ORGANIZATIONAL MECHANISM FOR MANAGING SOCIAL INVESTMENT IN CORPORATIONS

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Abstract

There is a need to address two strategic objectives in the Russian context: the construction of a socially-oriented market economy and the transition from an industrial to a postindustrial, mostly innovative, path of development. Obviously, without achieving a balance between economic efficiency and social justice, their solution is impossible. The aim of this research is the scientific substantiation of a set of theoretical and methodological provisions that broaden the notion of the essence of social investment and formation on their basis of a methodical apparatus for managing social investment in corporations. When analyzing the organizational mechanism for managing social investment in corporation, the authors used: the principles and methods of obtaining knowledge, comparison, and classification, as well as the main principles of methodology (certainty, development, and objectivity).

Practical interest is focused on the specification of the concept and types of social investments, on the identification of the features of approaches and procedures for making management decisions in the process of social investment in companies, and on the need to identify and specify the set of indicators that affect the effectiveness of social investment.

Keywords: social investment, decision making, investment efficiency

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Introduction

The undoubted importance of the decision-making process was realized by people together with the beginning of collective activity, but the process of making managerial decisions became an object of independent study only after the emergence of management science.

Growing demands of a person and a state cannot be satisfied without constant investment. Investments have great importance at both the macro- and microeconomic levels for reproduction on a simple and on an enlarged scale, structural transformations, maximizing profit and, based on this, solving a great many economic and social tasks.

However, experience has shown that in modern society the significance and role of non-technical factors are increasing demonstrably. The potential of technological innovations fails to fully uncover without respective social change. In the process of innovative transformations, their dependency on social factors is increasing even more – such social factors as, namely, the quality of human capital, health, level of education, and professional skill.

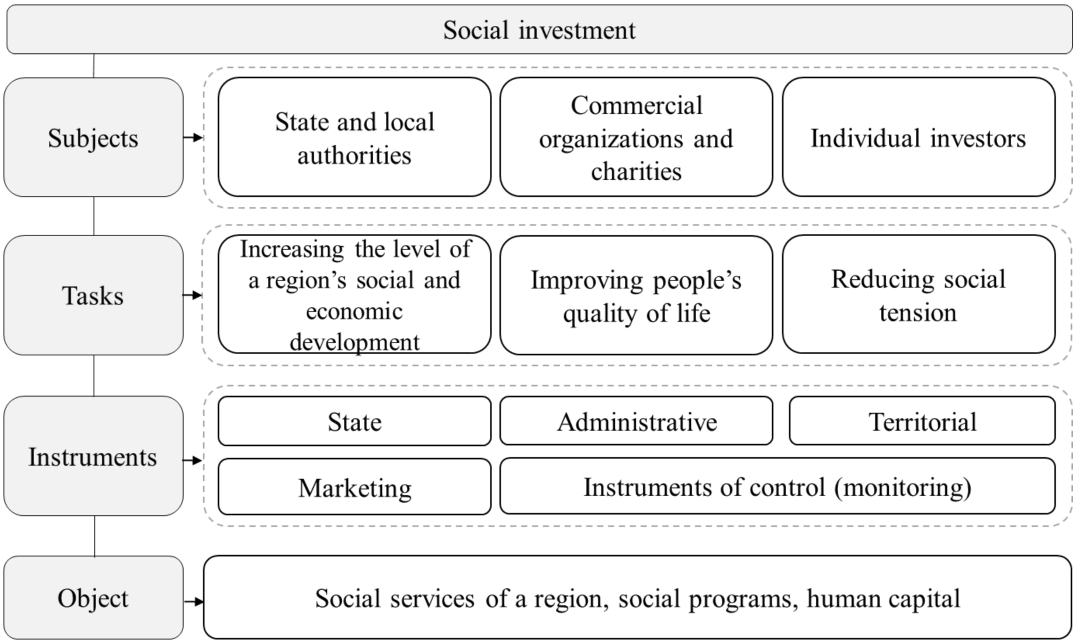
In recent years, along with corporate social responsibility, the concept of social impact investment has been encountered – first time it was talked about in 2007 at the International Conference "Investments that aim to solve social or environmental challenges while generating profit" organized by the Rockefeller Foundation (Hochstadter & Scheck, 2015). At the moment, there are few works that study Social Impact Investment, mainly works from the UK and the USA, Australia and Canada (Casanovas & Ventresca 2015, Glanzel & Scheuerle 2015, Grieco 2015, Benford et al., 2014). These countries are the pioneers of the application of Social Impact Investment (in large private banks, departments for Social Impact Investment, international networks are created and the first experts in these matters appear).

The aim of this study is to develop methodological statements and recommendations on improving management decision making during the process of social investment in companies. The tasks are as follows: to identify the mechanism for management decision making during the process of social investment in companies; to structure the main kinds of social investment and its targets in order to systematize approaches to management decision-making.

Technically, the social effectiveness of investment is the ratio of the net present value of benefits to the net present value of investment (Bokareva et al., 2016).

Social investment ensures maximizing useful effect for business that can be delivered by factors of production when used alternatively, through the mechanism of multiplicative effect on social environment (Fig. 1).

Fig. 1: Social investment mechanism



Source: A Report on Social Investment in Russia, 2014.

Thus, the social performance analysis should include the methodology of studying the chain of creating the social and political value, in which the so-called monetization plays a substantial (but not the only and not the most important) role (Agafonova, 2015).

Currently, companies use various approaches to evaluate social investment in their management practice. First, in order to evaluate the social investment effectiveness, a lot of companies use three types of quantitative indicators (Bokareva et al., 2017): the ratio of the social investment volume to the balance sheet profit; the ratio of the social investment volume to the sales volume; and social investment per one employee.

Second, qualitative indicators, such as institutionalism (the availability of a document, of a special department, etc.), are used to carry out industry and national studies. These indicators form a qualitative index that characterizes the process of a company's social investment (Bokareva et al., 2017). The index's values can be from 0 to 100%, and the higher the index value, the more integral a company's social policy. Comparing indices for different characteristics allows identifying bottlenecks that present the biggest problem for companies.

The social effect, at that, can be determined by both economic, statistical and sociological indicators (van Vliet & Wang, 2015). The main indicator for any company is improving people's quality of life as a result of the social investment activity (Federal Law No. 7, 1996).

Indicators of social effectiveness characterize the quantitative aspect of the achieved social goals, in order to achieve which an investment project has been developed and implemented: generation of additional social services, change of the consumer price index, housing per capita, etc. (Schrötgens & Boeni, 2017).

The important international documents on the company’s activity include the "Guidance on Social Responsibility", the ISO 26000:2010 standard. Based on that, a national standard GOST R ISO 26000–2012 "Guidance on Social Responsibility" was implemented in Russia with the aim to stipulate implementation of the international standard.

The other important international standard is the GRI Sustainability Reporting Standard.

According to the results of the non-profit organizations inquiry, in Russia 46 of the companies use the GRI Standard in preparing their nonfinancial reporting (see Fig. 2). The concept of the standard envisages division into social, economic, and environmental components of a company’s activity. The GRI also details working with local community. This standard is used not only in Europe, but also worldwide.

Fig. 2: Implementing international standards in companies

Source: Vinnikov, 2007; A Report on Social Investment in Russia, 2014.

The effective management of a company’s social activity in general and social investment projects in particular means dividing the spheres of a company’s social responsibility into social, economic, and environmental (Leoni, 2016).

In the economic sphere, the issues that require solutions include performance in accounting for generated and distributed value. It is necessary to strike balance between proceeds, operating costs, and investments, including social ones (Agafonova, 2015).

Operating based on the principles of the GRI and other international standards requires not only keeping records but also changing the functioning of business processes inside a company. The business model of a company’s social investment shown in Table 1 as a logical chart provides an integral understanding of the system of interconnected business processes.

Tab. 1: Social investment model in corporations

<table>
<tr><td rowspan="2">1. Key partners: State, non-profit organizations, universities, etc.</td><td>2. Key types of activity: Producing quality products (services)</td><td rowspan="2">3. Provided value: Direct or indirect influence on people’s quality of life</td><td>4. Relations: Long-term, open, aimed at common advantage</td><td rowspan="2">5. Stakeholders: Employees, local community, the state, suppliers, etc.</td></tr>
<tr><td>6. Key resources: Material, labour, intellectual, financial</td><td>7. Org. models: Corporate programs, corporate charity fund, corporate charity fund, endowment fund, etc.</td></tr>
<tr><td colspan="2">8. Costs: Financial, intellectual, investments of produced goods, commodity</td><td colspan="3">9. Advantages: Strengthening business reputation, social and economic effect from social investment, indirect influence on improving financial performance</td></tr>
</table>

Source: Vinnikov, 2007; *A Report on Social Investment in Russia*, 2014

This model reflects the way in which a company performs social investment that contributes to making rational management decision.

In adapting the model, the 7th and the 9th components were added, such as organizational models of social investment and advantages of social investment. Nine components of the model form a complex system of a company’s operation within social investment.

Aligning operation within this business model will allow the company’s management to manage required business processes that will contribute to improving the social investment effectiveness. The order of completing different components depends on the specific features of a company’s operation and is not regulated. The following combinations occur most often:

- 5, 3, 7, 4, 9, 2, 6, 1, and 8 – a combination that emphasizes the company’s interaction with various stakeholders in order to maximize benefit from produced products or services and establish long-term relations;
- 3, 5, 2, 4, 7, 1, 6, 9, and 8 – a combination, in which a company, depending on its interests and types of its operation, finds prospective stakeholders and develops a plan of further actions.

Let us consider the significance of the nine components of the model in more detail. A network of partners helps to make social investment more effective.

Main stakeholders are a company’s driving force, and it is due to them that an organization exists. It is very important to single out key stakeholders, working with which a company will gain most profit.

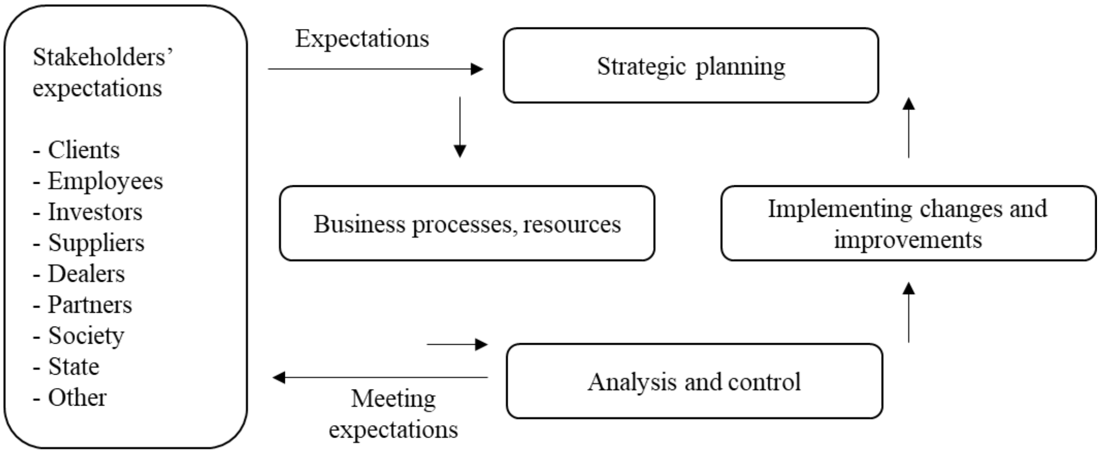
As a company always strives to obtain specific advantages from social investment, it is necessary to understand, which advantage can be gained from which stakeholders, as well as the possibility to obtain such advantages systematically.

The following component of the model includes four key types of resources: material, labour, intellectual, and financial. It is important for a company to have such resources available when needed and as needed (Chernikova, & Zayernyuk, 2011).

The last component of the model includes costs that increase when a company plans upscaling its projects and programs.

A management team should create a company's social investment model, as describing the model's components is always a choice made by a company according to its mission and strategy (Shokhin, 2008). Social investment management is based on the system approach shown in a simplified form in Fig. 3. According to its definition, the system approach is a trend in the methodology of scientific cognition based on considering an object as a system, an integral complex of interrelated elements (Vinnikov, 2007).

Fig. 3: System approach to social investment in a company



Source: Vinnikov, 2007.

1 Materials and methods

When analyzing the variability of companies' social investment and the dependency of the Russian economy in modern conditions, the following methods are used: analysis, synthesis, comparison, and generalization. The system approach to making decisions in the process of a company's social investment is applied, as well as generalization and comparison of results through the mechanism of multiplicative influence on the environment and analysis of the social investment model in corporations.

2 Results and discussion

This study considers social investment as one of the instruments of a company's investment activity. Using this instrument, a company can, regarding, for example, production of in-demand quality products, achieve both its own goals (increasing revenue, strengthening its image or business reputation) and social goals (social effect).

Here "traditional" and "social" investments should be differentiated. Table 1 shows the main difference between "traditional" and "social" investments.

Table 1: Main difference between "traditional" and "social" investment

Investment	Social investment
Goal	
Increasing the company's revenue	Social and economic effect
Main objects	
Fixed assets, securities, scientific and technology products	Employees, local community, objects of the social sphere (educational institutions, sports institutions, etc.)
Results for a company	
Increasing revenue, improving labour productivity (for example, due to equipment purchase)	Stakeholders' loyalty, strengthening the company's brand, improving labour productivity, reducing turnover of personnel, improving business reputation

Source: developed by the authors.

Currently companies, use various approaches to evaluate the social investment status in their management practice. First, in order to evaluate the social investment effectiveness, a lot of companies use two types of quantitative indicators (Vinnikov, 2007): the ratio of the social investment volume to the balance sheet profit; the ratio of the social investment volume to the sales volume.

Second, in order to carry out industry and national studies of companies, the following qualitative indicators are used: institutionalism; system of recording social events; complex approach to social investment.

The opinion of Tulchinsky is noteworthy here. He suggests evaluating the effectiveness of social investment implemented externally and internally (Tulchinsky, 2012) in the program "Effective Social Investment and Social Partnership", using which a company can move from charity to social investment, develop its business reputation, and optimize social partner relations. The program provides for evaluating the effectiveness of social investment and rating as the final assessment of the results of a company's social investment. Based on the results of Tulchinsky's research, Table 2 shows the system of the main indicators of a company's social investment effectiveness.

Table 2: Main indicators of social investment effectiveness

Areas of social	**Indicators**

investment	**Quantitative (millions of RUB)**	**Qualitative (% of the norm; 1.0)**
Environmental protection	Costs of environmental protection.	Environmental protection.
Reducing the negative effect of the company's operation.	Costs of reducing the negative effect of the company's operation. R&D costs (in environmental technologies).	Reducing the negative effect of the company's operation.
Investing in the company's employees	Salary increments. Costs on employment benefits. Work-related incidents factor. Expenses on training.	Labour union. Employees' involvement in making decisions. Availability of the ESAD (economic systems of advanced development) systems (employees' equity participation) and other programs.
Investing in local community, working with authorities	Investing in social programs in regions of the companies' presence. Investing in joint programs with authorities and non-profit organizations.	Availability of programs for disadvantaged groups from the client base.
Openness of the company, transparency in operation	Selling goods and services at market prices. Equitable remuneration and promotion for all employees.	Current system of selecting socially responsible suppliers and distributors. Availability of open non-financial reporting.
Quality of produced goods and services	R&D expenses (in the sphere of quality improvement). Expenses on increasing effectiveness of production processes.	Holding surveys among clients regarding the degree of their satisfaction with the company's products.

Source: developed by the authors based on Tulchinsky, 2012.

The interpretation of the received results should be provided including compliance of the received results to the hypothesis of the research, limiting the research and generalizing its results, proposals on practical application, and proposals on further research.

Conclusion

Thus, the main problems of both the current social investment indices and the methods of using social investment instruments include lack of the comprehensive evaluation of a company's social investment.

In one case, under negative connection, state investments replace private investments, when the state provides means for financing projects that are interesting, first of all, for private investors. In other case, under positive connection, the growth of state investments encourages growth of private social investment. The system of qualitative and quantitative indicators is shown and specified. These indicators allow the company's management to calculate the total effect from implementing various social investment programs.

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