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## CORPORATE SOCIAL RESPONSIBILITY IN UKRAINE UNDER MARTIAL LAW: ACCOUNTING ASPECTS

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### Abstracts

Conducting socially responsible activities is an important component of modern business, creating prerequisites for ensuring sustainable development of the company and society as a whole. The article examines the essence and analyzes the content of the concept of “corporate social responsibility”, substantiates the importance of conducting socially responsible activities to ensure business efficiency, and considers the areas of socially responsible activities of Ukrainian companies during a full-scale war. The author proves that conducting socially responsible activities creates prerequisites for economic growth, improvement of business reputation, increase of labor productivity and competitiveness of products. To assess the level of involvement of a company in socially responsible practices and to reflect its results in accounting and reporting, the author presents a system of indicators: social responsibility of a company to its employees, company's participation in environmental protection and conservation, company's involvement in public life, and company's social responsibility during the war. The author substantiates the expediency of reflecting information on the company's socially responsible activities in accordance with the above indicators in the forms of social (non-financial) reporting of the company to inform all stakeholders about their contribution to the goals of sustainable development.

**Keywords:** *corporate social responsibility, non-financial reporting, social accounting, social entrepreneurship, social reporting, sustainable development, territorial communities.*

**JEL Codes:** *M 14, M40, Q56.*

### Introduction

For many years, business success has been assessed primarily on the basis of a company's financial performance. However, in light of the growing trend towards the humanization of social and economic relations, the criteria for such an assessment are being rethought and expanded. Today, the assessment focuses on the economic, social and environmental impact of business on society and the environment, and on creating the preconditions for sustainable development of the company and society as a whole. The list of obligations assumed by commercial entities

to society and communities in the context of socially responsible business is extremely wide - from helping low-income groups and building sports grounds to implementing large infrastructure, educational, environmental, medical, cultural and social projects.

In Ukraine, the area of socially responsible business began to develop actively long before the full-scale invasion of Russia. According to CSR Ukraine, as of 2018, 83% of Ukrainian companies were implementing CSR policies, and 25% of them systematically allocated funds for social projects. This figure was still significantly lower than in other

European countries, but Ukraine has seen positive dynamics in the implementation of corporate social responsibility principles. With the outbreak of a full-scale war, most Ukrainian companies revised their approach to corporate social responsibility and shifted their focus to helping the army and citizens affected by the war. Corporate social responsibility in Ukraine today is not an option or a prerogative of large businesses, but an integral part of the activities of a company operating in Ukraine.

According to a study conducted in August 2022 by Google's industry unit and research company Kantar, when choosing a brand, most Ukrainian consumers pay attention to the lack of brand connection with aggressor countries (54.0%), the company's support of the Armed Forces (49.0%), volunteer activities (44.0%) and the company's assistance to IDPs (41.0%), while the main factors influencing the decision to choose an online store for shopping were the support of the Armed Forces of Ukraine (55.0%) and the absence of goods from aggressor countries (53.0%) (The Association of retailers of Ukraine, 2022). Such attention to the position and social activity of companies is not limited to the choice of appropriate brands; potential employees are also interested in value issues when choosing an employer, and local communities are interested in interacting with the company.

Social accounting and reporting are important in the context of conducting socially responsible business, as they are integral elements of the company's management information support designed to generate complete, reliable and objective information support for management decision-making in the context of achieving the goals and strategy of sustainable development. Reflection in accounting and reporting of information on the company's participation in the implementation of various social projects creates conditions for meeting the information needs of different groups of users of accounting data, on the basis of which management decisions can be made. Based on this, in the article are presented approaches to organizing accounting for corporate social responsibility (goals and objectives, objects and subjects, the subject of

accounting for corporate social responsibility are defined), a system of indicators is defined for assessing the company's involvement in solving the social and domestic needs of employees, important public problems, especially in times of war.

The purpose of this article is to substantiate the theoretical foundations of the concept of social responsibility of business and to determine the accounting aspects of socially responsible activities as an information basis for sustainable development of Ukrainian companies under martial law.

### **Literature review**

Issues related to the substantiation of theoretical and practical aspects of the corporate social responsibility concept and approaches to the reflection of information on the social direction in the economy in accounting and reporting in the context of sustainable development are the subject of numerous scientific studies. According to the concept of corporate social responsibility, companies should not only pursue their main goal of maximizing profits, but also contribute to the welfare of society. Business organizations are working in and exploiting social and environmental resources; in return for these exploitations, businesses have to perform voluntarily for the betterment of society and the environment (Lal et al., 2022). It is argued that companies that implement corporate social responsibility initiatives can gain a competitive advantage over other companies by creating a good public image or reputation and generate higher profits and returns on investment (Barauskaite & Streimikiene, 2021). That is, corporate social responsibility is a fundamental strategy that can intensify (restore) the construction of new forms of solidarity and create favorable conditions for sustainable growth (Carerra, 2022).

Companies are rapidly realizing not only the importance of social responsibility, but also the need to report on their social initiatives. The authors investigate the impact of companies' compliance with the principles of corporate social responsibility on a wide range

of financial indicators, including the cost of equity (Garzón-Jiménez & Zorio-Grima, 2020). The results of the study also confirm that there is a directly proportional relationship between corporate social responsibility and the company's share price, and compliance with the principles of corporate social responsibility has a significant impact on the company's efficiency and sustainable development (Lopez et al., 2022). Scientists argue that socially responsible investment improves the company's long-term financial performance and ensures that the company benefits from socially responsible activities (Wang et al., 2023). The authors draw attention to the importance of investing in environmental protection, environmental projects aimed at solving environmental problems, and the development of renewable energy to ensure sustainable development (Kaletnik & Lutkovska, 2021; Bondarenko et al. 2023).

Effective tools for managing a company's social responsibility are social accounting and social (non-financial) reporting on the results of social programs and communicating this information to stakeholders (Hodniuk & Semenysheva, 2017). The merit of the scientists is the formation of accounting provisions in economic science on the basis of social responsibility, the development of methodological approaches to the reflection of social accounting data in non-financial reporting. The authors investigate the definitions of the concepts of “social accounting” and “non-financial reporting” and reveal their importance for business development, in particular, it is determined that social accounting is intended to address issues related to the social and environmental impacts of companies in all their manifestations and to provide information on the implementation of social programs and the formation of non-financial reporting (Rudenko et al., 2020). Scientists have defined the purpose of accounting for the company's socially responsible activities, tasks, subject,

objects and subjects, the procedure for reflecting information on the company's social responsibility in accounting and the procedure for disclosing information in non-financial reporting (Budko, 2016; Pokynchereda & Kopniak, 2021). The main objects of accounting for business social responsibility are social costs, which include the company's costs of hiring employees and labor relations (costs of employee training, recreation, labor motivation, etc.), social payments for environmental protection (environmental payments), and costs for the social needs of the environment (costs of improving product quality, providing better service, implementing social projects, etc. At the same time, monitoring and controlling the observance of employees' rights, their professional development, work motivation, health, right to rest, social and domestic needs, etc. should be of great importance in the context of conducting socially responsible business (Levytska, 2014; Pravdiuk et al., 2019).

To ensure control over the effectiveness of the implementation of the principles of corporate social responsibility, which are the basis for the development and implementation of strategic business projects, the authors provide methods for compiling social reporting, and substantiate approaches to assessing the quality of the information provided in it (Hodniuk & Semenysheva, 2017; Pravdiuk et al. 2021). In general, the tasks aimed at enhancing the social responsibility of business include the development of a system of quantitative and qualitative indicators for assessing social responsibility, taking into account the economic and environmental balance of business activities; introduction of a mechanism for submitting social reports (Levytska, 2014). Accounting for corporate social responsibility has a positive effect on the corporate sector, improving company's image, and increasing business profitability, strengthening its brand, enlivening morale and even raising the value of its stock (Thottoli, 2023).

## **Methodical approach**

The theoretical and methodological basis of this study is the concept of corporate social responsibility and a wide range of general scientific and special research methods.

The CSR concept is based on basic concepts that are fundamental to its understanding:

- “social responsibility” is the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development, including the health and welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behavior; and is integrated throughout the organization and practiced in its relationships (ISO 2600:2010, 2010);

- “corporate social responsibility” is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of their workforce and their families as well as of the local community and society at large (World Business Council for Sustainable Development, 2000).

In writing this article, the authors used the following methods to substantiate the concept of corporate social responsibility and the procedure for presenting information on corporate social responsibility in accounting and reporting: analysis and synthesis, induction and deduction, and comparison. The graphical method was used to visualize the results of the study, in particular, to present information on the state of corporate social responsibility in Ukraine.

## **Results and discussion**

According to the Sustainable Development Strategy of Ukraine (Decree of the President of Ukraine “On the Sustainable Development Goals of Ukraine until 2030”, 2019), the main directions and priorities of Ukraine's development for the period up to 2030 are, among other things, to promote progressive, inclusive and sustainable

economic growth, full and productive employment and decent work for all; ensure openness, safety and environmental sustainability of human settlements; promote peaceful and open society for sustainable development, ensure access to justice for all and create effective. In other words, the regulatory document defines global sustainable development goals that can be achieved through coordinated cooperation between public authorities, business entities and society as a whole.

Corporate social responsibility is a concept that encourages companies to consider the interests of society by taking responsibility for the impact of their activities on consumers, stakeholders, employees, the community, and the environment. According to CSR Ukraine, 52% of Ukrainian companies have approved corporate social responsibility strategies, 67% of a company's reputation is its corporate social responsibility, and about 87% of Ukrainian companies implement corporate social responsibility (CSR Ukraine, 2023).

The concept of socially responsible business is realized through socially responsible activities. Research shows that companies in various industries that apply socially responsible business practices are more efficient - there is a positive correlation between socially responsible business and financial performance. Such a positive relationship is realized through the skillful use of socially responsible business management tools, including social investment, social partnership, corporate communications and social reporting (Budko, 2016).

Socially responsible activities create prerequisites for companies to increase profits, increase sales and accelerate economic growth, improve business reputation and customer loyalty, increase labor productivity, product quality and competitiveness. This is confirmed by YourCause's research in the field of business social responsibility, according to which 66% of consumers are willing to pay more for products from companies whose activities are in line with the concept of sustainable development; socially responsible companies increase labor productivity by 13%; companies that implement corporate social



responsibility programs reduce staff turnover by 50% and, accordingly, increase staff loyalty (Rudenko et al., 2020).

Since the beginning of Russia's full-scale armed aggression against Ukraine, most Ukrainian companies have reoriented their corporate social responsibility policies to focus on helping the Armed Forces and citizens affected by the war. In May 2023, CSR Ukraine together with The Page conducted a study of the sustainability of Ukrainian business during the war (CSR Index 2023), in which 30 Ukrainian companies participated. The CSR 2023 Index is based on a five-component model of corporate social responsibility in wartime:

1. Business continuity and taxes: availability of a business continuity plan, its change after the start of a full-scale invasion, sections of the plan on employees, business processes and resources, payment of taxes in advance.

2. Employee safety: relocation of employees and their families, provision of material and psychological support to employees, arrangement of shelters, availability of support programs for employees with children.

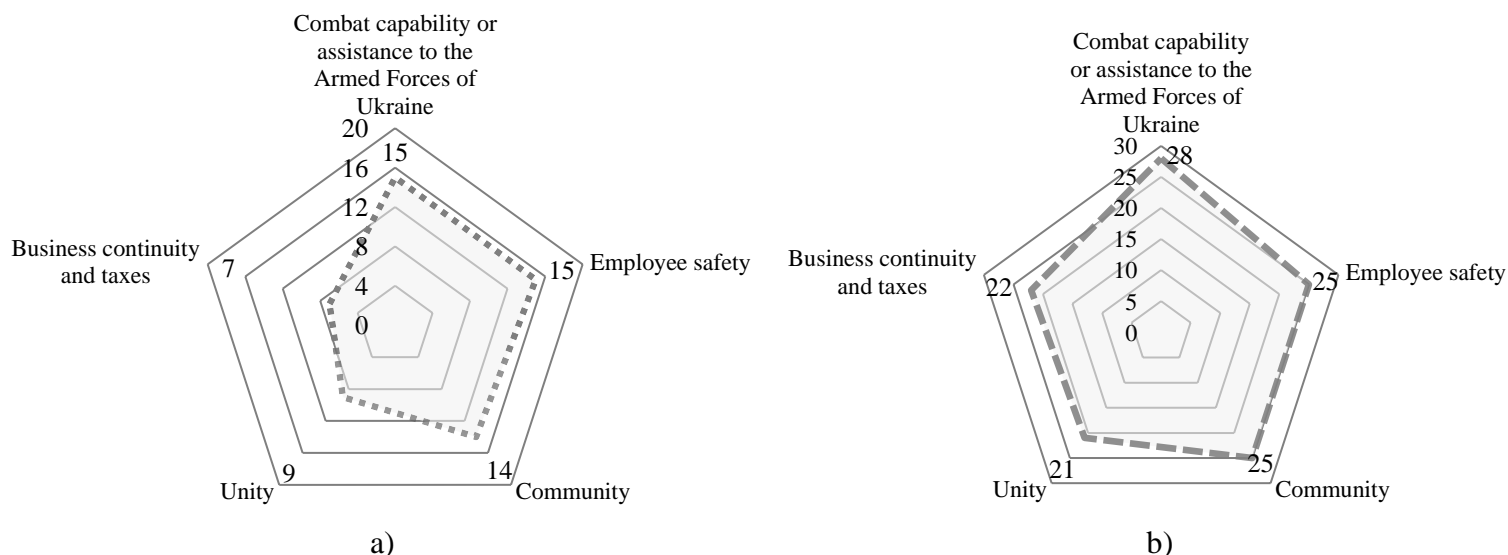
3. Combat capability or assistance to the Armed Forces of Ukraine: financial, material

and humanitarian support to the Armed Forces of Ukraine and organizations that support the Armed Forces of Ukraine, support for mobilized employees, programs to support veterans in the company and the country.

4. Unity: pro bono services to central and regional authorities, joint programs with competitors, support of contractors and partners.

5. Community: support for communities where companies are located, support for internally displaced persons, volunteer initiatives in the company, and the company's participation in the country's recovery (The Page, 2023; CSR Ukraine, 2023).

The results of the study show that Ukrainian companies continued to implement social responsibility in the first year of the full-scale Russian invasion. Between February 24 and December 31, 2022, most efforts were made to ensure the safety of employees, support the combat capability of the Armed Forces, and support the community. The focus on unity and continuity is slightly less than on other areas (Figure 1). This may be due to the fact that not everyone was ready to disclose information about business continuity plans, noting that the information is confidential (The Page, 2023; CSR Ukraine, 2023).



**Figure 1. The most common practices of Ukrainian business according to the five-component model of corporate social responsibility during the war (a - assessment of the model components in points (max. - 20), b - assessment of the model components in the number of companies implementing the relevant practices (max. - 30))**

*\*Source: compiled by the authors based on data from (The Page, 2023; CSR Ukraine, 2023).*

Given that companies incur social costs in the course of conducting socially responsible business, it is objectively necessary to reflect these costs in the company's accounting and reporting. That is, there is a need to develop a company's accounting system capable of generating information about its participation in certain social projects, social expenses incurred in this regard, and reflecting the impact of such social initiatives on the company's financial and economic activities.

Over the past decade, business social responsibility accounting has evolved significantly and become strategically oriented. Today, there is a tendency for companies to implement strategies related to human resource development, development of new markets, environmental protection, participation in social projects, charity, etc. Given this, there is a need to collect relevant information and use it in the process of developing, making and implementing management decisions.

Summarizing the above, we note that corporate social responsibility is a concept that has different interpretations, mostly described as a "four pillar" model for accounting and reporting on corporate social responsibility activities:

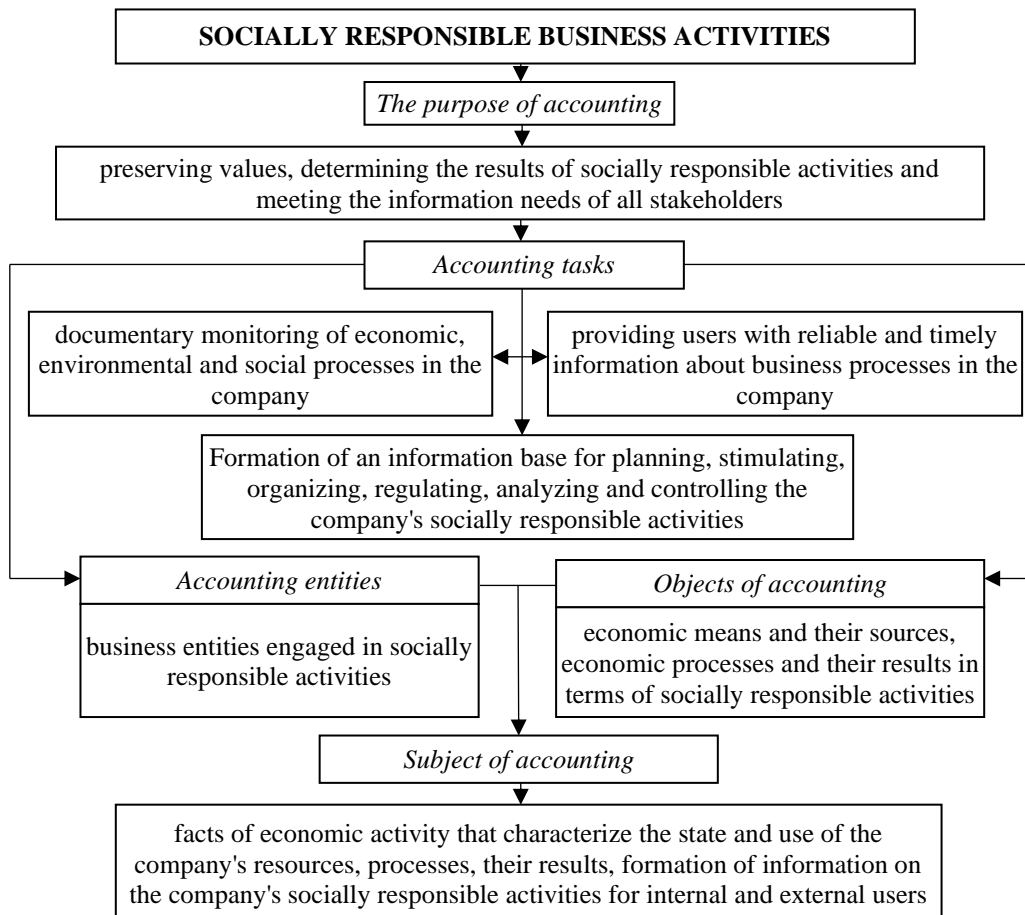
- community (how the company's activities affect the communities in which it operates);
- environmental measures (how the company's actions affect the environment);
- ethics and risk management (how the company's activities affect its future well-being and financial stability);
- human resource management (how the company's policy affects employees and partners).

Thus, accounting for a company's socially responsible activities should be understood as the process of reflecting in the accounting system and non-financial reporting information about the company's participation in the implementation of various programs and projects aimed at solving social, environmental and other pressing problems of society.

One of the first to apply the concept of social accounting in its activities was the American consulting firm ABT Associates, which in 1970 reviewed its previous annual financial reports in terms of the following issues: labor productivity, contribution to the improvement of knowledge, the impact of the company's activities on employment, health care, education and self-development, physical education, transportation, organization of leisure time, and the impact of the company's

activities on the environment. An attempt was made to determine the social impact of the company through these indicators published in the financial statements (Levytska, 2014).

Building a proper system of social accounting and reporting on the company's socially responsible activities involves setting goals, defining objectives, outlining the range of subjects, identifying the subject and objects of social accounting (Figure 2).



**Figure 2. Accounting system for socially responsible business activities**

\*Source: compiled by the authors.

The primary task in assessing a company's socially responsible activities is to determine a system of indicators that can be used to analyze the level of its activity in solving important social problems, environmental issues, social and domestic needs of employees, etc. These indicators

should be grouped into indicators of social responsibility to employees, indicators of participation in environmental protection and conservation, indicators of the company's involvement in public life (participation in solving urgent public problems, participation in charitable and social projects, etc. (Table 1).

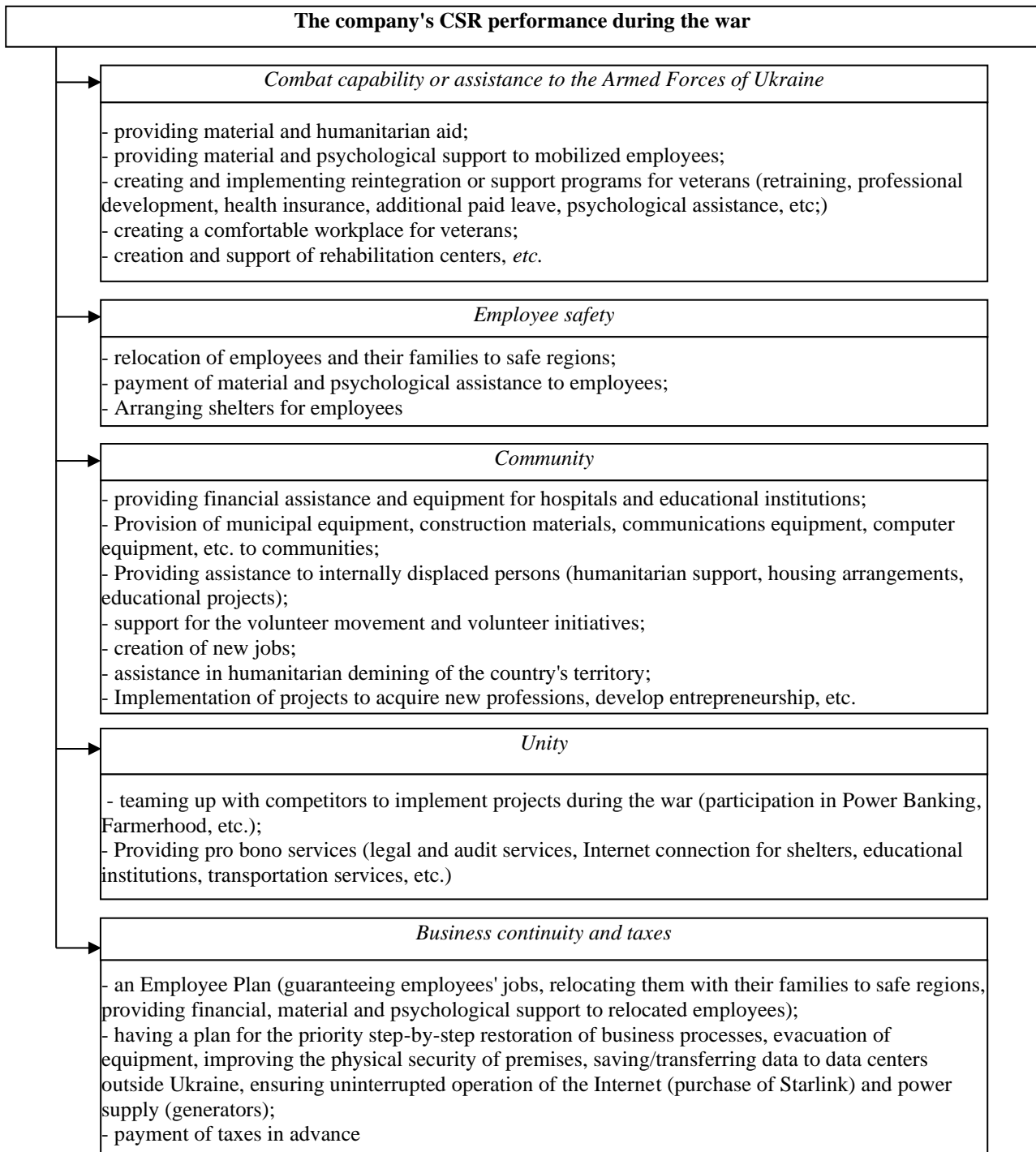
**Table 1. Indicators for assessing the company's socially responsible activities**

<b>Indicators for assessing the company's socially responsible activities</b>	
<u>1. Indicators of the company's social responsibility towards employees</u>	<u>2. Indicators of the company's participation in environmental protection and conservation</u>
<p><i>1.1. Provision of social and household services the needs of employees</i></p> <ul style="list-style-type: none"> <li>- the number of employees on the waiting list for departmental housing;</li> <li>- expenses for the purchase of departmental housing;</li> <li>- Expenses for compensation for housing rent;</li> <li>- expenses for compensation for communication services and other employee expenses;</li> <li>- payment of financial assistance to employees;</li> <li>- staff turnover rate</li> </ul>	<p><i>2.1. Implementation of environmental projects</i></p> <ul style="list-style-type: none"> <li>- costs of creating and implementing innovative resource-saving technologies;</li> <li>- costs of processing and utilization of industrial waste;</li> <li>- costs of technical modernization;</li> <li>- costs of implementing alternative energy projects, etc.</li> </ul>
<p><i>1.2. Ensuring the health of employees</i></p> <ul style="list-style-type: none"> <li>- health and safety costs;</li> <li>- costs of medical insurance for employees;</li> <li>- number of occupational injuries;</li> <li>- expenses for health resort services;</li> <li>- number of days of disability;</li> <li>- Expenditures on sports recreation for employees;</li> <li>- number of days of occupational diseases</li> </ul>	<p><i>2.2. Greening of production</i></p> <ul style="list-style-type: none"> <li>- costs of creating and implementing low-waste and zero-waste production facilities;</li> <li>- the level of renewable energy use in the production process;</li> <li>- level of pollutant emissions into the environment;</li> <li>- level of material consumption and material efficiency of production;</li> <li>- costs of processing and utilization of production waste;</li> <li>- the level of recycling and reuse of own production waste, etc.</li> </ul>
<p><i>1.3. Professional development of employees</i></p> <ul style="list-style-type: none"> <li>- the number of employees who have undergone training and professional development;</li> <li>- Expenses for training and professional development of employees;</li> <li>- number of employees with higher education</li> </ul>	<p><i>2.3. Development of environmental awareness</i></p> <ul style="list-style-type: none"> <li>- Expenditures on measures to develop environmental culture and raise environmental awareness among employees;</li> <li>- costs of creating and implementing the "green office" concept, etc.</li> </ul>
<p><i>1.4. Rest of employees</i></p> <ul style="list-style-type: none"> <li>- expenses for paying for tourist trips;</li> <li>- expenses for corporate events;</li> <li>- expenses for purchasing gifts;</li> <li>- Expenses for cultural events (going to the theater, cinema, etc.)</li> </ul>	<p><u>3. Indicators of the company's involvement in the life of the community</u></p> <ul style="list-style-type: none"> <li>- the number of contracts concluded with partners and the amount of expenditures to address pressing social and environmental issues;</li> <li>- expenses for charitable assistance;</li> <li>- the amount of social investments;</li> <li>- expenses for sponsorship;</li> <li>- costs of paying fines for environmental pollution and violations of other laws;</li> <li>- the amount of taxes paid;</li> <li>- number of employees by category (youth, people with disabilities, etc.);</li> <li>- Charity marketing expenses;</li> <li>- spending on socially responsible marketing;</li> <li>- expenses to cover grants in the field of civil society development, improving the lives of the country's population, and solving environmental problems;</li> <li>- participation in local community development programs;</li> <li>- availability of the company's website with information on social activities;</li> <li>- Availability of the company's corporate code;</li> <li>- preparation and submission of social reporting, etc.</li> </ul>
<p><i>1.5. Motivation of labor</i></p> <ul style="list-style-type: none"> <li>- average salary by employee category;</li> <li>- the amount of bonus payments;</li> <li>- payment for additional vacations;</li> <li>- Expenses for contributions to non-state pension funds</li> </ul>	

*\*Source: compiled by the authors.*

In times of war, the focus of corporate social responsibility programs shifts. According to the research conducted by CSR Ukraine, during the war, Ukrainian companies actively help the army, take care of the safety of employees, support the volunteer movement, provide assistance to internally displaced persons, etc. Based on the CSR Index 2023 study, we note that the degree of involvement of Ukrainian companies in

corporate social responsibility during the war was determined in the following areas: combat capability, employee safety, community, business unity and continuity, and taxes. Taking into account the above five-component model of corporate social responsibility of business, we detail the indicators that can be used to assess the activity of Ukrainian companies' involvement in corporate social responsibility practices (Figure 3).



**Figure 3. Indicators for assessing the company's socially responsible activities during the war**

\*Source: compiled by the authors based on (The Page, 2023; CSR Ukraine, 2023).

Given the fact that the indicators of corporate social responsibility assessment presented in Table 1 and Fig. 3 indicators of corporate social responsibility assessment are quantified, they are considered as objects of social accounting as social expenses that are

reflected in the accounts and reports of companies. The legally prescribed forms of financial reporting, due to their fiscal focus, do not actually disclose information about the company's socially responsible activities. Therefore, for many years, Ukrainian

companies have been preparing non-financial corporate social responsibility reports along with financial statements to inform all stakeholders about the implementation of their corporate social responsibility strategy and their contribution to sustainable development goals.

Given the dispersion of information on social costs incurred on different accounts and the lack of a clear procedure for reflecting information on corporate social responsibility in the reporting, this creates obstacles to the timely generation of relevant information, which significantly complicates prompt decision-making and comparative analysis. In this regard, it is advisable to develop a separate reporting form or a separate section of the integrated reporting, which would disclose information on the company's social responsibility to employees, the company's participation in environmental protection and protection, and the company's participation in solving social problems in general. In addition, in our opinion, it is advisable to determine the needs and scope of social accounting and reporting in the company. To do this, it is necessary to identify the main stakeholders of the company's socially responsible activities in terms of disclosure of the social investment accounting policy, develop an individual strategy for each area of social policy, adjust the current regulatory framework to this strategy, assess the current and future prospects for the growth of the company's image in the market environment as a result of such activities, having sufficient accounting data for social reporting.

## **Conclusions**

Corporate social responsibility is an essential component of a modern approach to doing business. Companies that demonstrate their ability to take responsibility for the impact of their activities on society and the environment maintain their long-term financial stability and competitiveness. Corporate social responsibility includes a wide range of initiatives, from environmental management

and efficient use of resources to participation in the implementation of various social projects aimed at ensuring the ideas and principles of the concept of sustainable development. This not only helps to improve working conditions and preserve the environment, but also builds trust and partnerships between stakeholders, including consumers, employees, investors, NGOs, and society as a whole.

In the context of Russia's full-scale war against Ukraine, the development of corporate social responsibility has changed significantly, and it is the war that has forced Ukrainian businesses to reorient their sustainable development and charity programs. Now, Ukrainian businesses are supporting the country's economy and army even more, helping internally displaced persons, supporting the volunteer movement, relocating employees and their families to safe regions, implementing social projects, and much more, and this is just a part of what responsible Ukrainian businesses do. In addition, many Ukrainian companies have integrated aid and recovery programs in Ukraine into their corporate social responsibility policies.

Conducting a socially responsible business requires social accounting and social (non-financial) reporting. This necessity has led us to define the goal, objectives, subject, objects and subjects of social accounting. Implementation of the tasks of social accounting and use of the proposed indicators for assessing the company's socially responsible activities makes it possible to generate relevant information on socially responsible business activities in the interests of all stakeholder groups and creates prerequisites for generalizing, systematizing and presenting this information in the company's non-financial reporting. The practical implementation of the proposed offers for accounting of socially responsible activities will allow the company to prepare non-financial reporting and inform stakeholders about corporate social responsibility.

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