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# BUSINESS-STATE PARTNERSHIP AS A BASIS OF SOCIAL RESPONSIBILITY IMPLEMENTATION

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## ABSTRACT

The studies help improving scientific notations as to content of the business-state interaction from the viewpoint of implementation of social responsibility principles. Among other things it is proved that system making role concerning formal state institutions belongs to the state, and business is the key link providing sound integration of community, essence and progress of social responsibility. It is shown that social responsibility as a result of the interaction has synergetic effect helping state and business community to meet both own requirements and corresponding requirements of community. Besides it gives them ability of active interaction on their account, and it motivates mutual responsibility of business and state to community as well as taking into consideration concerns of businessmen in economic and social domains.

## JEL CLASSIFICATION & KEYWORDS

■ A13 ■ H10 ■ M14 ■ State ■ Business ■ Models ■ Function ■ Interaction ■ Partnership ■ Social responsibility ■ Synergy

## INTRODUCTION

Under market business climate success in economic, social, cultural and other domains of community greatly depend on character of mutual relations, and coordination level between government and business. As world practices show, the interaction between business and power mirror public interest being important factor of any country stable development.

As you know, power is a structure authorized for public function. From economic viewpoint it means discharging of duties of guarantor of "rules of game", and decision-making authority obligatory for other business entitities as well as legitimate mandate concerning their compliance control (Kurbatova, Levin). In this context "power" and "state" ideas may be considered as identical ones.

Determination of responsibility level of each entity for solving social problems and social progress of community is one of the most vital problems of business and state interaction. Unfortunately, neither theory nor practice has common approach.

State-business relations have never been ideal. It depends on the fact that certain element of opposition is included in them by the nature of power and business itself. According to polling by audit company Pricewaterhouse Coopers with the participation of 992 presidents of companies from Europe, Asia, North America, and South America 48% of respondents are afraid of terrorism and global military operations, and 49% – excessive state control. Meanwhile, representatives of European companies are afraid of bureaucrats more than of wars and acts of terrorism (What Top Managers). Thus, the problem is not availability of such a conflict but its behavior level, urgency, and form as well as its solving mechanisms and social impacts. That's why just nonavailability of mechanisms of valid bilateral dialogue between business and state generates crisis forms of socioeconomic processes.

Besides, government's actions are sometimes considered as one of the factors which threaten business development. As practices show in some cases government function out of business needs (as it is done in Ukraine). Unfortunately, such phenomena are formed historically, and get a foothold in social institutions of society and cultural traditions influencing the whole range of relations connected with the state: power and nation, power and civil institutions, power and business.

All that gives ability to study state-business interaction as it is one of typical problems of any economic system: business always wants more freedom, and state wants more taxes. In other words, institutions of state-business interaction are based on the "legally protected freedom in exchange for efficiency" idea (Neshchadin, 2006). That's why the studies objective is to analyze business-state interaction as basis for social responsibility development. The matter is that business-state interaction guarantees propagation of social responsibility approaches.

### The key models of business-state interaction

Modern economy distinguishes the two radically different models of business-state interaction: pluralistic model and neocorparistic one.

Pluralistic model idea is that parts of public system depend coordinately on each other, that is, one part of integral system dominating is impossible. Equidistance of state from the key economic entities is the model typical feature. In other words, state acts for the benefit of the whole system maintaining its stability as well as ability to have relative balance. Pluralistic model is based on Anglo-American tradition of state-business interaction formed in the context of following cultural and historical features (Corporative Social Responsibility: Managerial Aspect, 2008):

1. Individualism as dominating idea of socioeconomic behaviour of mainstream society. The majority of economically active population in Great Britain and the USA is geared to personal success. We mean "career religion", and first of all it concerns business. Besides, it is high level of taking serious risks associated with obtaining gains, and high level of living standards.
2. Business competition is considered as essential condition and motivation of progress. Business ethics and managerial system are based on arrangement of conditions for competition of all players, and competition itself is considered as basic rule of economic growth, rule of "equal opportunities for all", and efforts to limit it are perceived as aggression upon "American dream".
3. Despite the specific attention paid to social role of business today profit is considered as the key business success ratio which prevailing all others.
4. Traditionally, state is considered as an external force. Its role is to develop control regulation, methods of solving problems in collaboration with business. It concerns problems which business community can not solve, and is done to support national business in international markets. Intrusion of state into economy as a player is categorically denied, that is strong tendency to self-regulation of business is seen.
5. Legal actions between different groups of participants of corporative relations are the method of problem solving

in business despite rather developed self-regulation mechanisms.

It follows from the above that such elements of pluralistic model of state-business interaction are key ones:

- Availability of a number of groups which jockey for influence over policy, and make pressure.
- Leadership within the groups adequately takes into account its members reaction.
- State stays independent without regard to pressure group. At the same time the groups stay making their own proposals, and some of them may be even institutionalized.

In other words under the interaction model business and state are equal partners of political developments.

Corporatist or neocorporatist model of state-business interaction has been formed under some other cultural and historical traditions (Corporative Social Responsibility: Managerial Aspect, 2008):

1. Partnership and cooperation orientation of various professional and social groups. Despite the fact that lately attention has been heightened to stimulation of individual fee, not competition but cooperation stays to be basis of business ethics. That is when managerial bodies of business organization are formed emphasis is put on integration representatives of a company staff, and its business partners.
2. For the majority of economically active population of continental Europe orientation to guarantees of achieved living standards, prevention of possible disturbances and losses, and desire to avoid business failures is typical. It should be noted that in any company top manager is considered as “first among equals” and his/her power concerning rotation of managerial team composition is limited. Besides, level of top management award is considerably lower to compare with Anglo-American models, and is 15 to 25 times higher than average pay level a in company.
3. Business ethics considers profitability of a company as a condition but not as a final objective of business. Social duties are considered to be overwhelmingly important worth changes in doing business if it is required.
4. Competition is considered to be a great moment of development. Meanwhile possibility and necessity of its limitation in some cases is left open to ensure interests of business life in whole.
5. State is economic player offering both development and keeping to the common “rules of game”. Besides it is considered as the force incurring important social obligations to community in whole, having right to advance adequate demands to business.
6. 6. If problems originate in business environment they are mainly solved with the help of arrangement between the key concerned groups. Legal measures are extreme way of problem solving when all possibilities of achieving pre-trial solutions are exhausted.

Thus, neocorporatist model means institutional form of government, and trade unions and associations of hirers are organizations representing fundamental economic interests. They are the ones who gain benefits and chance to take part in working out draft laws and policy decisions for taking responsibility and liabilities as to favouring state in administration of community. Depending on it neocorporatism is used to determine optional interaction between groups of fundamental economic interests and state.

Studies of the models help to come to a number of conclusions. First, the key models of state-business interaction were formed and developed under the influence of specific cultural, economic, and social conditions. Each of them has both advantages and disadvantages. It should also be noted that none of them functions alone. Most of all, combination of the two models is typical for specific economy is one prevails. Despite the fact pluralistic (Anglo-American) interaction model is the most popular among international business circles as it creates more favourable conditions for such an interaction development and advance of social responsibility ideas.

Second, state-business interaction influences effective functioning and development of both national economy and country in whole. If interests of one of the sectors prevail then ineffective type of social system originates. That’s why balance of economic expediency and social fairness is to meet wants of all parties: state and business. Achieving a balance is possible if only both parties are interested in achieving final result. It should also be noted that every party has its own social and economic objectives. Despite state plays essential role in supporting interaction and equation of interests of the parties, and in rise ideas of business social responsibility.

Third, institutional support of social responsibility is performed on the basis of adaptation of procedures of accommodation of interests and shared objectives of state and business as well as civic community within legal framework, and adopting procedural and institutional, and political norms favouring harmonisation of participants of the relations under clear self-identification of unity of purposes and demand for partnership for achieving them. On the other hand, social responsibility of business is an institution of accommodation of interests of state, civic community and business in the sphere of economic, environmental and social policy. It gives us ability to assume that social responsibility is nothing else but a factor of institutional balance in the sphere of economic, environmental and social policy.

Hence, success in advance of idea of social responsibility greatly depends on character of relationship and level of state power-business interaction. As world practices show business-power interaction mirrors public interest being central factor of stable progress of the country.

**Functions of state and business in modern society**

To understand nature of the relations it is necessary to study functions state exercises today from the viewpoint of its interaction with business.

First of all, state plays a role of “director”, giving a lead to all processes in the country, and synchronizing them.

Another function is connected with the state capacity to be locomotive for investments. Such a capacity of the state was grounded by J. Keynes – one of the most prominent economists of the 20th century. His idea is that state finds certain money and invests it in economy. The money is used to build objects, enterprises, to hire employees, and to pay them wages. If employees have money then a demand for consumer goods grows. As a result relevant industries get a shot in the arm. Besides, the industries have employees who are paid wages, and they increase demand too. Thus, significant business chain is put in motion, and it accelerates economic growth. However state initializes the process being locomotive of investments.

Among other things state should also be guarantor of investments. Investing money in economy of the country state should urge others that it is reliable business. That is state should create adequate investment climate.

Modern economy is first of all economy of time. Success in global competition depend on the fact how fast is the response on variability of this or that situation. Thus, exercising function three, state is catalyzator of economic processes.

Social function of state is function four. Only state can implement social projects, ensure redistribution of finance in the country economy on behalf of disadvantaged groups. Unfortunately, private business can not do it in full even if social responsibility is of very high level.

Under the conditions of rather developed sole markets state should exercise function five – antimonopoly function. To this effect, adequate antimonopoly institutions with required powers are established.

Planning and forecasting is another function of state as nobody else can do that. Private business, even large financial groups, has quite different priorities. Only state can sustain appropriate services, order research, and take strategic nationwide decisions for 5 to 10 or even more years to come. State shoulders implementation of national projects on the basis of special-purpose managerial plan when explicit task with adequate program is available. Business can not do it alone.

Function seven is stimulation of scientific and technological progress, development of innovation system which helps country to be competitive in science-intensive and highly profitable spheres.

Finally, function eight. It lies in creation of stable credit and financial system as despite the advance of private business it can not ensure all necessary capital investments. Besides national currency support and others are among the state tasks.

Thus, state is both controlling and regulating body which defines strategy guidelines in social and economic development; it creates basic conditions for business and improvement of economy; it develops and implements nationally important projects. Among other things state is a guarantor of economic and social rights of citizens; it ensures environmental protection; it eliminates regional disbalances etc.

However it is impossible to perform the functions if winning relationships and interdependence between business and state are not available. In other words performing socioeconomic functions is impossible without efficient state-business interaction.

All in all, as the world practices show business can not go without state because just state lays down the rules for all legal entities. In turn, business is specific tool with which help governmental bodies perform certain functions in community using natural properties of business, its objectives, and functions in economic system as well as implementation methods. Thus, business and state are interdependent, and the interdependence is based upon natural properties of business and specific functions of state aimed at meeting demands of community at the expense of their mutual activities being implemented by means of economic ties.

It should also be noted that functions of business are more local being realized at intracorporate level, within own territory. As to state function, they are more global, being realized at state, national level. Despite the fact performing functions by the players and their efficient interaction result in stable development of community, and improved prosperity of any nation.

Yet, as historical practices show participation of both business and state in community development is different (Figure 1).

Figure 1: Matrix of state-business interaction content as to community advance

| | | |
|---|---|---|
| max | Irresponsibility of business | Balanced participation of each party |
| Participation of state in advance of community | "Wild market" | Irresponsibility of state |
| min | | |
| | min | max |
| | Participation of business in advance of community | |

Source: Author

Surely, balanced participation of both parties (right upper quadrant) is the best idea, but to achieve that certain conditions should be met. Consider some of them.

As state is a body o administration of community, it is interested in support of adequate vitality and advance of community it administrates. At the same time it can not be implemented without participation of business as the state represented by administration bodies does not create added value which could be used for progress. Accordingly, state is interested in drawing some share of added value by business in form of direct and indirect, nation and local, focused and other types of taxes, or in form of effective fiscal policy. Other methods of drawing added value by business are considered as lobbying and corruption of state administration body by business, or as efforts to implement statism. On the other hand, tax evasion by business most of all results in bringing business representatives to responsibility.

Thus, each party reaches after own maximum profit. But, as practices of industrialized countries show, effective reasonable tax policy is profitable for both state and business, and favours their advance.

Then, as it is known, business should make products and provide services required by community. The goods and services should be those taking into account safety and health. The matter is that today industrialized countries consider human health as principal importance. In turn, it means solving environmental problems, problems of mentality, medicine, quality of goods and services, and quality of life in whole.

In one way or other the problems are connected with cost of goods and services as it determines relations between business and state, business and community. The thing is that state itself needs goods and services of certain quality produced with the least environmental harm. Again, as the world practices show very often conflict of state and business interests originates, and it defines character of relationship. The problem can be solved if state and community purposefully use previously withdrawn business resources. State environmental programs and programs of quality improvement are among the methods.

Among other things, community is always interested in optimum employment, that's why problems of unemployment and job creation are also the sphere forming state-business interaction. First of all, it is connected with the fact that number of state machine in market economy has legal limitations, and business is that very sphere which

creates jobs. At the same time if government is not going to favour business efficiency then it will limit its abilities in job creation. On the other hand, adequate regulatory framework and legal framework should be developed to make business meet requirements of community as to hiring and engaging disadvantaged groups. Besides, economic and financial support of state is required to ensure labour force migration etc.

Under market conditions restructuring processes take place. They result in labour saving, and state is the one which purposefully use resources withdrawn through taxes. It should be done to organize saved labour retraining to use them in other spheres, and to pay temporary unemployment payment up to the moment of outplacement.

As it is known, business should participate in development and support of its location territory. However, as the world practices show that business investment efficiency is optimum when state co-finances it and community supports.

Thus, development of business-state interaction first mirrors economic contacts in community.

**Forms of business-sate interaction in the light of modern economic contacts**

Studies of the world practices show that degree of participation of state in business life depends not only on economic situation but on features of this or that country. According to the fact, business-state interaction may have various forms.

Today such forms (models) of state-business interaction are available (Kurbatova, Levin):

1. Ideal (theoretical) model mirrors state-business interaction under the conditions of ideal market. It defines roles of interaction parties who represent the interests of business, negotiates "rules of the same", delegates state supervising them as guarantor agent; puts in record duties of parties; state guarantees business creation of favourable environment and gives public benefit required for its functioning covering production infrastructure, social infrastructure and institutional infrastructure. In turn, business undertakes obligations concerning repayment of taxes etc.
2. National model mirrors common features of state-business interaction within specific national model of market economy. It reflects previous history of this or that country progress, real practice of state advance and origin of business. Just ideas concerning "truth" formed during historic development of certain country are the factors which define target functions of economic entities, their attitude to possible variations of distribution of ownership rights among private agents, state, and public structures. All the things adequately modify role of state and business in their interaction as well as character and scope of their mutual obligations.
3. Normative model mirrors state-business interaction formed on the basis of formal norms, rules, and their use practices established in specific country.
4. Real institutional model mirrors state-business interaction formed within specific territory according to body of formal and informal norms, rules, and their use practices.

Thus, modeling is of theoretical importance for practices of socially-oriented business-state interaction. It is particularly concerns countries with transitive economy including Ukraine, in which real model of business-state interaction is characterized by the three independent interaction zones: white, black, and grey (Yasin, 2002).

Thus, "white zone" comprises formal participation: legislative regulation of tax relations, administrative and economic control of business (entry in a register, licensing, control and defined norm enforcement etc.), competitive tenders on public contracts distribution etc. The zone of business-state interaction is based on development of unified "rules of game" for all entrepreneurs. Besides, state makes them meet the requirements if they break the rules.

"Black zone" comprises informal criminal participation, first of all corruption. Relationship of the zone is based upon personal vested interests of some officers, and bribes and brining officers in business are the tools of serving the interests of entrepreneur.

Finally, "grey zone" comprises informal business "exaction" which are not directly connected with corruption, and informal trading with authorities as to specific business functioning. Relations of "grey zone" are based on interest of parties in survival within the territory, and a tool to achieve the goal is either optional or punitive contribution (natural or money form) to financing territory of location (Kurbatova, Levin).

Alongside with analyzed model, several more models of business-state interaction are considered under the conditions of transitive economy (Chirikova, 2006; Rozenkov, 2007):

1. Model of "oppression" and "enforcement" means administrative pressure, that is state demands certain investment of business for its social programs and projects implementation with the use of administrative machine and structures which control business activities.
2. Model of "patronage" means refund of changes for implementation of social programs and project at the expense of business access to state controllable resources, and bidding ability as to terms of state social programs and projects business support.
3. Model of "laissez faire" when state is not active as for social policy of business.
4. Model of "partnership" within which representatives of state and business strike a compromise as for winning resource exchange. Both state and business have resources access to which may be gainful and useful for other party. Among other things, state has economic, political, administrative, and information resources and business in turn has financial, innovative, and expert ones. Within the model the resource exchange is the basis of business-state interaction (Figure 2).

**Business-state partnership**

It goes without saying that such relations are complex, and they don't originate simultaneously. That's why practices of developed countries are so essential while building state-business relations, forming socioeconomic, regulatory, organizational partnership relations as the basis may be used to develop specific for particular country interaction mechanisms.

In fact, scientific literature covers different viewpoints as to state-business partnership definition. Thus, state-business partnership is first determined as a system of cooperation of enterprises and business organizations with government agencies, and regional corporations with government agencies and establishments. It is aimed at achieving common economic goals and solving actual socioeconomic problems (Mikheyev, 2007).

Other scientists define state-business interaction as institutional and organizational alliance aimed at

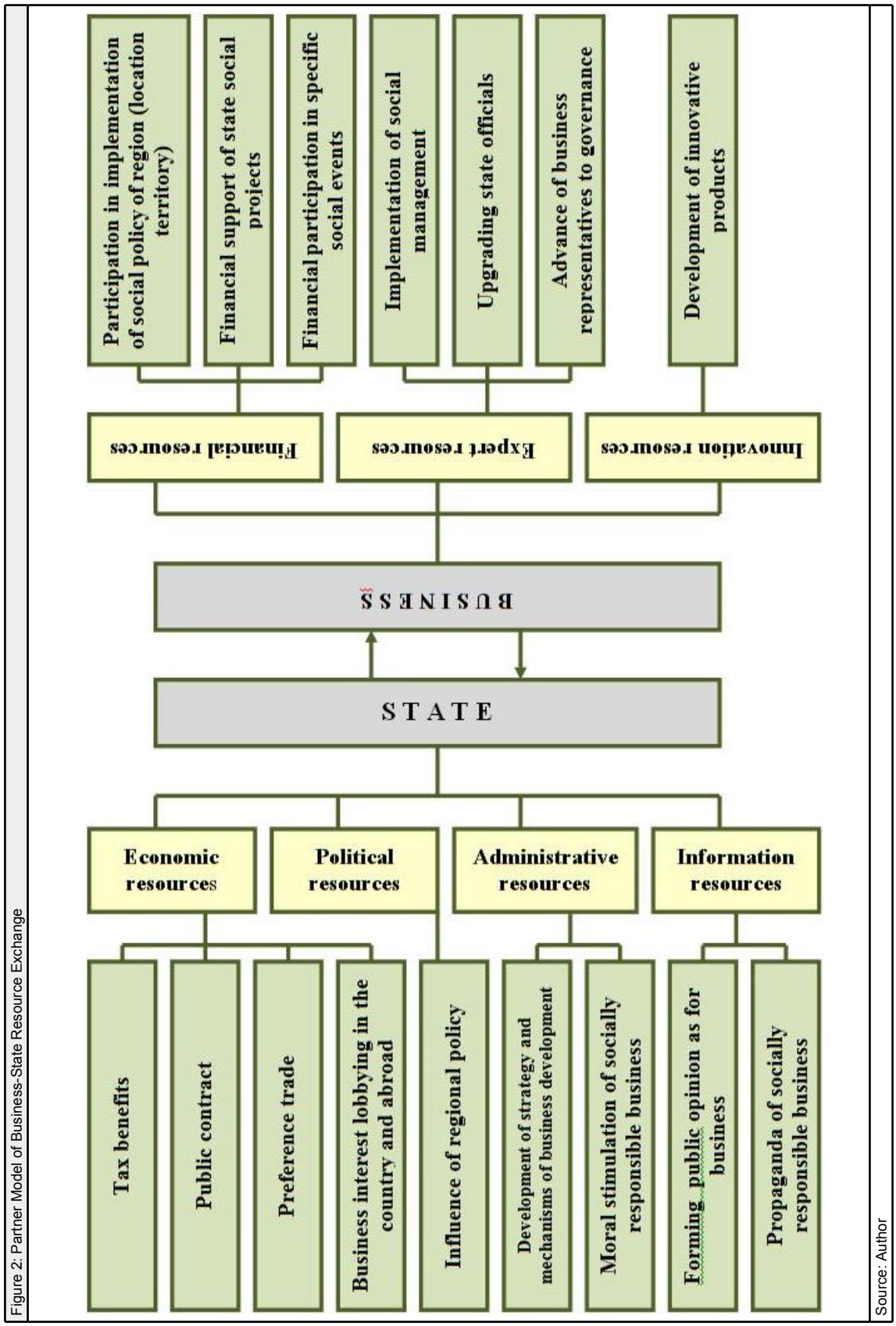


Figure 2: Partner Model of Business-State Resource Exchange

Source: Author

implementation of national and international, large-scale and local but always public important projects in different areas: from development of strategic industries and research and development up to provision of public services (Varnavski, 2005).

We believe that state-business partnership is nothing else but unification of common resources and abilities for implementation of projects and programs important for community. Generally, state-business interaction on terms of partnership should be considered as condition and as required characteristic of modern socially oriented economy.

At the same time such interaction may have a number of problems and contradictions as each party strives to gain as many rights as possible at a minimum of liabilities and risks. That's why it is so important to find helpful interaction form to avoid or at least to moderate arising problems.

Today the two partner state-business interaction patterns are available. They differ in forms and methods, and content of institutional transformations in the sphere of attitude formation of the partners (Lyubinin, 2008).

Thus, pattern one is widely used in developed countries. It is transformation of institutional environment which was previously in economy up to new priorities and terms of economic activities of the state. Implementation of new principles in available institution is performed two-way: either within the main economic policy of government control (Great Britain, New Zealand, and Argentine) or within amendments of available system of government control (the USA, Canada, Japan, many countries of European Union). Every country developing partnership within the pattern uses own methods being in accordance with their market advance level and their national traditions.

Pattern two is common in countries of Eastern Europe, in former Soviet states, and several developing economies. The countries distinctive feature is that they are forming absolutely new regulatory background for state-business partnership. The process is followed by establishing institutions corresponding to market relations and a new role of state and business in economic life.

Thus, the world practices confirm importance of partnership relations for both business and state. State provides favourable facilities for business organizations concerning their functioning and assured profits as a result of participation in advantageous co-projects. Interacting with business, state has chance to mobilize private capital for financing nationally important projects making them socially oriented. Not only policy but also arts, education, science, sports can not be on a strong track without business support. It concerns any country and any community. Sponsorship, patronship, charity, lobbying – all the forms of social interaction and partnership lock in cooperation with specific companies, corporations, financial groups, and individual entrepreneurs. It should be noted that state is not just a player in such interaction or partnership. It also plays a role of certain "mediator" that is facilitator. Much depends on it: system of relations of parties, and such interaction benefit.

**Conclusion**

State plays system creating role in establishing formal state institutions. The latter ensure progress of market relation, and coming together of state-business functions to broaden social responsibility ideas both in terms of constant deepening and extension of their partnership relations, and as a part of formal institutions of public private partnership. To do that, government uses various tools: regulatory ones resting on legislative power and right to allow or to ban; motivational tools which mean decorations, rewards and preferences; moral suasion basing upon adequate slogans and distribution of information; involving in through realization of socially important projects. They may be used independently or combined with each other as well as depending upon the object in view, expected outcomes, and depending upon needs and abilities of customers and responsible parties. Accordingly, business is the key link which guarantees valuable integration of community, existence and development of social responsibility. It helps to conclude that social responsibility as a result of business-state interaction is of synergetic effect. It enables state and business community meet both own requirements and requirements of community. Besides, it gives ability to interact, and it makes conditions for mutual responsibility of business and state to community as well as consideration of entrepreneurs' concerns doth in economic and social domain.

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