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# **State and private partnership as a main stream in modern social and economic development of the region**

## **Abstract**

*The practice of socially responsible interactions in the system of «public authorities – private enterprises» is studied in the article. Foreign experience of public and private social and economic development of the regions implementing is analyzed. Evaluation of the economic and social expectations of Ukrainian people and their relation to the domestic social sphere is made. Directions to stimulate bilateral cooperation between enterprises and public authorities are suggested.*

Key words: public and private partnership, social and economic development, economic expectations, strategic partnership.

## **1. Introduction**

Efficiency of the social and economic development in the country greatly depends on every subject's interest consideration, which it concerns (authorities, business representatives, each person). Unfortunately, nowadays degree of such interests holding is decreased in Ukraine. As it is known, one of the strong powers in modern economy is entrepreneurship. Business responsibility problem is observed at different levels at the moment, but there is no great success in its growth.

Taking into account the fact how trends in business development are changed in Ukraine and abroad, it is necessary to pay attention to the idea that not simply companies become successful, but socially responsible organizations. The concept of corporative social responsibility is widely spread and more scientific schools are involved both to these problems discussion process and research in this sphere [1-9]. At the same time abilities and advantages of the state and private partnership as cooperation actual type are analyzed [9-11]. The questions concerning ideas in this concept adjusting to native management realis, interrelations at the level “enterprise – authorities” have not been solved yet.

The object of the article is to analyze partnerships specific nature of authorities and representatives from business, and international experience of the general operations in the regional social sphere and total possibilities for development in Ukrainian economy.

## **2. The first subtitle**

At the present time intellectual capital is an important component of the business competitiveness. The competitiveness of the enterprise greatly depends on its level. One of the factors to save and to improve human capital is social sphere. Well-known firm Google, one of the biggest firm by the market capitalization, faced the problem where workers have no wish to visit gyms, which are outside the office, where they work. It means that place, where service is provided, and convenience of its providing are significant factors for personnel, considering their working places. It points the fact that social sphere activity is impossible without its users' concrete peculiarities considering. One realizes that a person will give more, will work more effectively, if he or she is paid great attention and satisfied. Worker's free time is something that increases his work efficiency.

Until the present, the idea of social macro responsibility dominance was particular for Ukraine, where troubles concerning social state of the local community in practice were taken by state and city-creating enterprises, which work at the proper region territory. Large tax pressure for business and hard financial and economic state of many economic subjects prevent them in their social policy. The formation of social responsibility in local authorities, enterprises and community is determined by use of profound approaches to manage social providing of the region taking into account generally accepted international principles and Ukrainian realis.

Albeit scientific researches in the sphere of various subjects' social responsibility, there are no concrete tools now to reveal accordance or mismatch of the existing indexes in the regional social development to norms, by which it is possible to recreate and to reveal social responsibility of the territorial community by its all subjects, and traditionally it is local government, local enterprises (representatives of big, medium and small business), public organizations, population of the region. If one observes social constituent development in the region from the position of enterprises, it is necessary to take into consideration the fact that business entity in his conduct follows the concept of "stakeholders", possessing some corporative awareness, which foresees understanding of responsibility by authorities, including social one, in relation to civil society.

During long time social responsibility conceptions gave fragmentary development, i.e. one stressed the fact that its principles have to be considered in the business entities' activity. It has nature of so called corporative honesty, business ethics. Under modern national economy innovative approach to form regional social and economic programs, has to be developed. It is reasonably to put all subjects' social responsibility, which influence the separate region development, into its base.

Let's analyze such integration aspects on example of efforts intercoordination in the

system “local authorities – enterprise”. At the moment there is necessity to unify approach to estimation of enterprise work level in the social providing system. The question is not about obligatory social reporting introduction, but about business entities’ work results proclamation in the labour payment system, social partnership, financing of the socially significant programs etc., which have to be controlled by local self-governing authorities in territory where this subject is situated. Some countries under conditions of state and private partnership pay attention to creation of new infrastructure objects, others – to increase of the existing objects’ works efficiency. There are countries, where great capital investment are required from private sector, and there are countries, where business role is limited by infrastructure objects; exploitation. For example, in Israel municipalities’ budgets are divided into current budgets and budgets of development. In cases, when budget of development in city has no enough costs to realize project, the state and private partnership schemes are more often used [12].

Modern economy realis is such that we can see life quality, population wealth fall, particularly economic constituent, which as a result greatly worsens human’s social standing. Research of the public thought concerning material status and economic expectations of households in 2015 showed that only for 9,9% of Ukrainian families their incomes level was enough and gave opportunity to save money for huge purchases (fig. 1).

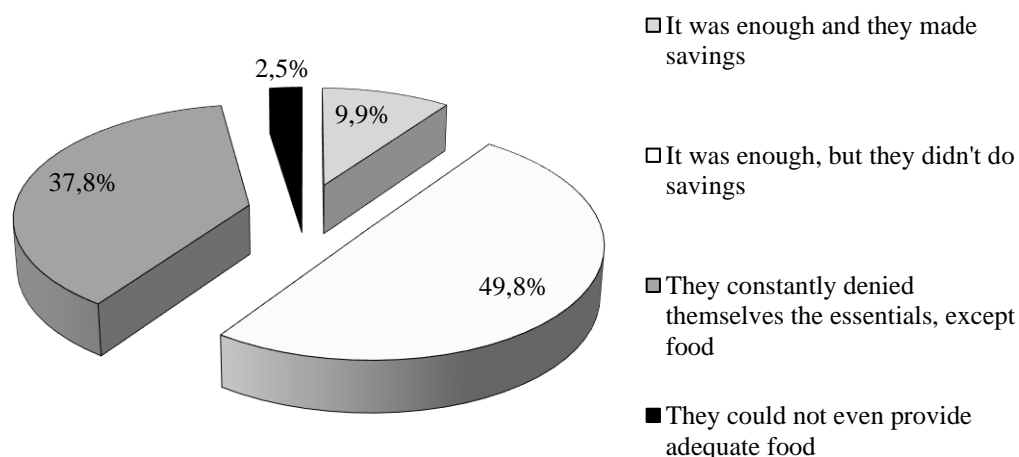


Fig. 1. Allocation of Ukrainian families by their incomes level during the year, 2015, created due to data [13] and authors’ personal studies

Therefore people do not expect improvement of the economic situation. 70% of respondents gave such answers. It is interesting that in 2014 part of those respondents, who

confirmed ability to improve economic condition in the state, was higher in comparison with 2015 (fig. 2). Inquiry in 2016 showed that part of those people, who are waiting for improvement, is falling, and at the same time pessimistic respondents' number is quickly increased.

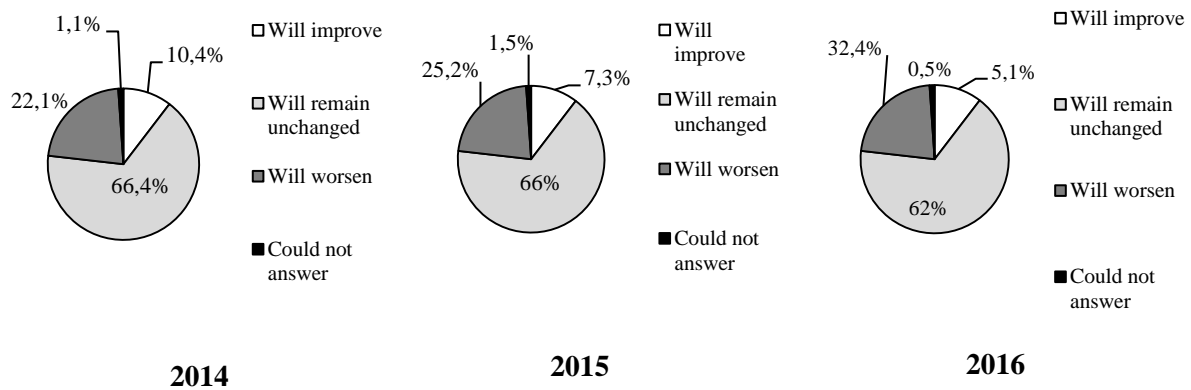


Fig. 2. Economic expectations of Ukrainian citizens concerning changes in their material status for the next year, 2014-2016, created due to data [13] and authors' personal studies

It is well-known that in western countries “life in credit” is usual fact. Therefore if citizens from the most “debt-laden” countries in the world take credit to buy dwelling, car or to pay for education at HEI, Ukrainians mostly take consumer credits. It means that credit giving to banks clients to purchase small appliances – is not rarity, but realis of the modern native economy. Minimal salary 1378 hrn per month, included in the budget in 2016, with modern prices, drives Ukrainians to the wall, because it is impossible to survive with such sum, even without considering except the most necessary (food, clothes, utility payments), and needs in rest and health improvement.

### 3. The second subtitle

It is mentioned at all hierarchic levels of government that transferring process from centralized to decentralized governing model in the state becomes more necessary to provide abilities of the local self-government and to build effective system of the territorial organization in authorities in Ukraine to solve social problems in regions. Improvement of the territorial

organization in citizens' social providing may be realized on behalf of the local authorities through:

- introduction of unified indexes to estimate organizations social work level in the region, regardless their property forms, location territory, activity goals etc.;
- inspection of enterprise by the proper institutional establishments with purpose to develop further methodic recommendations for social responsible business;
- approval of the social and cultural services state standards, including for enterprise workers;
- improvement of social service management process institutionalization considering all components in cycle “planning – service providing – control” with formation of effective feedback with recipients of service to evaluate service quality and their completeness;
- investigation of the social service clear basic list to base and to plan financial providing of various citizens categories minimal.

Enterprises which possess social tools, show the best ability to prevent economic, social, political and other problems, which may appear while performing economic activity. At the same time, in order to activate social responsibility of business it is necessary to pay attention to:

- formation of the enterprise socially responsible management system considering foreign companies experience, specific nature of presence regions (cooperation with local authorities, cooperation with mass media concerning positive public thought support in relation to enterprises, participation in realization of the target programs, initiated by local organizations etc.);
- increase of the workers' economic subjects' knowledge quality in the sphere of social responsibility;
- native enterprises recognition of the soviet experience to conduct social activity to increase interest in its results.

Business with purpose to improve personal image develops local territory (fulfilment of the support programs concerning vulnerable social groups, preservation of the cultural and historical objects, sponsorship of the cultural, educational and sport organization, participation in charity events on a voluntary basis). Examples of the socially responsible events at the company, acting at the Ukrainian market, are shares of mobile operator “Kyivstar” and restaurants net “McDonalds” with beneficial nature. Company “Kyivstar” provided ability of service sms-calls to help people with hearing disorder, in its net. In most developed countries

social responsibility of the enterprises is not obligatory, but free-will deal at any company. At the same time indexes of the enterprises social activity are recognized by serious competitive advantage at the market. In their turn controllers of emergency service can see the whole necessary information about subscribers on displays: personal data, physiological peculiarities, diagnosis, its location place. Annually the company “McDonald’s” organizes days in all restaurants in the net, when famous people of the region where it is located are working there, and part of costs from production purchase and the whole proceeds in these days is directed for support of orphan asylums, children’s illnesses treating and for help of health protection institutions.

The urgent problem is to define what every object is at the community territory from the point of view of economic and social activity. Collective programs of the productive, trade, banking and social marketing may improve conditions to develop various aspects in the regional social and economic sphere. Due to modern tendencies of privilege are shifted in the system “center – periphery” in opposition to the last, because there is sense to stimulate initiatives’ development in the problematic developing regions and cities, where, as a rule, prices are lower. Economist F. Inesami suggests three ways to liquidate disproportions between megapolis and periphery (table 1).

*Table 1. Ways to avoid difference between megapolis development stage and periphery, formed due to data [14]*

Approach name	Essence of the approach	Territorial unit within reform
Regional	Development of infrastructure, investing of the regional periphery	District
City-oriented	Investing of “the second order” cities, purpose of which is to support stagnating average cities to transfer them into new “growing points”	Regional communities
Zonal	Distinguish of the regional periphery into several zones and formation economic attraction own center in each of them	Rural communities

Implementation of various projects has to be grounded not on quantitative, but on qualitative indexes. Priorities are also changed. E.g., if earlier financing of enterprises social sphere objects didn’t have mainly economic aims, now reasonability to keep objects is evaluated from the positions of material benefit receiving from it. It is particularly for most enterprises in the sphere of social objects management, to refuse the existing and acting objects of the social infrastructure or social responsibility tools. One of the active ways to prevent from it is to create strong corporative culture, which will not cause the “desocialization” processes.

Approaches to develop social sphere are also changed – if in USSR times extensive development prevailed (attempts to provide more necessary service), at the beginning of XXI century intensive development prevailed, which foresees distinguishing of the most significant services. This approach will be deepened and innovative approach will be developed, which provides technologies substitution, creative tools use in management. It is obviously that two last approaches will be united into so-called intensive and innovative one [15].

Today there is a problem of enterprises' real interest to perform socially responsible acts. Actually situation is in such state that almost none of authorities' decision didn't motivate business representatives in their social work. For example, in 2014 Verkhovna Rada of Ukraine approved decrease of the one social contribution for economic entities in size from 41% to 16,4%, but this rule acted not for everyone. In order to get ability to pay the one social contribution with rate 16,4% entrepreneurs needed to fulfill conditions. Taxing base had to be increased in 2,5 times. Besides, increase of average salary at the enterprise has to be about 30%. Average salary for each insured worker is not less than 700 hrn per month. Average salary at the enterprise is not less than three minimal salaries in the country. Approval of such conditions to get discounts for social contribution didn't give positive results. Only 8 thousand enterprises used ability to pay smaller tax [16].

Let's observe examples of the social initiatives' successful realization. In the world countries rating by life level in 2014 Belarus took 53 place (among 187) and was recognized as leader among all post-soviet countries. Belarus has developed social infrastructure, and costs for dwelling, education, different cultural events are lower in this country, than in most western and eastern European states [17]. Within social protection growth Azerbaijan government is cooperating with foreign organizations and donors, and also with non-governmental organizations. As an example of such cooperation it is 5-years Program of Azerbaijan social and economic development (SEDA), financed by general attempts of the country government and International development agency USA (USAID). SEDA activity is oriented to fasten social and economic development in Azerbaijan at regional level through infrastructure projects support, interested sides participation motivation to achieve prior social and economic strategies and programs in selected regions and beyond them. Within the program several regions received proper grants [18]. German government gave grants for development of social projects in Ukrainian regions many times. It is necessary to remember German experience, which relies on activity to use different social and political approaches according to Leipzig chart of sustainable European city. In its program it asks to investigate and to coordinate sectorial specialized programs, e.g., development of infrastructure, social policy, education,



housing policy etc. Strategic integrated conceptions are to be coordinated between each other at the municipal analysis stage. The programs have to be developed in such way that their results will be mainly oriented to each other. In space aspect Leipzig chart puts demands to give special support to undeveloped, complicated regions in city, because only strong cities can normally serve to its society and state. The purpose of chart is to involve all sides to develop strategy, particularly local councils and administrations, citizens in cities.

Let's form tools of the enterprises state stimulation to perform socially responsible activity:

1) Normative (investigation of normative base to regulate corporative social activity; strengthening of the social reporting dominant role for enterprises; legislative strengthening of privileges system for socially active enterprises; systematic control of social effects in economic entities' activity; legislative strengthening of the two-sided help "state – enterprise"; introduction of standards concerning social indexes at the enterprises).

2) Financial (preferential taxing and crediting; subsidization of enterprises; concession of priority in state purchases and tenders; discounts for land and apartment rent; partial financing of separate social projects, started by enterprises).

3) Organizational (attempts of management methods standatization by enterprises reporting indexes; assisting of the interested sides' effective dialogue; consultations; free of charge study for personnel in the social sphere management methodology).

4) Informational (determination and popularization of the companies-leaders in the social sphere management; development of proposals and support of enterprises initiatives in the socially responsible management sphere; systematic revealing of information on corporative social responsibility).

#### **4. Summary**

Examples of other states and existing experience to solve problems in the Ukrainian social sphere give ability to confirm that state and private partnership in the native economy, being on the colostral stage, has chances to take an important place, acquiring the so called mainstream status during the corporative social responsibility realization in the system "enterprise – state authorities". In order to support and to develop such partnership, there are tools, which are subdivided by directions. Authors suggested recommendations concerning state motivation of economic subjects to perform socially oriented actions by them. Perspectives of the further research is to develop actions to liquidate the existing obstructions

with purpose of state and private partnership conception further appearing in different sectors of social sphere.

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