Socially responsible investment in Ukraine

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Abstract

Over the past 20 years the phenomenon of socially responsible investment (SRI) has grown considerably in popularity and there has been in particular a sharp increase in research into its environmental, social and governance (ESG) aspects. The process of SRI itself and research into this diverse phenomenon have become widespread particularly in developed countries and essentially supported by international organizations, specialized financial consulting companies, and institutional investors. The issues of theoretical, methodological and practical aspects of SRI in the Ukrainian market have considerable potential for research. The aim of the article is to study theoretical and methodological aspects of SRI as well as define the current state and prospects of socially responsible investment in Ukraine. The article covers the existing differences in the approaches to defining socially responsible investment and social investment, describes their features and proposes a method of classification, as well as clarifying the role of SRI under conditions of sustainable development. The current problems and prospects of SRI development in Ukraine are discussed.

Keywords: socially responsible investment, corporate social responsibility, sustainable development.

JEL Classification: A13, M14, Q01.

Introduction

Over the past 20 years the phenomenon of socially responsible investment (SRI) has grown considerably in popularity and there has been in particular a sharp increase in research into its environmental, social and governance (ESG) aspects. The process of SRI itself and research into this diverse phenomenon
have become widespread particularly in developed countries and essentially supported by international organizations, specialized financial consulting companies, and institutional investors. The world’s total managed SRI assets were estimated at 21.4 trillion USD as of the end of 2014 [www 12].

The issues of theoretical, methodological and practical aspects of socially responsible investment in the Ukrainian market have considerable potential for research.

Ukraine is currently going through a difficult period: the transformation processes are becoming increasingly complicated because of the armed conflict in the eastern part of the country. The world rankings such as the Global Competitiveness Index [www 20], the Sustainability-adjusted Global Competitiveness Index [www 12], the ranking of World Competitiveness Yearbook 2016 [www 13] and the country sustainability ranking RobecoSAM [www 15] take into account the sustainable development of countries and the social dimension and reflect the perception of each country by the world community. The results of the most popular rankings are considered in detail in the main part of the article.

It is obvious that environmental and social tipping points are fundamental for the long-term sustainability which is a precondition for continuous improvement in the quality of life and well-being of communities even in presence of external shocks [Schwab 2015, p. 73].

Since social responsibility is an element of sustainable development while socially responsible investment is a form of practical implementation of social responsibility, the issue of the research into the current state and prospects of these processes in Ukraine is of the highest priority at the current stage of the nation’s development.

The aim of this article is to study theoretical and methodological aspects of socially responsible investment as well as define the current state and prospects of socially responsible investment in Ukraine.

To attain this aim, the following objectives have been set: to investigate the existing differences in the approaches to defining socially responsible investment and social investment including the features and a method of classification of SRI; to express the role of SRI under conditions of sustainable development; to consider the evolution of corporate social responsibility (CSR) and SRI in Ukraine, to analyze the state of CSR and SRI in Ukraine; to highlight the current problems and outline the prospects of the development of SRI in Ukraine.

The paper extends and develops the existing research into the issue in the following way: the evidence of direct connection between SRI processes and sustainable development of countries based on the results of research of international organizations is shown, and the hypothesis that CSR is an element of the mechanism of sustainable development and that socially responsible investment
Socially responsible investment in Ukraine is a practical form of implementation of social responsibility is considered. Further, analysis of the evolution, state, and prospects of development of SRI in Ukraine is conducted through research into the CSR of Ukrainian companies.

The paper has the following structure: the theoretical background based on the literature review of Ukrainian and foreign sources; research methodology outlining the main stages of the research and the methods used, the research findings, and discussion with the appropriate conclusions.

1. Theoretical background

The social investment processes in the theoretical studies carried out by Ukrainian researchers are closely related to investment into human capital.

In modern Ukrainian research the issues of human capital and social investment have been studied by Grishova, Kutsenko, Libanova, Vasylyk, Poplavskya and Geyets [Poplav's'ka, Poplav's'kyj 2002; Libanova 2006; 2010].

In the context of corporate social responsibility the classification of social investment has been worked out by Khonyaev, Bondarenko, Omelianovych and Zakharchyn [Lebedeva, Khonyaev 2005; Zakharchyn 2008; Bondarenko, Omelianovych 2009].

CSR has been actively researched by Bukovynska, Saprykina and Zinchenko [Zinchenko, Saprykina 2008; 2010; Bukovynska 2015]. The theoretical background and systematization of the evolution of CSR and SRI is based on the results and findings of the abovementioned Ukrainian researchers.

The essential contribution to research into corporate social responsibility was made by a number of prominent foreign researchers. The concept of CSR has evolved from the early theoretical views studied by Bowen, Davis, Friedman, and Vogel to the early social responsibility models developed by Sethi and Carroll, and the societal dimension of strategic management suggested by Ansoff and Freeman [Bowen 1953; Davis 1960; Friedman 1962; Sethi 1975; Ansoff 1979; Freeman 1984; Pinkston, Carroll 1996; Vogel 2005].

The beginning of a systematic scientific analysis was initiated in Bowen’s first research paper “Social Responsibility of a Businessman”, published in 1953, where the definition of CSR was given and corporate social obligation was linked to the power that business holds in society [Bowen 1953].

D. Vogel expressed a balanced view of CSR by suggesting that CSR is not a precondition for business success but a dimension of the corporate strategy in “The Market for Virtue: The Potential and Limits of Corporate Social Responsibility” [Vogel 2005; www 9].
Davis was the first to argue that the issue of social responsibility should be considered in the management context. He emphasized that this responsibility was related to “the businessman’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest… which need to be commensurate with the company’s social power” [Davis 1960]. His model is a list of 5 suggestions that describe how and why a business should adhere to the obligation to take action that protects and improves the welfare of society as well as of the business itself.

Friedman, on the contrary, stresses that companies should focus on maximizing profits for shareholders, and that managers who practise social responsibility, in fact, steal money from the owners and invade an area which lies outside their professional competence. On the other hand, there are the authors who believe that the business has numerous social, civic and moral obligations to foster the growth of the general welfare in a broad social contract [Friedman 1962].

Early theoretical work dealing with corporate social responsibilities is represented by Sethi [1975; www 9] who proposed a three tier model for classifying corporate behavior, which he defined as ‘corporate social performance’. The three states of corporate behavior are based on social obligation, social responsibility and social responsiveness. On the basis of Sethi’s model, Carroll [1979] suggested a model that contains the following four categories of corporate responsibility: economic, which means being profitable; legal, which implies obeying the law; ethical, involving doing what is right and fair and avoiding harm; and discretionary/philanthropic which assumes being a good corporate citizen. According to Carroll, economic obligations are considered as being tempered by ethical responsibilities or social expectations and norms.

Later, Carroll presented his CSR model as a pyramid and argued that, despite the fact that the constituents are not mutually exclusive, it “helps the manager to see that the different types of obligations are in constant tension with one another” [Pinkston, Carroll 1996].

According to Carroll, CSR involves public expectations for a particular organization in four different spheres: economic, legal, ethical, and philanthropic. The CSR model was initially described as a pyramid with economic responsibility at its base.

The societal dimension of strategic management was explored by Ansoff in “The Changing Shape of the Strategic Problem” [Ansoff 1979]. He suggested that an ‘enterprise strategy’ which deals with the interaction of a business with its environment should become a component of the corporate, business and functional levels of strategic management.
According to Ansoff, the enterprise strategy was necessary with a view to enhancing a company’s societal legitimacy and taking into consideration new variables in strategic management like “new consumer attitudes, new dimensions of social control and above all, a questioning of the firm’s role in society” [Ansoff 1979].

The stakeholder theory highlighting a wide range of social responsibilities for business was developed by Freeman in 1984 through the innovative work published in his book “Strategic management: A stakeholder approach”. Freeman considered stakeholders as “any group or individual who is affected by or can affect the achievement of an organisation’s objectives” [Freeman 1984].

According to the basic SRI concept, management needed to comprehend the concerns of shareholders, employees, customers, suppliers, lenders and society in order to set objectives that stakeholders would support, which was necessary for success in the long run. Therefore, managers should take a close look at their relationships with all stakeholders to develop appropriate business strategies.

The practical issues of the CSR mechanism in Ukraine are the direct object of the research and activity of the Centre of Development of CSR, the expert organization, and Community SRB (auth. socially responsible business), the analytical centre established by the organization PPV Knowledge Networks.

It seems to be reasonable to consider approaches to the definition of socially responsible investment given by Ukrainian researchers. It should be noted that the academic community does not share a single, unambiguous interpretation of the concept of ‘social investment’.

Yanevych considers social investment as long-term investment of financial resources in social facilities to improve the quality of life [www 21]. This general definition emphasizes the long term specifics of social investment which is, in fact, one of its defining characteristics, though the term social facilities needs clarification.

Shihverdiev and Serjakov [2008] understand social investment as such investment whose useful effect applies both to society and the company. In our opinion, this interpretation requires clarification of the goal, form and object of investment.

Social investment, according to Bondarenko and Omelianovych [2009], is a way to implement corporate social responsibility through targeted programs that meet the needs of basic groups of stakeholders, i.e. customers, staff and local communities.

Thus, it could be noted that, on the one hand, Ukrainian researchers consider social investment in the context of corporate social responsibility, which refers to the social activities of the company aimed at its surrounding environ-
ment in order to create a favorable image in the eyes of public and social benefits to employees. On the other hand, they look on social investment as an investment in human capital, promoting professional development and improving productive abilities and, thereby, increasing productivity [Libanova 2006]. Investment in human capital includes expenditure on life-long education, health, development of humanitarian components of human capital, strengthening motivation of workers, migration of workers, and search for economically important information [www 12].

In our opinion, it is not reasonable to distinguish between social investment in the context of corporate social responsibility and investment in human capital because they are inextricably linked.

According to foreign information sources such as research literature, materials of research by international organizations and consulting companies, there is no common definition and understanding related to SRI. The industry faces difficulties in defining, measuring and reporting on responsible investing. Moreover, some differentiation is noticeable even among European countries based on their historical and cultural differences [www 8; www 10; www 12].

Recently, the European Sustainable Investment Forum (Eurosif) has considered SRI not as socially responsible investment but in broader terms as Sustainable and Responsible Investment. Therefore, we find it appropriate to use the world’s generally accepted acronym SRI in studies of responsible investment within the Ukrainian market and we follow the evolutionary approach to expansion of socially responsible investment to sustainable and responsible investment.

The terms also vary with time, place and trends. They include, but are not limited to ‘ethical’, ‘social’, ‘green’, ‘responsible’, ‘sustainable’, ‘societal’, ‘impact’ and ‘clean’. These terms are complementary and have almost one and the same meaning.

Eurosif does not provide a definition of SRI, but their study covers any type of investment process that combines investors’ financial objectives with their concerns about ESG issues [www 11].

Thus, in using the term SRI (socially responsible, sustainable and responsible investment) we mean investment in tangible and intangible forms focused on creating long-term value taking into account the effect on the environment, social domain, quality control, and ethical obligations.

The publicized results of the research into socially responsible investment of international organizations include classification of SRI strategies, which has been improving gradually due to innovation in the financial sector and increased transaction volumes of socially responsible investing. Thus, in the 2012 EUROSIF Study a refreshed classification of SRI approaches was suggested.
The seven distinct approaches identified, referred to as strategies in this study, are [www 11]:
1. Sustainability themed investment.
2. Best-in-Class investment selection.
3. Exclusion of holdings from investment universe.
5. Integration of ESG factors in financial analysis.
6. Engagement and voting on sustainability matters.

A description of each strategy is contained in the report of the European Sustainable Investment Forum [www 10; www 11].

According to the research conducted by other leading organizations in the field of SRI such as the Global Sustainable Investment Alliance (GSIA), the UN-backed Principles for Responsible Investment (PRI) and the European Fund and Asset Management Association (EFAMA), there are some differences in the definition of strategies for responsible investment but there is a certain tendency towards unification (matches in 5-6 strategies can be noted) [www 11].

Based on the studies of the European Sustainable Investment Forum [www 11], SRI assets can be classified by:
1. The investment strategies used,
2. The type of investors: retail and institutional:
   – managed by asset managers via pooled products, both institutional or retail;
   – managed by asset managers via separate accounts on behalf of their institutional clients;
   – managed internally by asset owners (self-managed assets) [www 11; www 12],
3. Types of assets (real investment): in stocks, bonds, deposits and alternative assets (real estate and commodities).

2. Research methodology

To attain the aim and objectives set, the research has been conducted in the following stages with the use of general and special methods of knowledge in the field:
1. Investigating the concept of socially responsible investment in Ukraine and abroad, including the classification of SRI strategies, applying content analysis and synthesis.
2. Analyzing SRI in Ukraine and interrelation between the state of the country on the path to sustainable development and the level of corporate social responsibility using the method of analysis and synthesis, and the method of
quantitative comparison based on secondary data obtained from the reports of international organizations, consultancies and research institutions.

3. Researching the evolution of CSR and SRI in Ukraine using the historical and logical method.

4. Analyzing the condition of CSR and SRI in Ukraine through the involvement of Ukrainian companies into the UN Global Compact, dynamic and structural analysis of participants, i.e. socially responsible companies, applying such statistical methods as horizontal, vertical, and graphical analysis.

5. Studying the reasons for the low level of SRI and prospects for its development in Ukraine using methods of systematization, analysis and synthesis based on the results of bibliographical search and secondary data.

3. Research findings

3.1. Socially responsible investment and sustainable development

Socially responsible investment is a tool for achievement and support of sustainable development, which is a priority for the development of humanity as stated in the official documents of international organizations (the United Nations Global Compact, the International Labour Organization, UNICEF, UNIDO, the European Council, the OECD, the European Organization for Quality, the International Organization for Standardization – ISO) and government documents of European countries.

Based on the results of the survey of managers’ opinions and viewpoints, which was conducted in 2016 within the framework of the UN Global Compact and the Accenture company, “fully 89 percent report that sustainability commitments are translating into real impact in their industry” and “87 percent believe the SDGs provide an opportunity to rethink approaches to sustainable value creation – and 78 percent already see opportunities to contribute through core business” [www 6].

Ukraine, like the other members of the UN, has started setting sustainable development goals, relevant objectives and indicators for the monitoring of their achievement for the period from 2016 to 2030. It is expected that these sustainable development goals will form a new system of mutually agreed managerial actions in the economic, social and environmental dimensions. The integration of efforts directed towards balancing economic growth, aspirations to reach social equality and rational use of natural resources require deep social and economic transformations and new approaches to possible global partnership [www 18].
To evaluate the state and dynamics of the development of different countries towards sustainability, the rankings and indices of the international organizations, consultancies and research institutions can be used. Some results of such rankings are already available for Ukraine.

According to the Global Competitiveness Index (GCI) Ukraine takes the 79th place out of 140 countries for the period from 2015 to 2016. Meanwhile, such indicators of sustainable development and social dimension as “corporate ethics” and “health” are of higher value and Ukraine takes the 76th and 82nd places respectively (close to Honduras and Vietnam). As for such indicators as “primary education” and “higher education and training”, Ukraine has a rather high position and occupies the 34th place [www 4].

The World Economic Forum pays attention not only to a nation’s competitiveness but also paths of sustainable development as measured by social and environmental indicators because a high position in the Global Competitiveness Index without concern for the wellbeing of future generations is meaningless. According to the Global Competitiveness Index, in 2014 and 2015 Ukraine’s Sustainability-adjusted Global Competitiveness Index was 3.95, while the best index was 6.8 (Switzerland) while Guinea took the bottom position with the lowest value of 2.61. So Ukraine belongs to the group of the countries which have a low level of competitiveness and make insufficient efforts towards sustainable development [www 11].

As indicated in the World Competitiveness Yearbook 2016 by IMD of Swiss Business School, Ukraine takes the 3rd place from the end – the 59th out of 61 places and is near Croatia and Mongolia [www 4].

According to the Country Sustainability Ranking, developed by the Swiss companies RobecoSAM and Robeco and including 17 indicators focusing on the ESG factors with a share of 15%, 25% and 60%, respectively, Ukraine takes the 52nd place out of 62 ranked countries as of April, 2016 [www 14].

The Sustainable Society Index, SSI, which shows the level of sustainability of 151 countries, gives Ukraine the 102nd place near Tajikistan and Jamaica. The SSI includes such indicators as sufficient food and drink resources, safe sanitation, education, healthy lifestyle, gender equality, income distribution, savings and consumption, population growth, good governance, biodiversity, renewable water resources and energy, energy use and savings, greenhouse gases, organic farming, as well as such macroeconomic indices as GDP, employment, and public debt [www 15].

The ranking of Sustainable Competitiveness of the SolAbility consultancy, which takes into account ESG-factors in contrast to the sovereign credit rankings, gives Ukraine the 86th place out of 180 ranked countries [www 5].
Social responsibility is one of the key components of the mechanism of sustainable development and it is accordingly the object of study.

In the work of Ukrainian researchers four approaches to the interpretation of the category ‘social responsibility’ are distinguished:

1. The legal approach: any actions are considered as socially responsible if they do not violate the law; business plays a crucial role in the development of the country, and its function is to ensure the profitability of business and tax compliance.

2. Social responsibility identified with professional responsibility: the interests of the employer are of corporate governance priority, and social interests are an associated consequence.

3. Social responsibility as a specific element of economic responsibility, a measure by which corporate goals of the enterprise could be achieved.

4. Corporate social responsibility as a moral and ethical responsibility by which the combination of the economic interests of businesses and social needs of employees is achieved.

Corporate social responsibility is multi-vector and it includes responsibility of employers to their employees and responsibility of companies to their partners, local communities and society as a whole [Bukovyns‘ka (ed.) 2015].

According to the International Standard on Social Responsibility ISO 26000 which has been introduced in Ukraine, social responsibility is the responsibility of an organization for the impact of its decisions and activities on society and the environment through transparency and ethical behavior that contributes to sustainable development including health and the welfare of society, takes into account the expectations of stakeholders, and is in compliance with the applicable law, consistent with international norms of behavior, integrated throughout the organization and implemented in its relationships [www 13; www 16]. Thus, the definition which is given in the Standard takes into account all of the above-mentioned approaches.

According to ISO 26000, CSR has the following core subjects: protection of human rights, the environment, labor practices, fair operating practices, consumer issues, organizational governance, and development of the community and society. Thus, the standard includes all the principles referred to in the UN Global Initiative (12,000 companies and organizations including 266 Ukrainian ones have declared their adherence to this document).

A study conducted by the WelkerInformation Agency has discovered a direct relationship between the growth of prestige and performance of economic activity and the implementation of social responsibility. An increase in social
potential of 1% raises an organization’s social prestige by 0.55%, while the
growth of economic potential improves its economic value by 0.32%.

Thus, it can be concluded that socially responsible investment is a practical
form of implementation of social responsibility.

To clarify the basis for the formation and functioning of socially responsible
investment in Ukraine we will consider the evolutionary context of corporate
social responsibility and socially responsible investment.

3.2. Evolution of CSR and SRI in Ukraine

Analysis of the information sources which cover socially responsible in-
vestment in Ukraine allows one to conclude that it has not yet been possible to
define the particular stages of development of SRI within Ukrainian space. One
can only assume that Ukraine is at the initial stage of forming the institution of
socially responsible (sustainable and responsible) investment. However, the par-
ticular stages of CSR can already be distinguished and characterized.

Stage 1 (December 2005-2007). The Forum ‘Corporate Social Responsibil-
ity and Global Compact’ and the launch of the initiative ‘Global Compact’
started on 25 April 2006 in Ukraine. The Forum of Socially Responsible Busi-
ness (CSR) was established and the Memorandum of CSR was developed.

Stage 2 (2007) was characterized by the expansion of stakeholders’ aware-
ness, the first steps of implementation of CSR strategies, and events aimed at
discussing a range of issues relating to the development of CSR in Ukraine. On
1 November 2007 Ukraine joined the group for the development of social re-
sponsibility standard – ISO 26000, and six national experts from various stake-
holder groups were elected [www 12].

Stage 3 (2008). Institutionalization of the Global Compact took place and
the Global Compact Board, including representatives of Ukrainian and interna-
tional companies, non-governmental organizations, federations of employers and
trade unions, was established. It was understood that CSR was a strategy of
business, so studies aimed at understanding and awareness of CSR ISO 26000
were carried out by the Centre of Development of CSR with the support of part-
ners. As a result regional roundtables and workshops on CSR were held.

Stage 4 (2009-2011). There was focus on ecomanagement and protection of
the environment involving universities in CSR and the creation of a network of
‘CSR in education’. Social, environmental and educational initiatives were con-
tinued with the support of UNITER. The Global Compact held the first Ukrain-
ian Business Summit on Climate Changes [Red'kina, Saprykina, Liashenko,
Stage 5 (2012-2013). Companies’ awareness of the necessity of CSR increased; work on the concept of the national CSR strategy, systematization and centralization of the CSR projects was carried out, and the scale and systematics of the CSR projects extended. During this period the number of non-financial reports rose (from 11 in 2011 to 35 in 2012) indicating the spread of CSR practice among Ukrainian companies.

Since 2013 there have been attempts to integrate the CSR projects into the strategy of companies’ increasing communication flows and spreading the ideas and practices of corporate volunteering [www 2].

Besides this, since 2013 the holding of the annual national forum ‘Business and University’ has brought together the interests of both businesses and universities and created new and effective partnerships. The mission of the Forum is to improve the quality of education as a whole. Within the annual Forum, the establishment of contacts and discussion of the best practices of effective partnerships between businesses and universities have taken place [www 1].

Stage 6 (2014-2016). Work on the development and adoption of the National Strategy on Corporate Social Responsibility was suspended almost until the beginning of 2016. Following this hiatus, the extended working group was restored, which gave hope for its completion and approval by the end of 2016 [www 4].

The analysis of the evolution of CSR and SRI in the world [www 3; www 6; www 17] shows that Ukraine is at the beginning of the SRI process. For the implementation of SRI practices it is necessary to undergo a long period of sustained effort: from the adoption of the legislation to promotion of CSR ideas and opportunities for socially responsible investment in society.

3.3. State of CSR and SRI in Ukraine

To draw a conclusion about the state and trends in the development of CSR and conditions for socially responsible investment, it is necessary to consider the issue of participation of Ukrainian enterprises and institutions in the United Nations Global Compact – the world’s largest global voluntary sustainability initiative, which brings together 12 000 businesses and non-profit organizations from 170 countries into a single global forum for sustainable development through responsible and innovative management.
There are 266 registered Ukrainian participants in the UN Global Compact. The official presentation of the UN Global Compact in Ukraine was held in 2006. During the ten-year period of this global initiative the existing number of domestic signatories of the UN Global Compact has grown from 46 to 266 (Figure 1).

**Figure 1.** Dynamics of the Ukrainian signatories of the UN Global Compact

![Figure 1](image)

Source: Based on: [www 20].

The most active period of joining the UN Global Compact was the pre-crisis time (until 2008), following which this process slowed down. So it can be stated that interest of domestic enterprises in CSR and sustainable development declined because of changes in priorities and the necessity to survive in adverse conditions. However, according to the results of qualitative research conducted by the Centre of Development of CSR in 2014, the majority of companies believe that the role of business grows during periods of crisis and, depending on the strategy of doing business in times of conflict, different areas can be selected for social investment (for example, improvement of workers’ safety, recovery of economic and social infrastructure, etc.). Between 2010 and 2016 the number of Ukrainian participants increased by 1.6 times. The structure of socially responsible signatories of the UN Global Compact is shown in Figure 2. As we see, these are mostly local non-profit organizations (27.4%), small and medium enterprises (27.1%) and companies (20.7%). But real involvement in the process of conducting activities in a responsible way is shown only by the participants with active status (those which report to the UN Global Compact annually or once every two years depending on whether they are commercial or non-profit organizations). Thus it is only about 14% (37 companies) of all the Ukrainian participants whose activities follow the principles of responsible business (Table 1).
Figure 2. Structure of Ukraine’s participation in the UN Global Compact by type, August 2016

Table 1. Participation of Ukrainian enterprises and organizations in the UN Global Compact (as of 08/16/2016)

<table>
<thead>
<tr>
<th>Type of participant</th>
<th>Joined the initiative of the UN Global Compact</th>
<th>% of the total quantity of participants</th>
<th>Participants with active status</th>
<th>% of participants with active status (relative to the total quantity of active participants)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGO local</td>
<td>73</td>
<td>27.4%</td>
<td>4</td>
<td>10.8%</td>
</tr>
<tr>
<td>NGO global</td>
<td>7</td>
<td>2.6%</td>
<td>1</td>
<td>2.7%</td>
</tr>
<tr>
<td>Small and medium-sized enterprise</td>
<td>72</td>
<td>27.1%</td>
<td>12</td>
<td>32.4%</td>
</tr>
<tr>
<td>Academic</td>
<td>14</td>
<td>5.3%</td>
<td>3</td>
<td>8.1%</td>
</tr>
<tr>
<td>Public sector organization</td>
<td>18</td>
<td>6.8%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Business Association local</td>
<td>17</td>
<td>6.4%</td>
<td>1</td>
<td>2.7%</td>
</tr>
<tr>
<td>Company</td>
<td>55</td>
<td>20.7%</td>
<td>16</td>
<td>43.2%</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
<td>3.8%</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>Labour local</td>
<td>2</td>
<td>0.8%</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>Micro enterprise</td>
<td>1</td>
<td>0.4%</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>Foundation</td>
<td>7</td>
<td>2.6%</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>266</td>
<td>100.0%</td>
<td>37</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Based on: [www 20].

The fact that the real activity in the field of CSR and systematic implementation of socially responsible investments is conducted by this exact number of companies is further confirmed by the statistic that 38 Ukrainian companies are the leading members of the independent expert organization of CSR in Ukraine – Centre of CSR.
Since 2002 a series of studies in the field of social responsibility in Ukraine have been conducted, namely, research by the Charitable Foundation ‘Intellec-
tual Prospect’ conducted at the request of UNICEF (2002); research by the Man-
gers’ Association of Russia (2002); CEUME Consortium for Enhancement of
Ukrainian Management Education in cooperation with the Ukrainian Women’s
Fund and the Innovation and Development Centre (2004); the comprehensive
case study “Social Responsibility of Ukrainian Business” conducted in Ukraine
on the initiative of the United Nations (2005); the survey “Future of Corporate
Social Responsibility in the Crisis Period” (2008) initiated by the Centre for
Corporate Social Responsibility; the study of the Carpathian Foundation in
Ukraine aimed at defining a list of incentives and obstacles in the implementa-
tion of socially responsible business programs; the research “Practice of Philan-
thropy of Business Companies in Ukraine: Current Practice” (2009); the expert
online survey “State of Non-Financial Reporting in Ukraine” (2010); several
studies of the CSR Centre “Corporate Social Responsibility in Ukraine 2005-
2010: Status and Prospects”, “Corporate Social Responsibility of Small and Me-
dium Business in Ukraine” (2007), “Dialogue with Stakeholders: Today’s Inter-
national and Ukrainian Realities” (2008), and “The Role of Business in Devel-

The main objective of the research was to determine the status of charitable
activities, understand the concept of social responsibility and the attitude of
Ukrainian entrepreneurs to these activities, implement socially responsible initia-
tives, and share international experience of responsible business practices.

Discussion

Based on the results of the conducted analysis, we can say that socially re-
sponsible investment does take place in Ukraine, but it is characterized by insuf-
ficient development due to a number of reasons.

The reasons for the low level of SRI in Ukraine. First of all, the low level
of SRI in Ukraine can be explained by the perception of the concept of “corpo-
rate social responsibility”. The results of the studies in Ukraine (2010) indicate
that most of senior managers believe that “solving social problems is the field of
competence of the state and local authorities, whereas the primary responsibility
of business is making a profit’. In addition, “only 8.7% understood the strategic
orientation of social responsibility and its role in ensuring the competitiveness of
enterprises” [Kovalenko 2016].
That is the reason for the significant difference of perception of CSR between Ukraine and much of the rest of the world. In the developed countries CSR is regarded as ‘good practice’, a new level of strategic development of a company, and transparent activity is proclaimed including evidence of development, implementation and application of the corporate responsible business strategy as well as the monitoring of non-financial indicators of the company.

The other causes of under-development of SRI in Ukraine fall within the constraints upon CSR: imperfection of the CSR legislation; lack of financial resources; complexity of determining the economic benefit of socially responsible activities; and lack of incentives for the development of social responsibility, absence of a balanced policy and of a mechanism of government regulation of these processes. The impact of these factors is diversified by size of the company: the major deterrent for small companies is the lack of financial resources while imperfect domestic legislation is considered to be the major constraint for medium and large ones [Kovalenko 2016].

Moreover, a significant problem with the evaluation of the development of socially responsible investment in Ukraine should be noted because of the low level of transparency in business, voluntary formation of social reporting and lack of common approaches to them that make it impossible to systematize data and conduct analysis.

**Prospects for development of SRI in Ukraine.** Some scholars point out the existing contradiction between the social and economic objectives of an enterprise, and the need to find the balance, i.e. the optimum ratio between these activities. But we believe that the objective function should be defined in another way in order to achieve sustainable development of each company and the whole country by using socially responsible investment as a tool for improving the capitalization of enterprises and welfare of their owners. This is reflected internationally, e.g., in the conceptual approaches to the development of corporate policies of the International Labour Organization. Firstly, an increase in profitability should bring with it an improvement in the welfare of a company’s employees, so profit should not be made at the cost of damage to the material interests of people and deterioration of working conditions. Secondly, corporate social responsibility should be associated with philanthropy, religious and cultural values, and considered as a factor of increasing not only prosperity but also economic performance through the improvement of reputation, attracting new investments and increasing sales. And, finally, types of corporate social policy are unique to each company since social programs cannot be universal and are determined by specific conditions of each company such as profitability, priorities in development, its marketing policy, etc. [Bukovyns’ka (ed.) 2015].
The impulse for the development of SRI in Ukraine can be given by the following measures: introduction of tax incentives, reduction of the administrative and regulatory burden on business entities, attraction of businesses to implementing social and environmental projects of local development, etc.

The dynamic processes of socially responsible investment are essential for the competitiveness of the Ukrainian economy under conditions of further European integration and the focus on sustainable development.

Based on the study of the non-financial impact of Ukrainian business on society which was held in July-August 2014 by the CSR Community and Ekonomika Communication Hub, the following list of the most significant issues for Ukrainian business was compiled.

1. Product quality.
2. Involvement in thematic or sectoral coalitions.
3. Corruption.
4. Responsible marketing.
5. Responsible procurement.
6. Development and innovation.
7. Working conditions.
8. Occupational health and industrial safety.
9. Interaction with educational institutions.
10. Involvement in systemic change [www 18].

This list of the most significant issues outlines the possible prospective areas for socially responsible investment to be made by domestic enterprises to achieve sustainable development of businesses, regions and the country as a whole. At the enterprise level, the materiality matrix, by which a non-financial impact could be assessed, is recommended for usage in prioritizing social investments. The materiality matrix is one of the basic tools for identifying and prioritizing issues that are significant for companies and their stakeholders. It is actually a guide for building a social responsibility strategy. The matrix can also be used as a controlling mechanism to check whether a company is focused in its business strategy on the right targets and whether the social or environmental projects of a company are consistent with its significant issues [www 18].

Defining a company’s essential non-financial issues leads to:

1. Strengthening of the capacity to assess risks and manage them.
2. Improvement of products and business processes.
3. Winning of greater trust among stakeholders.
4. Establishment of formal and informal business legitimacy (license to operate) among government and regulatory agencies and local communities.
5. Receiving of information and advice from unofficial sources.
6. Participation in solving common problems and challenges of the business environment.
7. Increasing the company’s importance in the process of determining the rules of society in general and the specific markets in particular.

Conclusions

The issues of theoretical, methodological and practical aspects of socially responsible investment in the Ukrainian market have considerable potential for research.

To achieve the aim of defining the current state and prospects of socially responsible investment in Ukraine based on theoretical and methodological study the following objectives have been reached:

1. To research the existing differences in the approaches to defining socially responsible investment and social investment including the features and a way of classification of SRI. As a result, it could be concluded that the academic community does not share a single, unambiguous interpretation of the concept of ‘social investment’. Based on the results of the review of the information sources, we propose an understanding of SRI as investment in tangible and intangible forms focused on creating long-term value taking into account the effect on the environment, social domain, quality control, and ethical obligations.

2. To define the role of SRI under conditions of sustainable development. The evaluation of the state and dynamics of the country’s development towards sustainability based on world rankings demonstrates the low competitiveness of Ukraine, the insufficient level of consideration of the priorities of sustainable development in the country’s development strategy and the low standard of living. Socially responsible investment is a tool of achievement and support of sustainable development, which is a priority in human development.

3. To study the evolution of CSR and SRI in Ukraine. Based on the research findings, it can be concluded that Ukraine is at the beginning of the institutional formation of SRI.

4. To analyze the state of CSR and SRI in Ukraine. It has been found that there are 266 registered Ukrainian participants of the UN Global Compact. And only about 14% of all the Ukrainian signatories follow the principles of responsible business in their activities. The fact that real activity in the field of CSR and systematic implementation of socially responsible investments is conducted by this exact number of the companies is further confirmed by the statistic that 38 Ukrainian companies are the leading members of the independent expert organization of CSR in Ukraine – Centre of CSR.
5. To highlight the current problems and outline the prospects of SRI development in Ukraine. The main problems are as follows: the wrong perception of the concept of 'corporate social responsibility' by Ukrainian business owners and top-managers, numerous constraints upon CSR in legislation and the financial sphere, lack of legislative basis for supporting SRI, and the low level of transparency in business and voluntary formation of social reporting. For the implementation of SRI practices it is necessary to undergo a sustained period of effort which must include adoption of the necessary legislation, promotion of the concept of CSR and of opportunities for socially responsible investment in society as well as permanent monitoring of the trends in CRI development in the counties which are oriented towards sustainable development in the future.

SRI and CSR issues are the object of the research, while socially responsible projects are implemented in the business environment and have ample potential for further development under the ongoing conditions of global integration.

The findings of the conducted research could be used in the activity of stakeholders for promoting CSR and SRI standards in Ukraine and to assist the Ukrainian NGOs whose activity is aimed at CSR and SRI in lobbying on SRI issues. They can also be employed by researchers for the further study on this theme. The proposed methodology can be applied in countries with a comparatively similar level of development of SRI processes.

Further research could be aimed at the question of inclusion by Ukrainian institutional investors of socially responsible investments into their portfolios.

References


