

# MONEY, FINANCE AND CREDIT

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## THE SOCIAL RESPONSIBILITY OF BUSINESS: THEORETICAL ASPECT

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**Introduction.** The term «Corporate social responsibility» was originally introduced in scientific literature and was used only with large joint stock companies (corporations). Then this term started to be utilized, Small and medium businesses. The terms «Corporate social responsibility» and «Social responsibility of business» are identical to their content.

**Main part.** The first of the social responsibility concept of business can be seen, first of all, in works by conservative economic approach authors – Adam Smith and David Ricardo, and their followers – Friedman and P. Heine’s who think that intervention in the economy should be minimal. So for example, A. Smith<sup>1</sup>, who is not only the base of the economy but also the founder of his ethical principles, in his work notes the problem of public and private interests. According to the philosopher-economist, functioning of the society is subject to a certain regular process, resulting in the interconnection between private and public interests. The responsibility for ensuring that the ultimate result of each individual’s ego-centered action is beneficial to the whole society, the transcendental event – «invisible hand». Smith insisted that each individual increases its own profits, ultimately maximizing public profits. Thus, the individual interest in motivating the actions of the public interest is individual interest. The mindset of all thinks the economic interest of the people and emphasizes their priority.

Smith’s successor, Milton Friedman, a relative late-day member of the paper, noted his attitude to social responsibility in the article: «Social responsibility for business should increase its profits». He believed that it was not worth the corporate responsibility, since it was «artificial person» and therefore did not take any responsibility. For this reason, it is possible to speak only about the responsibility of the individual, ie the persons who run the business. But Friedman also noted that these rulers are hired by the owners, or considering their agents as agents; their function was to make profit for shareholders. According to the scientist, social programs require additional expenses, it unconditionally reduces shareholder revenues; furthermore, in the process of implementing this type of socially responsible business, the business takes on state functions and thus destroys the foundations of free society.

Second. The concept of social responsibility of the business is partially represented by representatives of ethical-economic school – De Semisement, A. Marshal, Ph. Nail, and so on. The rise of this approach is influenced by the processes such as the value system, the social control forms, the

<sup>1</sup> Adam Smith, An Inquiry Into the Nature and Causes of the Wealth of Nations; P. – 786, <https://eet.pixel-online.org/files/etranslation/original/The%20Wealth%20of%20Nations.pdf>

transformation of the information environment, the strengthening of the corporation and the public relations, the recognition of the social role of the corporation.

In the first third of the 20th century, the United States appeared in the works that became the basis of the concept of social responsibility for business. The widespread public resonance caused by work published in 1932 «The Modern Corporation and Private Property»<sup>2</sup>. These authors believe that large corporations should be «absolutely neutral technocrats that balance the demands of various public groups and each of them strengthens and employs a certain part of the flow of income, guiding the principle of public policy and not private greed».

In the aftermath of the Second World War, in particular in 1953, the impact of the social responsibility of business was greatly influenced by the American economist, especially in Bowen's work «Social Responsibility of Businessman»<sup>3</sup>, in which the researcher defined social responsibility as «the responsibility of businessmen to take decisions and pursue activities that are desirable in terms of public values and objectives».

To sum up what's above, we will find that the social responsibility of the business is to take into consideration and aware business decisions taking into account public opinion, understanding that business is involved in socio-cultural environments and the success of its activities is directly dependent on the welfare of the public. The social responsibility of the business is not a law that has a legal force, it is an ethical-cultural principle that must be transformed into determining business decisions. The social responsibility is the fact that the company's sustainable development and indicator demonstrates the level of awareness of business decisions. It implies a systemic approach to the formation and immediate implementation, as well as accountability and control from the public and the state.

The representatives of modern American, Georgian and Ukraine scientific schools are in the social responsibility structure: the subject of responsibility (the person or group of people whose responsibility is loaded with responsibility), the responsibility of the subject (which is subject to responsibility) and instance (a kind of social unity that evaluates the subject Unpleasant activities). Social responsibility should be understood as a system because it is functioning systematically. Perhaps it is difficult to determine which of these three elements are the most important. The entity has the necessary properties and resources necessary for the implementation of such activities; Institution can not only stimulate, control, and evaluate social responsibility, but also «formulate the order» for the subject; The object, as the element of social responsibility, performs a passive function, is based on an entity and instrument agreement, but it can actively voice its requirements and to prove their need to satisfy the resource holder.

In our view, the social responsibility system will not make sense if it does not fit into its composition, which will complement the process in a sense and complete. The goal should have a long-term direction, which is therefore the practice of corporations, or strategic goals of the company, to formulate.

In our opinion, the importance of social responsibility of business is due to the following factors:

1. At the macroeconomic level: in the overall plot of the globalization process of economy, the combination of large scientific, industrial and technical resources – transnational corporations arise. From all participants involved in this activity, it requires the protection of common, universal rules for conducting business;

2. Microeconomic level: all entrepreneurial entities should take into consideration the interests of society and the state in the course of their activities and to compel them to meet their needs in making profit, business development, quality products;

3. A new type of customer originates on the purchase of certain goods, not based on the quality of the goods, as the Company's positive social portrayal of the ethical conduct of the Company, the social, ecological and cultural factors and the like.

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<sup>2</sup>Adolf A., Barley, Jr., Gardiner C. Means, The Modern Corporation and Private Property, Indiana Low Journal; Vol.8, Issue 8, Article 11;

<https://www.repository.law.indiana.edu/cgi/viewcontent.cgi?article=5120&context=ilj>

<sup>3</sup> H. Bowen, Social Responsibilities of the Businessman, [University of Iowa Press](https://muse.jhu.edu/book/29080), 1953. <https://muse.jhu.edu/book/29080>

Globalization processes promote a significant increase in the profit of large corporations at the expense of sales markets. There are exceptionally exacerbated social contradictions on this background, as the interval between the different layers of the society is significantly increased. One side of the conflict is standing is «elite», which manages corporate income, and the other side – the rest of the population who are forced to serve «elit». In the majority of cases, large corporations organize a similar situation: nobody cares about quality, quality, safety and safety of the population – «They Do not Really Care About Us».

These processes are even more grave in Georgian and Ukrainian reality. Georgian and Ukraine companies sourcing corporate codes in order to announce the willingness of the capital market and potential investors to rely on business ethical and cultural norms. But there are some contradictions: On the one hand, business tries to introduce international principles of transparency, ecological security and partial solutions to society’s problems; on the other hand, companies are doing their own assets for stabilizing the firm’s stability in crisis conditions. Under such conditions, the principles of social responsibility of Georgian and Ukraine business should be developed with consideration of modern World Trends [16].

In the context of rather rapid social and social changes, especially in certain vital areas (social relations, social processes, educational services, property relations, stratification of society, etc.), there are economic and social problems, the solution of which is impossible without bringing it into line national socio-economic policy with the basic principles on which the activity of a social state is based. It is necessary to pay attention to business structures on the necessity to revitalize their own social policy. Indeed, in a modern competitive economy, the successful implementation of products and services becomes a critical condition for the functioning and development of business. Therefore, production and marketing policies should be implemented through the policy of human capital management, compliance with social norms and standards. Social policy, as part of a general business strategy, involves the existence of a system of measures, relationships and actions aimed at optimizing the social factors of production, promoting the expansion and strengthening their influence on the overall economic efficiency of the business. The social policy of business must conform to generally accepted principles (Figure 1).

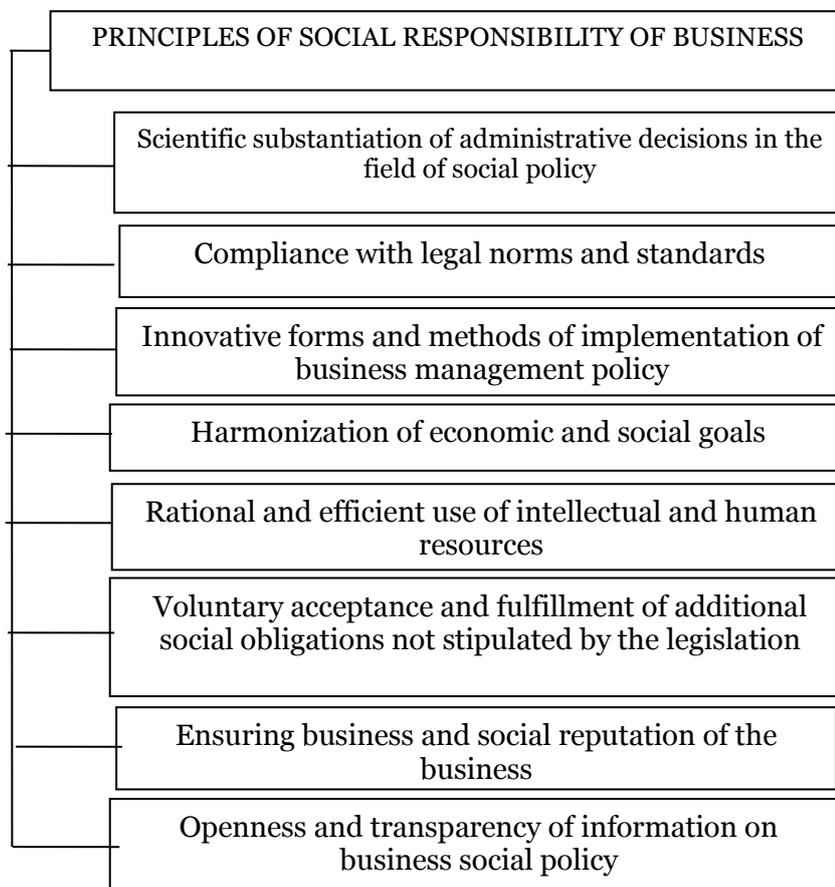


Fig. 1. Principles of corporate social responsibility [14]

**Conclusion.** The principles of social responsibility can be taken to a higher level of Georgian business, to increase its competitiveness in international markets at the expense of sharing the common rules of international ethical and cultural norms and performing business rules. In the modern stage the social responsibility of the business should become the main vector of Georgian and Ukrainian business humanization.

In the period of integration and rather rapid changes in the conditions of conducting economic activity, economic processes and relations have become not only dynamic, turbulent but also global, requiring a fundamentally different view of social responsibility as the basis of management of socio-economic processes and business relations.

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Автори представляють фактори, що впливають на зростаюче значення соціальної відповідальності бізнесу у суспільстві та проблеми грузинського й українського бізнесу на шляху до формування соціально відповідальної поведінки.

**Ключові слова:** соціальна відповідальність бізнесу, корпорація, організація, соціально відповідальна поведінка.

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**Maiia Chechelashvili.** Doctor of Economics, Professor of Georgian Technical University, Tbilisi (Georgia), **Liana Ptashchenko,** D.Sc. (Economics), Professor of Poltava National Technical Yuri Kondratyuk University. **The social responsibility of business: theoretical aspect.** The article deals with the theoretical aspect of social responsibility of business, discusses the origins of the concept of social responsibility by analyzing classical and modern scientific research and schools, and provides the structure and definitions of this notion.

The authors present the factors that influence the increasing significance that social responsibility of business has in society, and the problems of Georgian and Ukrainian business on its way to socially responsible behavior.

**Keywords:** social responsibility of business, corporation, organization, socially responsible behavior.

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Авторы предлагают рассмотреть факторы, которые влияют на возрастающее значение социальной ответственности бизнеса в обществе, а также проблемы грузинского и украинского бизнеса на пути к социально ответственному поведению.

**Ключевые слова:** социальная ответственность бизнеса, корпорация, организация, социально ответственное поведение.