipment import that is oriented at social, energy-saving and ecologically safe projects implementation and their promotion through the institutional framework improving and public-private partnerships activation.

Herewith, business entities surely should: perform their social obligations entirely; predict the social responsibility and social investment in business development strategy as a prerequisite for the formation of its innovation and long-term competitive advantages; establish principles and standards of social responsibility in the corporate management philosophy; practice and share positive experiences and promote best traditions in social responsibility and cohesion in social, professional and expert audiences.

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#### **Мельник М. І. Стратегія розвитку соціально-орієнтованого бізнес-середовища м. Львова**

У статті обґрунтовано стратегічні пріоритети та рекомендації щодо формування і розвитку соціально орієнтованого бізнес-середовища; запропонована авторська концепція формування соціально орієнтованого бізнес-середовища, яка базується на визначенні його системних характеристик, рівнів, принципів, критеріїв, передумов розвитку. Стратегія розвитку соціально орієнтованого бізнес-середовища містить організаційно-економічні інструменти стимулювання соціальної відповідальності та згуртованості бізнесу, держави і суспільства, підвищення престижу й інституціалізації соціально відповідальної культури поведінки економічних суб'єктів.

*Ключові слова:* бізнес-середовище, соціальна відповідальність і згуртованість, соціально орієнтоване бізнес-середовище, стратегія формування соціально орієнтованого бізнес-середовища.

#### **Мельник М. И. Стратегия развития социально ориентированной бизнес-среды г. Львова**

В статье обоснованы стратегические приоритеты и рекомендации формирования и развития бизнес-среды; предложена авторская концепция формирования социально ориентированной бизнес-среды, базирующаяся на определении его системных характеристик, основных уровней, принципов, критериев, предпосылок развития. Стратегия развития социально ориентированной бизнес-среды содержит организационно-экономические инструменты стимулирования социальной ответственности и сплоченности бизнеса, государства и общества, повышения престижа и институционализации социально ответственной культуры поведения экономических субъектов.

*Ключевые слова:* бизнес-среда, социальная ответственность и сплоченность, социально ориентированная бизнес-среда, стратегия формирования социально ориентированной бизнес-среды.

#### **Melnyk M. I. Strategy of Ddevelopment of Socially Oriented Business Environment of Lviv**

In the article strategic priorities and recommendations concerning formation and development of socially-oriented business-environment are substantiated; author's concept on formation of a socially-oriented business-environment is offered, which is based on the definition of its system characteristics, levels, principles, criteria, prerequisites. The development strategy of socially-oriented business environment contains organizational and economic instruments promoting social responsibility and solidarity of business, government and society, and enhance the prestige of institutionalization of socially responsible standards of behavior of economic agents.

*Keywords:* business-environment, social responsibility, social cohesion, socially-oriented business-environment, strategy of formation of socially-oriented business-environment.

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