

SOCIAL RESPONSIBILITY: SHOULD THE NATIONS CARE ABOUT IT?

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In the article the global trends in the social responsibility on the national level were presented. The analysis of the global trends was made on the basis of comparing the national level of social responsibility and components of the economic freedom and social progress. It was detected, that GDP per capita as basic indicator of economic wealth is strongly correlated to level of nation's social responsibility. The influence of corruption on the social development was defined also. The basic direction for further development of the social responsibility in context of providing the sustainable development such as integrated matrixes of distribution of social responsibility were proposed.

Keywords: social responsibility, GDP per capita, index of social responsibility, sustainable development, economic freedom, matrix of distribution of social responsibility.

Globalization and integration processes, which take place in the global economy have shown up a lot of imbalances in social and economic development of different regions of the world caused not only by global trends, but also by domestic traditions and internal institutional rules inside the social groups and economies. The recent guide line in social development is the social responsibility. It is not just a “last word of fashion”. The discussions about the essence and necessity of the social responsibility have been held for years. In 1970 Milton Friedman has noted that “...there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without de-

ception or fraud...” [1]. This opinion remains as a basic one for the most of businessmen in the middle and poorly developed economies. But, as practice shows, in the highly developed economies the role of the social responsibility is becoming more and more valuable not only for people but also for businessmen, who intuitively discover the interdependence between level of their social responsibility and productivity of labor on the enterprises.

A lot of authors try to answer the question of “What is the economic sense of the social responsibility?”, “Why should businessmen invest in the social responsibility?”, “What should the government and NGOs do in the field of the social responsibility?” and the overall question is “Why should the nations care about it?”.

In 1999 the UN Global Compact [2] was announced and was officially launched in 2000. It provides all economic entities with ten principles in the field of human rights, labor standards, environment and anti-corruption. All these principles were targeted on the business. More over, in 2010 the International Standard Organization has issued the international standard ISO 26000:2010 “Social responsibility” [3], which deals with details of implementation of previously formulated ten principles of the Global Compact on the enterprises.

The problem of the social responsibility is the source of the endless researches, but the deepest researches are connected with the corporate social responsibility (CSR). According to the UN statistics in 2011 1,325 companies from over 100 countries have joined to the Global Compact [2] providing the 54 % increase comparing to 2010, nearly one out of every eight dollars (near \$3.15 trillion) under professional management in the US is involved in socially responsible investing [4]. In 2013 more than 30% of respondents said that they expect to increase the amount of goods they buy from socially-responsible companies [5]. More over, according to the world experts the CSR is responsible for more than 40% of a company’s reputation [6]. In 2014 the CSR has engaged with the ESG (environmental, social and corporate governance) and became the basis for long-term financial suc-

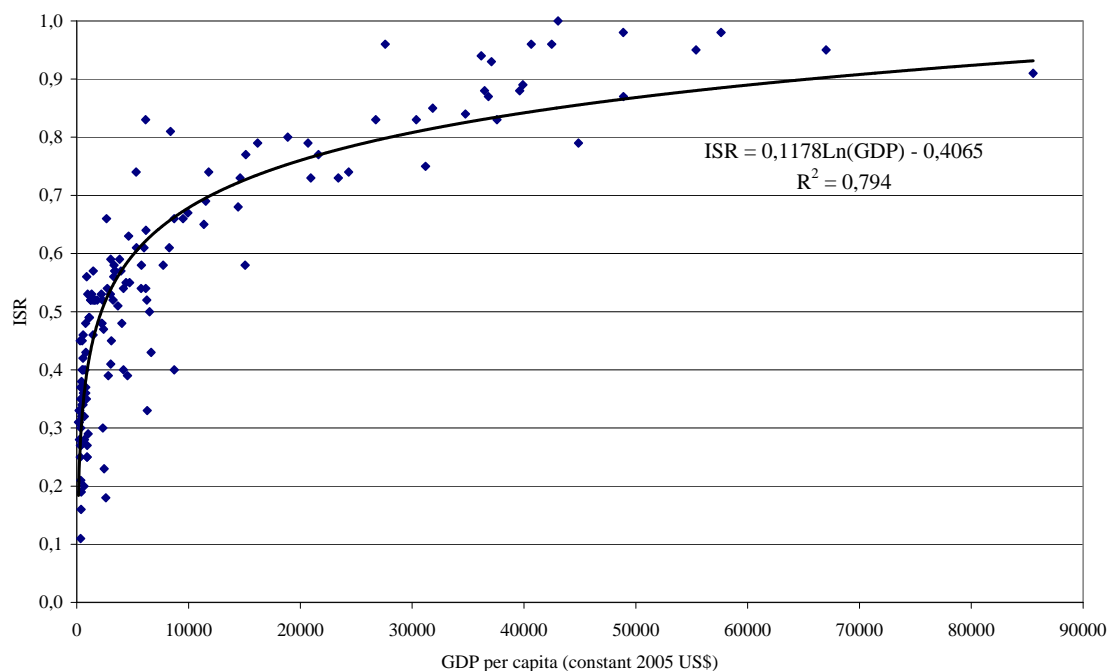
cess [7]. More and more scientists, even those who previously emphasized on the priority of gaining the profit by the enterprises, have started to pay attention to the CSR [8-10]. But only few of them are comprehensive. The biggest part of practical issues and theoretical approaches deals with only one side of the social responsibility the corporate one. But this is only one side of the polyhedron of social responsibility.

That's why the goal of the presented research is to define the interdependence between macroeconomic and social indicators and level of the social responsibility in order to choose the effective tools for providing the sustainable development of the economic and social systems.

In order to define the interdependence between macroeconomic indicators and level of the social responsibility the analysis of the named indexes was made on the basis of statistical data of 141 countries. The latest assessment of the national level of the social responsibility was conducted only in 2008 [11]. Because of this all calculations were made on the basis of statistical data of 2008 presented by the World Bank [12]. The further assessment of possible trends in economic growth and providing sustainable development of the global society was analyzed on the basis of the World Bank data in dynamics for period from 1995 to 2013. As a basis for differentiation of the countries' level of economic and social development two integrated indexes were chosen: the Index of Economic Freedom (IEF) [13] and the Social Progress Index (SPI) [14].

According to the methodology, the National Social Responsibility Index (ISR) is composed of whether citizens, as main stakeholders of the country, are treated fairly and whether the state looks after their well-being [11]. In order to define the correlation between economic and social development it is necessary to compare the level of the ISR and GDP per capita. The last indicator should be considered from the different points of view: as labor productivity and as an ability of the economy to generate national wealth. Conducted analysis (fig. 1) allows

contending that the correlation has a logarithmical trend with level of reliability of 79.4%. This means that the most intensive growth in the ISR (from 0.1 up to 0.6) can be achieved by increase in the GDP per capita from \$150.3 of the GDP per capita (the minimum) to \$ 4 687 (the world average \$ 7 588.9).



Source: based on [11, 12]

Fig. 1. Correlation between the ISR and GDP per capita (constant 2005 US\$)

This interval includes over 60% of all analyzed countries. The further growth in the ISR is slowing down sharply. In order achieve growth in the ISR from 0.6 to 0.8 GDP per capita should be increased up to \$ 18 042. 11 countries of the EU (new members + Malta) and 18 middle-developed countries (including countries of Latin and Central America, Turkey and Russia) are included in this group. And only 29 countries (old members of EU + Norway, Iceland and other highly developed countries) from 141 has level of the GDP per capita over \$ 18 000. In the last group the spread in the level of the GDP per capita gains \$66 662 with the spread in the ISR level from 0.80 up to 1.00.

So it can be concluded that there is a strong correlation between the GDP per capita and increase in the ISR, and it should be considered as dual one: (i) the growth of the GDP per capita can provide the appropriate increase in level of the ISR as an economic basis for strengthening in social responsibility of the state; (ii) the growth of level of the ISR may lead to increase in the GDP per capita as a social basis for rising the labor productivity.

In order to define the sensitivity of the GDP per capita to increase in level of ISR the following analysis was conducted by the groups of countries (Table 1).

Table 1

Sensitivity of the GDP per capita to increase in the ISR

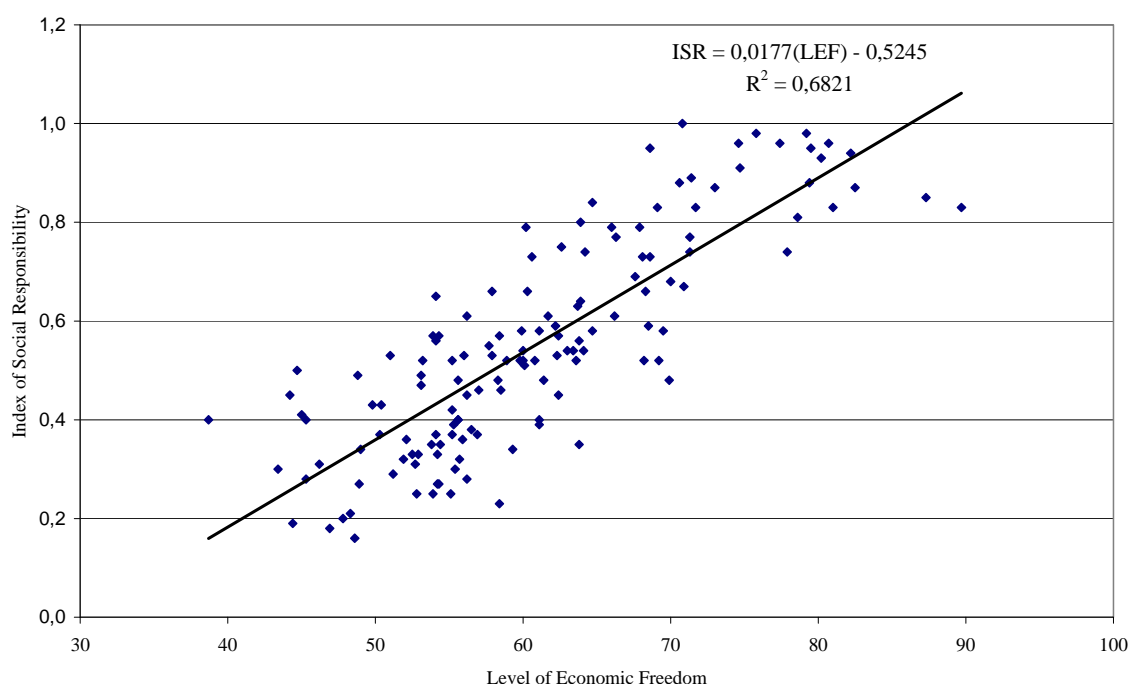
	GDP per capita (average), \$	Equation for $GDP_c = f(ISR)$	R^2	$\Delta GDP_c(\Delta ISR)$, %		
				$\Delta ISR=1\%$	$\Delta ISR=2\%$	$\Delta ISR=3\%$
World	7 588.9	$GDP_c = 82.19e^{6.7395 (ISR)}$	0.7940	3,64	7,41	11,31
Europe	19 806.7	$GDP_c = 150.23e^{6.2137 (ISR)}$	0.8300	3,35	6,81	10,38
European Union	29 548.7	$GDP_c = 109.69e^{6.6228 (ISR)}$	0.7876	3,57	7,27	11,10
Average				3,52	7,16	10,93

As it shown, increase on 1% of level of the ISR may cause the increase of the GDP per capita up to 3.52% in average. For example in 2008 the world average annual growth of the GDP per capita reaches only 0.26%, in 2013 – 1.0%. So, the social responsibility should be considered as one of the powerful leverages for providing sustainable development and economic growth. More over, as it was mentioned by the analytics, during 2010-2013 the permanent growth of socially responsible economic entities has been overviewed [4,6,7] as well as permanent global economic growth [12].

But the economic growth can't be achieved without appropriate level of economic freedom [15, 16]. The authors confirm that “*economic freedom enhances growth both via increasing total factor productivity and via enhancing capital accumulation*” [15]. This causes the further direction of researches.

The correlation analysis of level of economic freedom, based on the Heritage's Index of Economic Freedom [13], and level of the ISR (fig. 2) shows practically liner correlation between these two indexes with reliability over 68%.

Methodology of the IEF stays on the point that economic freedom should be consider as a fundamental right of every human to control his own labor and property [13].



Source: based on [11, 13]

Fig. 2. Distribution of the ISR by the level of IEF

The main features of the economically free society such as freedom to choose among variety of opportunities where and how to work, produce, consume, and invest, free movement of labor, capital and goods are considered as a crucial issues for free and sustainable development of the society. Assessment of the level of economic freedom is based on four essential issues such as rule of law, which reflects the level of providing the property rights and freedom from corruption, limited government through the fiscal freedom and government spending, regulatory efficiency, that

involves business, labor and monetary freedom, and markets' openness, reflected in trade, investment and financial freedom.

As mentioned above, level of the economic freedom is strongly correlated to the ISR. In order to define the most significant factors, which have an influence on the level of the IEF and, correspondently, on the ISR, it is necessary to go deep into components that compose the IEF. For this purpose the multiple nonlinear regressions for the ISR and components of the IEF was calculated basing on the data from 141 countries (Table 2).

Table 2

Multiple nonlinear regression indexes for the correlation between the ISR and components of the Index of Economic Freedom

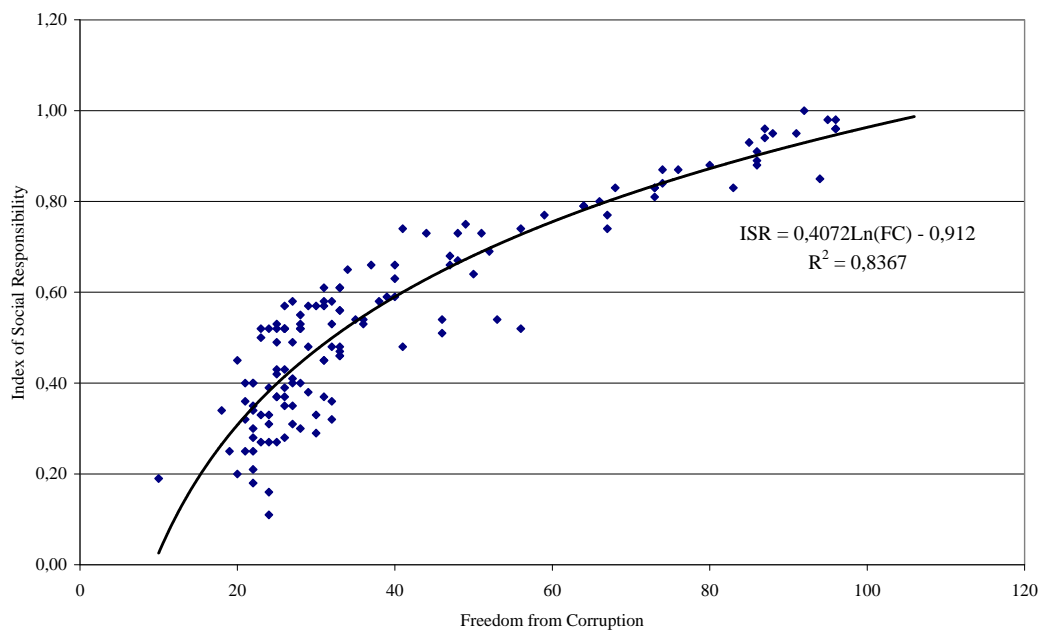
Group of indexes	Index of Freedom	Level of influence
Rule of law	Property Right	0,8494
	Freedom from Corruption	0,8994
Limited government	Fiscal Freedom	-0,3354
	Government Spending	-0,5076
Regulatory efficiency	Business Freedom	0,7805
	Labor Freedom	0,3449
	Monetary Freedom	0,5085
Open markets	Trade Freedom	0,6070
	Investment Freedom	0,7264
	Financial Freedom	0,6659

Analysis has shown that the most significant correlation ($R^2 \geq 0.667$) is between the ISR and index of property right, index of freedom from corruption, index of business freedom and index of investment freedom. Going into details of the defined indexes has provided the basic directions for improvement of the further policy in the field of increasing the level of social responsibility.

The most influential component of the IEF is rule of law. The property rights component, which has a regression index 0.8494, reflects the ability of individuals to accumulate private property, i.e. all institutions (government and non-government) of the country secure the essential right of free economy to accumulate, use and move the property. In this context the crucial role of the existed operation rules and gov-

ernment responsibility to secure and enforce the property right as a conceptual institution of the market should be underlined. All violations of the property rights such as expropriation, corruption and independence of the judiciary, as well as possibility of enforcing the contracts should be considered as an irresponsible behavior of the individuals and economic entities that may lead not only to decrease in level of economic freedom, but also to deterioration of the level of social responsibility of involved individuals and institutions.

Such violations of the property right are strongly connected with level of corruption in the country. According to the results of the correlation analysis the interdependence between the Index of Freedom from Corruption and the ISR has a logarithmic shape (Fig. 3), i.e. high level of freedom from corruption is corresponded to high level of the social responsibility in the society.



Source: based on [12, 13]

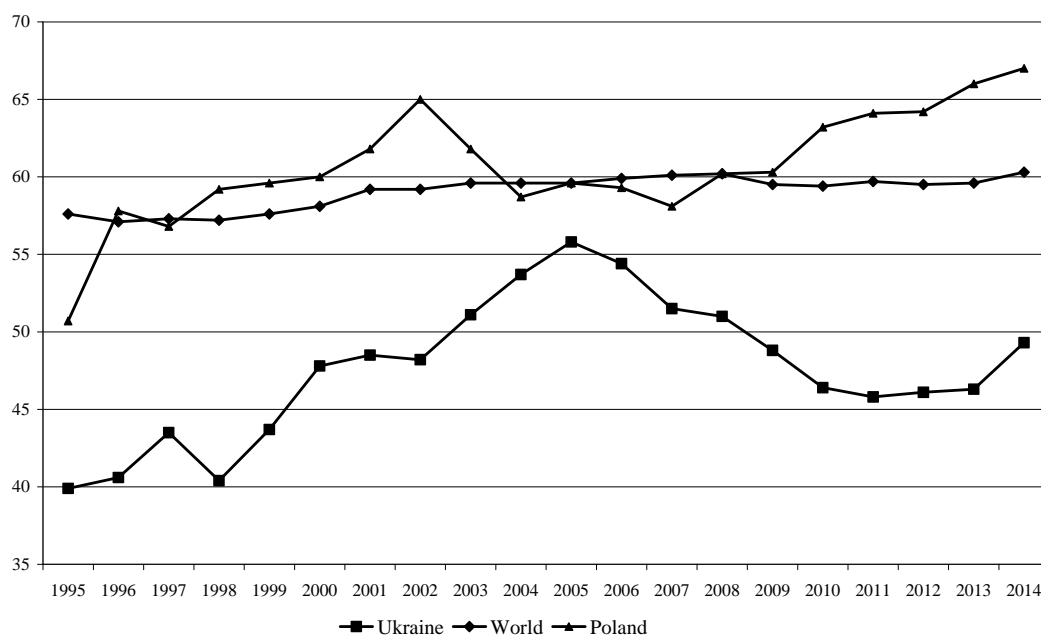
Fig. 3. Correlation between the ISR and index of freedom from corruption

In this case, it is necessary to mention, that the level of corruption is quite strongly connected with level of government spending (0.6986). The higher level of the government expenditures leads to the higher level of freedom from corruption.

For example, in Sweden the index of government expenditures is 3.9, i.e. 56.6% of the GDP is obtained by the government expenditures at all possible levels, and the level of freedom from corruption is 92.0 (100 is the maximum). At the same time in Haiti the level of government expenditures obtains only 15.06% of the GDP and the level of freedom from corruption is 18. Despite of negative influence of government participation in the market operations on the level of economic freedom it is necessary to take into consideration the positive influence of the government expenditures on the level of social responsibility as a demonstration of certain level of social responsibility of the government institution to provide fair distribution of national product.

Concluding the results of conducted analysis of the regression indexes between components of the IEF and ISR the crucial importance of providing the property right, business, trade, investment and financial freedom and, as a partial result of all these liberties, freedom from corruption should be underlined.

Unfortunately, during the last 23 years of independence Ukraine have been losing a lot of possibilities to overcome the corruption and to build free economically developed society. Despite of positive dynamics in the level of the IEF gained in period 1998-2005, during the last 7 years situation with economic freedom has worsened dramatically (Fig. 4).



Source: based on [13]

Fig. 4. Dynamics of the Index of Economic Freedom

An example of Poland is a demonstrative one. Starting with the level significantly lower than the world one, Poland has exceeded the world average level of the IEF on 7 points, overcoming the negative global economic trends (Table 3).

Table 3

Gaps in the components of the Index of Economic Freedom

Index	Level of the Index					
	Ukraine		World		Poland	
	2008	2014	2008	2014	2008	2014
Investment freedom	30.0	20.0	50.3	54.9	60.0	70.0
Financial freedom	50.0	30.0	51.6	48.7	60.0	70.0
Property freedom	30.0	30.0	45.6	42.6	50.0	60.0
Freedom from Corruption	28.0	21.9	41.1	39.3	37.0	54.8

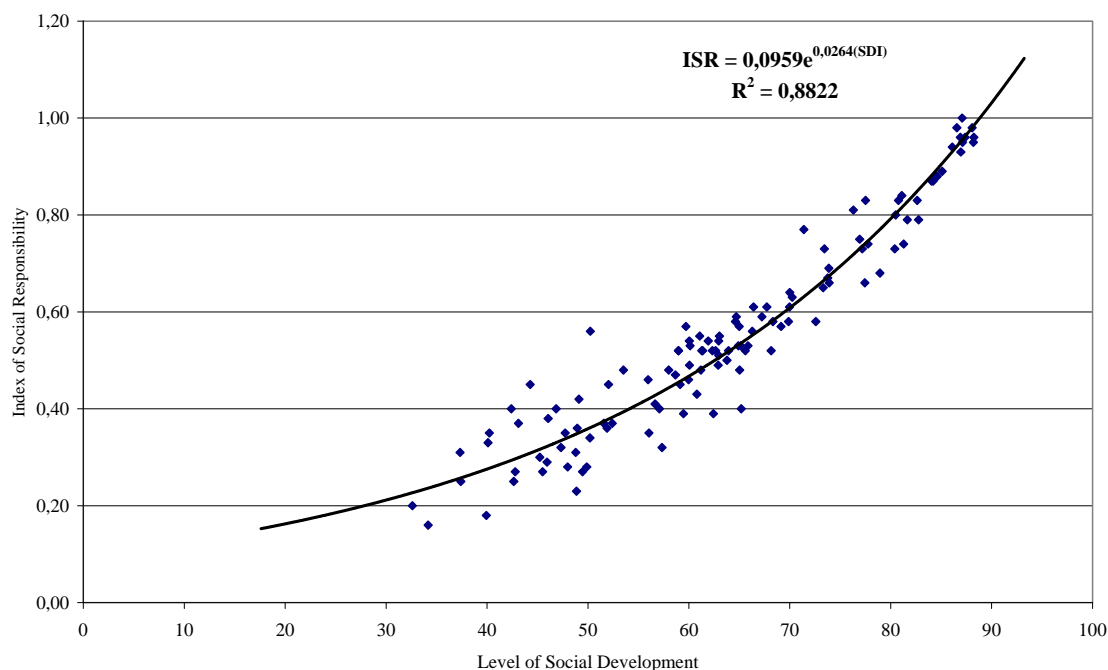
Source: based on [13]

The experience of Poland shows that the biggest part of forces was directed on the overcoming the corruption (change in index of freedom from corruption from 37.0 up to 54.8 – see Table 3) and building the free open economy. By all key components of the IEF Poland exceeds not only Ukraine, but the world's average also. These steps should become a guide line for Ukraine on the way of building a new socially responsible society. A small growth in the level of the IEF in Ukraine which occurred at the beginning of 2014 should become a push for further development.

Another field of building the socially responsibly society is a social development of the community members. According to the methodology of the ISR the basis of it is three components: freedom of the country, corruption perception and life expectancy at birth [11]. Freedom of the country is assessed on the basis of the political aspects such as “...*electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture...*” [11]. In this case, it is necessary to define the dependence not only with political rights and liberties but with all range of indicators, which reflect the quality of life. That's why the further analysis was directed on comparing the trends in the Social Progress Index [14] and ISR.

The Social Progress Index (SPI) is based on three groups of indicators: basic human needs, foundations of wellbeing and opportunities, provided for human [14]. So this index was the most appropriate for purposes of conducted analysis because it reflects not only conditions of human life, but also the prospects for his or her further development.

The correlation analysis has testified the strong (0.8822) exponential correlation between these two indexes (Fig. 5), i.e. the level of social responsibility of the society is growing exponentially with the increase in the level of social development.



Source: based on [11, 14]

Fig. 5. Correlation between the level of the Social Progress Index and ISR

Considering the internal components of each group of indicators of the SPI it should be mentioned that an improvement in each component should be considered as joint responsibility of individuals, corporations, NGOs, local communities, government and international community. The personal responsibility of each participants of the global community in building the socially responsible society may lead to success. For example, the basic components of the basic human needs are nutrition and basic medical care, access to pure water and conditions of sanitation, access to shelter and personal safety [14]. An efficient development of each of these components should be provided by all participants of local and global community as a result of distribution of rights and obligations between all groups of stakeholders.

The same principle is appropriate to foundations of wellbeing and opportunities. The last one should be provided by the society but implemented and developed by the beneficiary of opportunity.

Defining the balances and proportions in economic freedom, social progress and social responsibility is a way to sustainable development. In particular, the sustainable development should be considered as a complex dynamic complicated system, all elements of which are in collaboration and interdependence (Fig. 6)

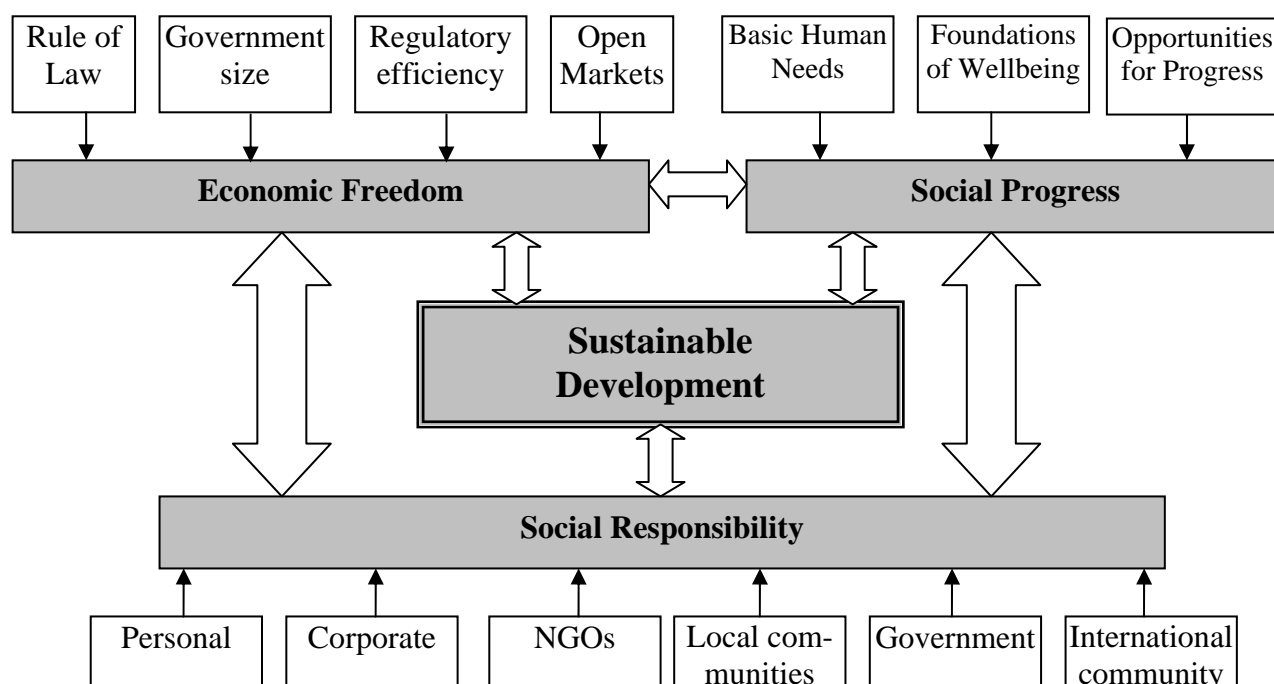


Fig. 6. Integrated system for providing the sustainable development of the society

According to the Open Working Group for Sustainable Development the main goals of the global communities must be oriented on providing equal basic human rights, establishing the foundations of wellbeing and improving the opportunities for further human development, providing the sustained, inclusive and sustainable economic growth, ecological protection, etc. [17]. But, as emphasized in report [17], these goals are the joint responsibility of all humans, governments, enterprises, organizations and communities.

In this case it is necessary to define an operation rules for all institutions and entities, involved in the process. In order to achieve this goal it is advisable to implement the concept of the matrix of social responsibility distribution. Elements of the

matrix should be oriented on the basic indicators, included into the assessment system of the level of economic freedom, social progress and social responsibility and formulated according to the announced goals for sustainable development. These entire matrixes should be specified by the participants of the process of sustainable development and levels of management and economic system. For example, on the level of enterprise such matrixes should be developed for an enterprise as an integrated structure (CSR), employees (personal social responsibility of the employee), local trade-union (NGO) and other possible participants of this separate micro-system. As for personal responsibility on the country's level it will be useful to develop the "Code of Personal Social Responsibility", which shouldn't be just a replication of the Constitution, Administrative or Criminal Codes. It should reflect principles for sustainable development not only guaranteed by the government or community, but also the necessity to initiate and achieve the sustainable development. Some weak attempts in our society have been already made. Such slogans as "consume responsibly", "provide the energy independence of the country" and etc. become more and more popular. But real life in Ukraine demands for systematic work in promoting the social responsibility and providing the sustainable development in all fields of life.

Concluding the presented research, it is necessary to underline, that social responsibility is one of the most crucial issues of today's global development. A lot of factors are involved in the process of building the socially responsible society and, in this case, one of the most important things is providing the complex approach to solving the problem. According to the last trends in Ukraine improvements in the social responsibility may become a starting position for further development and economic success of the country. But it should be taken into consideration that social responsibility can't be given only to corporations or government. The primary role in this process belongs to individuals, which forms the operation rules, create and manage the institutions in the society.

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