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2012

Online at <https://mpra.ub.uni-muenchen.de/51427/>

MPRA Paper No. 51427, posted 13 Nov 2013 12:19 UTC

# **SOCIAL RESPONSIBILITY AS AN OBLIGATORY ELEMENT OF THE INSTITUTIONAL SYSTEM**

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**Summary.** The institute of social responsibility is considered as mandatory addition of market and state institutes, since it reduces the transaction costs of the socio-economic system by eliminating discrimination in the relations. One of the most important missions of the state is the formation and development of the mechanisms of social control.

**Key words:** social responsibility, institute, social capital, social costs, discrimination, social integration.

## **INTRODUCTION**

Theoretically the main goal of any human community is the social progress. It would seem logical assumption that every reasonable person will prefer to live in a more perfect society, with a high level of human development and whole system of social relations. The desire to live in a more perfect society should motivate individuals to create conditions of social progress. However, this goal is unattainable in a market economy, when every individual maximizes his own income that leads to antagonism of interests and social stratification. In these circumstances, the role of the state as a participant of social relations is to direct the activities of all other participants to achieve the main goal – a social progress, that stipulates the unity of society, ie increasing the degree of social integration.

Unattainability of full representation all the segments of population in the government is obvious today. As a result the principles of social organization that are declared and that are embodied in fact have a significant differences. As the result this forms such a type of social and labor relations that should be characterized as blatant discrimination.

Social organism is formed, developed, and functioning in accordance with certain systemic principles, and the principles of integrity, development and ultimate goals are basic among them, because the compliance with these principles guarantees the existence of society as the disequilibrium system of active elements. Then individualism as a principle of social action should be limited institutionally. Thus the necessity arises for providing the observance the principle of social responsibility, that will be discussed further.

## **REVIEW OF PUBLICATIONS**

Problems of self-organization of the modern society were considered and discussed by many outstanding scientists. Still the founders of utilitarianism Jeremy Bentham and John Stuart Mill devoted their works to researching the problems of social order. Bentham saw a just social order in "the greatest happiness for the greatest number of people" and JS Mill searched criteria of the public good in the concrete historically-social aspect.

Current approaches to the definition of social responsibility (eg, SA 8000 or ISO 26000) as a whole tend towards to excessive generalization, commingling of deontological and axiological aspects and imprecise formulation of purposes. The reason is the lack of clear evaluation criteria. Presumably, in this sense, utilitarianism was closer to understanding the essence of social responsibility

A 'stumbling stone' is social responsibility all the participants of relationships in society, including the state, business and other citizens. The most discussed topic in science literature is corporate social responsibility (CSR). A number of authors consider CSR as a corporate commitment to contribute to the economic development of society, the welfare of workers and their families, etc. [Kotler & Lee 2005; Snider et al 2003]. Other researchers see this as a "fashion trend" in management [Crouch 2006] or ideological way to increase sales [Banerjee 2008] or manipulations with social opinion [Brennan & Binney 2008]. Some researchers write about changing a negative conception of CSR (do not make harm) by a positive one (do good) [Response 2007]. However, in the scientific literature, social responsibility is interpreted mainly as a corporate philosophy or ethics [Balatsky 2005; Lazorenko 2007; Nekhoda 2008], that eliminates the possibility of accurate assessment of its level for a particular organization. Thus, social responsibility is not considered as principle that is obligatory for observance, but is interpreted as the recommended a pattern of behavior. More, the social responsibility of state is not discussed enough to formulate some concrete recommendations.

## OBJECTS AND PROBLEMS

Social responsibility can not be considered as a kind of standard (SA 8000 ) or guidance (ISO 26000) until no clear measurable criteria, on the basis of which one can judge about the degree of conformity to this standard the real conduct of the organization or the state functionaries. But most importantly is ensuring the observance of the standards and of the principles set out in the guide. The very notion of «responsibility» means a system of measures applied to the «violators», as well as the personification of the second party of liability. The concept «interested parties» that used in ISO 26000 implies plurality and variable composition of the participants, however, the social responsibility makes sense then and only then when it comes to society as a sole and permanent «interested party», that is the object of responsibility any citizen and each organization.

Before promulgation any standard it is necessary to clearly formulate the aim of its creation or the targets that have to be achieved under the condition of its observance. According to the wording given in the ISO 26000, the aim of social responsibility is to promote sustainable development, including health and the welfare of society. In our opinion, the welfare of society as a goal may not be incorporated in the «sustainable development», since the aim of the development is the welfare of society. In another understanding the purpose this development will not be the progress. Thus, more correct, social responsibility is the way to ensuring the social progress including ecological safety, welfare of the society and increasing of creative potential the human and society at whole.

A clear definition of the notion of «social responsibility» implies the existence of a system of measured parameters but not indistinct reasoning about the «rule of Law», since maneuvering in the framework of the existing legislative restrictions is a fairly routine for large corporations, not to mention the lobbying of those or other bills.

Principles of social responsibility set out in ISO 26000, because of its generality, not only make it impossible to accurately characterize the level of CSR for organization, but also confuses notions of responsibility and control (the principle of accountability is clearly refers to the last one). The principle of transparency relates more to the necessary conditions of the implementation of CSR, because transparency itself does not provide social progress.

We can say that many authors [Klick 2009; Banerjee 2008] make attempt to 'reconcile' the Institute of private property with its complete opposite, ie the institute of social responsibility. This standard itself can be considered as a guide to the increase of the profit. But the social responsibility means, first of all, domination the interests of society above the interests of the individual. It means the readiness of economic entity to some additional costs, ie economically unwise behavior contradicting the principle of profit maximization. In the market economy the system of income distribution itself is a «socially irresponsible» and without changing the system it is impossible to achieve «ethical» behavior of economic agents.

Thus, the purpose of this article is the clarification of the essence and meaning of the concept of «social responsibility» and elaboration the system of indicators of its level.

## RESEARCH RESULTS

The institute of social responsibility defines the commitments related to the rights and powers of decision-making, and in this sense it is strictly necessary complement of market institutions, which determine, in general, the status positions and proprietary rights of the entities. In fact, an institute of social responsibility provides the equalizing the rights the participants of the relationship: discriminated ones and others who discriminates against. Its formation is a prerequisite for social and economic equilibrium of the system and its development. At present time the social steadiness tightly bounds the economic equipoise. Social equilibrium means at least the absence of antagonism and the social tension that is unattainable under the discrimination one of the parties of relations.

Institute of social responsibility is also a necessary complement the institution of state power since it provides non-discretionary control of the social reality.

Social efficiency of the state institutes ultimately expressed in the increment of social capital. It is characterized by three components: 1) the trends of state social policy; 2) the social strategy of big business; 3) variations of the symptoms of social dynamics. The last one includes the crime level, the number of suicides, indicators of mental health (in particular the level of alcohol and drug addiction), net migration (the list goes on to include the number of divorce rate, the average number of children in the family, etc.). There are three participants of the relations and three groups of indicators. Since social responsibility can be solely symmetrical, it is easy to foresee that, given the negative dynamics of the indicators the first and second groups, the dynamics of indicators the third group will be negative, too.

We view social capital as a systemic quality that is dependent on social responsibility the participants of relations regulated by a mechanism of social control. It follows that the social efficiency of state institutes is expressed primarily in the increasing of social responsibility actors with decision-making powers, thus the most important function of the state is to ensure the formation and development of mechanisms of social control.

As to discrimination and the rights of decision-making, according to the information of sociological service of the Ukrainian centre for economic and political researches named after A. Razumkov the population of Ukraine is quite clearly aware of its inability to exert influence on the course of events in the country and the policies of the authorities (Fig. 1).

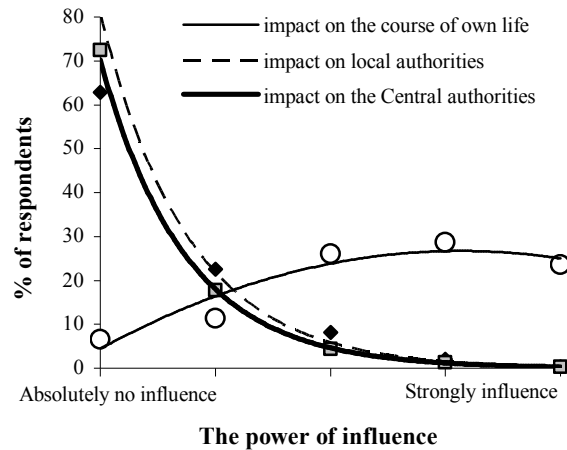


Fig. 1. Assessment by respondents their own influence on the authorities and on the course of own life

In our opinion, CSR must be seen in the coordinate system that reveals the essence of the relations the economic agents with the society. Such a system, in our view, is constituted by national factors of production and factor incomes (Fig. 2). In fact we are talking about the social responsibility of personified capital, that reveals itself not only through its influence on the dynamics of non-produced factors but in the dynamics of the unit weight of productive capital in the total volume of. Hence it follows, that the CSR is quite measured parameter of functioning of the capital, and its assessment is, per se, the assessment of the structure and volume of investments.

The investments result is reflected in the improvement of working conditions, the increment the labour productivity and salary increase, as well as in reducing the harmful influence on the environment, if such takes place (Fig. 2). First of all, the investments should ensure the growth of labour productivity. This means that the degree of wear of the fixed assets can be considered as an indicator of the level of social responsibility of business. Thus, the ukrainian situation is the illustration of full social irresponsibility of the business: this is evidenced by observable reduction in the volume of productive capital (Fig. 3), the decreasing of the labor potential [Shumskaya 2006] and the depletion of natural factors [Molozhanova 1999].

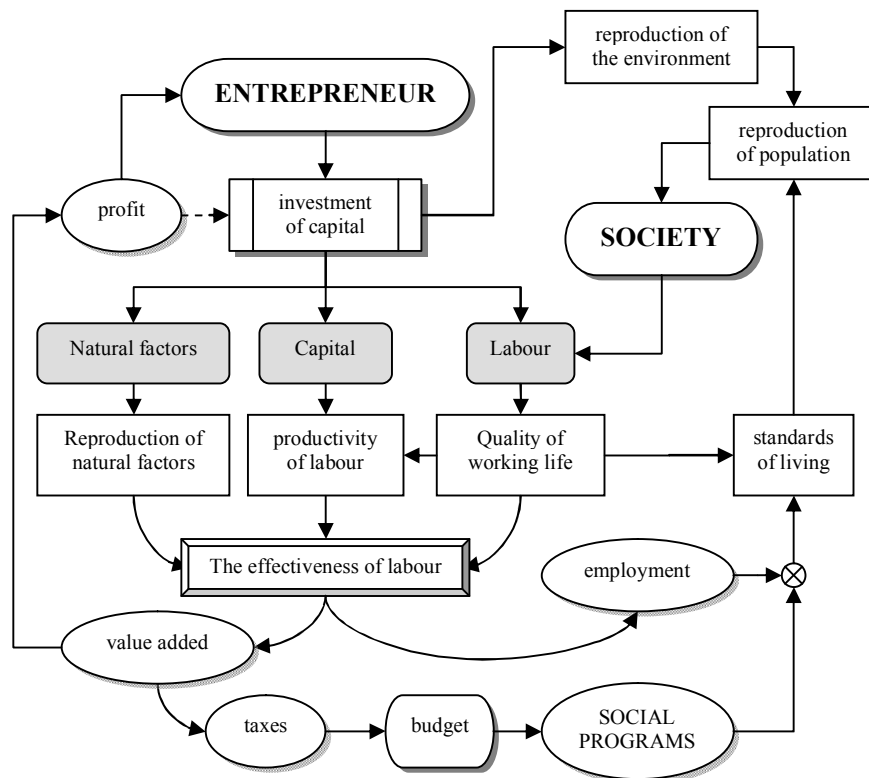


Fig. 2. Explication of interaction between the entrepreneur and the society through national production factors

Control the process of reproduction and development of labour force as unique source of added value is the sphere of responsibility the state. Solely the legislatively forming mechanism of social control will compel entrepreneurs to take into account the consequences of their activities to the society. This means that not only criterias and norms of

social responsibility must be clearly defined but also the mechanisms of coercion to ensure compliance with the established norms.

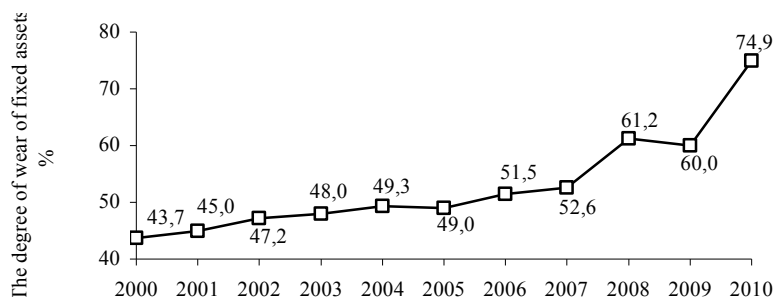


Fig. 3. Dynamics of wear of fixed assets in Ukraine

Negative social dynamics in Ukraine [Sumcov & Filippova 2012; Filippova & Sumcov 2012(1,2); Filippova 2011 (1,2,3), 2012] is a result of low level of social responsibility of the state and business. Unbalanced institutional environment [Sumcov & Filippova 2010, 2011; Filippova & Balakchnin 2010 (1,2); Filippova & Sumcov 2011(1,2,3); Filippova 2012] appears in the fact that the negative informal institutions play a dominant role.

One of the possible variants of legislative mechanism of social control may be the law 'On effective owner' that stipulates the forced termination of the activity in case of inconsistency with the criteria of socially efficient economic entity. The set of criterias of efficiency of economic entity should include the following: (a) providing the conditions for the reproduction of natural factors and labour potential; (b) the efficiency of utilization these factors. This effectiveness is estimated by the increasing the productivity of factors as a result of investments. At that, the ratio of profit / investment must meet a certain optimality criterion.

Thus, the social efficiency of an economic entity is determined by the volume of "pure" income (considering the direct and opportunity costs of the society) in the economic and non-economic expression that society receives from the inclusion of resources in the process of social production.

Ronald Coase, and after him, and a number of other scientists considered the social costs only as so-called "external effects" (Coase) or 'externalities' (Samuelson). Concept of social costs is, in our understanding, inextricably linked to the concept of social progress that we see as a positive dynamics of social capital. In fact, in the market economy these costs are the direct result of the low level of social responsibility of economic entities [Filippova & Sumcov 2012 (2)] and low levels of social efficiency of state institutions [Sumcov & Filippova 2011 (1)]. In other words, social costs may be regarded as the "health problems" of social organism, and the symptoms of these problems are the growing level of suicides, crime, mental illness and alcoholism, drug addiction, etc. Thus, the cause of increasing the social entropy is socially inefficient way of integrating humans, ie social technology. The last one is the essence of social capital as something what is produced and produces at the same time.

In such aspect the social responsibility is the product of social technology and generates it. Its measurable results is seen in the dynamics of social costs.

## CONCLUSIONS

By analogy with produced capital, social capital as the capital of symmetrical social responsibility is a technology of controlling the social reality: under other equal conditions, the wealth of society depends on the perfection of the technology. The state's role in the formation of social capital is decisive, since it is the participant of public relations that is responsible for the formation and development of a mechanism of social control and monitoring the social dynamics.

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## **СОЦИАЛЬНАЯ ОТВЕТСТВЕННОСТЬ КАК ОБЯЗАТЕЛЬНЫЙ ЭЛЕМЕНТ ИНСТИТУЦИОНАЛЬНОЙ СИСТЕМЫ**

**Ирина Филиппова, Виктор Сумцов**

**Аннотация.** Институт социальной ответственности рассматривается как обязательное дополнение рыночных и государственных институтов, поскольку он снижает транзакционные издержки социально-экономической системы путем устранения дискриминации в отношениях. Одной из самых важных задач государства является формирование и развитие механизмов социального контроля.

**Ключевые слова:** социальная ответственность, институт, социальный капитал, социальные издержки, дискриминация, социальная интеграция.