Section 8

Socio-ethical marketing in the innovative activity: practical aspects

8.1. Major factors of increase of business entities social responsibility and their marketing

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Nowadays in the process of marketing activities, the business entities widely use technology information achievements, the global Internet, and mobile. In almost all spheres of the national economy, use of digital marketing tools is progressing intensively. On one hand, it provides benefits to all market participants. The advertisement cost is reduced; distribution costs and goods prices are reduced. On the other hand, in some cases, the marketing development increases the issues as of its social responsibility as business entities. For example, neuromarketing and aroma marketing are the innovation that is created socially irresponsible, according to the author’s point of view.

The aim of the work is theoretical generalization and further development of scientific-methodical approaches and practical recommendations of improvement of business entities social responsibility and their marketing activities due to the global economic crisis.

The works of R. Reidenbach, P. Robin, F. Kotler, K.L. Keller, J.J. Lamben, R.A. Fatkhutdinova, V.P. Bulaeva, senior V. Rudelius, A.F. Pavlenko, E.N. Azarian, P.V. Pylypchuk, M.A. Oklander, P.G. Perervy, M.I. Beliavtseva and many other famous domestic and foreign scientists are devoted to the actual problem of business entities’ social responsibility and marketing. However, some aspects of this multifaceted problem require further research.

From the first days of the crisis in most industrialized countries, governments were forced to abandon the concept of neoliberalism and have dramatically increased state economy regulation. This allowed to show enterprises practicing social irresponsibility. Especially banks have noted. The US banking system has been developing on the basis of neoliberalism concept for many years before the crisis and has provoked the global financial crisis which grew into the economic one. This resulted in the massive damage to the world economy. Banks were profiting at the social irresponsibility expense and were paying huge bonuses
(premiums) to their superiors, and their rescue from bankruptcy during the crisis was being carried out at the state budget expense, in other words tax payers'. Also England's and other countries' banking systems negative role was turned out.

According to the author’s point of view, business entities’ social responsibility, including banks, is in comfortable, safe working conditions and decent payment for their staff, social infrastructure development, tax evasion prevention, ensuring adequate environmental protection and also using socially responsible marketing (SRM). In Ukraine the proportion of socially irresponsible «shadow» economy, enterprises which do not pay taxes and fees, according to some estimates, are 30-50 % or more. The elimination or reduction at least 8 to 10% would significantly increase revenues to the state budget and reduce taxes on all businesses entities, accelerate the country socio-economic development and improve the population life quality.

The EU fights quite actively against tax evasion. The crisis has forced the EU to fight the evil that was created by them. It is known that the world’s largest offshore zones were created by the European countries for their advantage. European champion of tax evasion through offshore companies is considered the Switzerland banking system. Until 2014, it used, the banking secret introduced in 1932. It was canceled in 2014. In the course of global forum of transparency in tax policy being held in Berlin, more than 90 countries committed to the automatic information exchange. It is noted that there are still countries, including Panama, which has not signed the treaty [1]. France, for example, for tax evasion, including the offshore zones use includes not only large fines, but also imprisonment. In the crisis years the fines have been increased 10 times, and the maximum term of imprisonment – from 5 to 7 years (more details in [3]). In Ukraine legislation the strict financial and criminal liability for similar crimes has not appeared yet.

In 2016 on the basis of the investigation which has been conducted by journalists from 76 countries, the Panama offshore scandal information has appered. The Prime Ministers of Iceland, England, about 20 Ukraine senior citizens and businesspersons, and many other countries’ businesspersons were involved in it. But there are no or a few France and other countries’ high-ranking citizens, where the strict liability for evasion from taxes is provided. Similar problems with other Ukrainian businessmen and «tax havens» have been appearing before. In 2013 a lot of our businessmen have been using similar services in the Cypriot banks. And statistical reporting, as the author has noted, a large investment in the EU (Cyprus) and in Ukraine from Cyprus was recorded. On
1.04.2013 the foreign direct investments from Cyprus were the largest: 17692,2 million dollars or 31,8 %.

The journalist’s information about the Panama offshore scandal has periodically been increasing, respectively, and the number of Ukraine senior citizens and businesspersons, implicated in this, has increased to several hundreds.

Important role in the business entities social responsibility belongs to SOM use. The SOM goals are quite rightly determined in the works of F. Kotler and K. Keller, and J.-J. Lamben [4-5]. These authors were among the first who started to research this highly relevant but ignored in favor of business problem in 1970. Kotler F. and Keller K. have grounded SOM targets, which aimed at improving both consumers’ and society wealth in general. But there are not basic SOM criteria in their definition and in the examples of SOM practice is reduced only to business voluntary social initiatives. The more grounded approach to the SOM concept is contained in the works of V. Rudelius and the textbook «Marketing», prepared by him in KNEU named after Vadym Hetman [6-7]. Then a large number of scientific papers has appeared. According to the author’s point of view, SOM entities, are the strict compliance of the state normative acts requirements in the sphere of social responsibility in the domestic country territory and countries where their goods and services are exported; the inadmissibility participation in corruption schemes; the inadmissibility to carry the fraud for personal gain; the inadmissibility of the production and products sales hazardous to the property, morality, health, lives, environment and society in general, and deceptive advertising and methods of psychological influence on consumers in order to impose a favorable solution or any purchase; the manifestation of socially-oriented initiatives. It should be counted that, unfortunately, socially oriented initiatives are used by some companies as a cover for their social irresponsibility. The business entities that do not meet at least one of these SOM criteria, are socially irresponsible.

In any country the business entities social responsibility wide establishment and their marketing activities, according to the author’s point of view, can provide only the highest quality of the country economic system and appropriate state regulation. It provides: 1) separation of power and business; 2) corruption eradication; 3) the presence of well developed laws and regulations on the business entities social responsibility and SOM; 4) effective mechanisms development for the implementation of laws and regulations on the basis of strict liability, including financial and criminal; 5) regular funding from the state budget of the product quality laboratory investigations; 6) public organizations development
for consumer rights protection with the state support; 7) promote business entities social initiatives.

The author has changed the definition of the country economic system. The country economic system is a combination of three major subsystems:

1) the productive forces; 2) economic relations; 3) method of public authorities participation in coordination and management of economic activities, social product distribution and redistribution and business entities social responsibility. In the description of the third subsystem functioning the need for the state participation is not only in the economic activities coordination and management, the social product distribution and redistribution, but also is in business entities social responsibility. The business entities social irresponsibility does not only distort the social product distribution and redistribution, but in many cases, it causes huge damage to the property, morals, health, lives, environment and society in general. The third subsystem quality determines the effectiveness of the country socio-economic development, the business entities social responsibility and marketing and, consequently, the quality of consumed products and services (hereinafter – products), as well as the country life. Improving the country economic system quality is possible only on the basis of the democracy development. In the public administration all segments of the population should be adequately represented. This provides the high economy social orientation and high social standards.

Proper, effective state regulation does not require maximum extension of the state bodies interference into business entities activities, and the choice to regulate only the most significant areas and develop a quality control system over them with uninterrupted funding from the state budget. Along with effective, there are known the inefficient state regulation methods, aimed at, for example, the corruption increase. They should not be allowed.

The countries with the models of mixed economic systems, which have a fairly high level state regulation and social economy orientation, such as Sweden, Norway, Japan, Australia, South Korea, Germany, England, France, China, Finland, cope with the crisis better than others capitalist countries. In modern conditions in most of the capitalist countries it should be stressed that, on one hand, there is the growing number of socially responsible enterprises. On the other hand, the number of enterprises whose owners exploit low quality products consumers, its staff, refuse to pay taxes, is growing very rapidly.

The global financial crisis created by the banking system and some other US financial market subjects, since 2008 turned into a global
economic crisis and caused enormous damage to most of the world countries. Nobel laureate Joseph Stiglitz, who analyzed the causes of the crisis, which he called the great recession, said: «the Economy needs a balance of market and government roles, the achievement of which is largely due to the non-market and non-governmental institutions activities. Over the past 25 years, America has not only lost this balance, but also contributed to the creation of this unbalanced state of affairs in many countries throughout the world» [14, p. 3]. He rightly believed that the US created and exported a real recession [14, p. 27]. The big US and EU banks have irresponsibly profited from the rate of interbank loan LIBOR manipulation and the same pan-European rates Euribor. British Bank Barclays was fined by the British and American financial regulators in 2012 to 452 million dollars. Among his associates were such major banks as Citigroup, Royal Bank of Scotland, UBS, JP Morgan, HSBC, Deutsche Bank. The total damage interest rates manipulation was estimated at 1 trillion $. During the crisis, the financial pyramids in the USA, France, Japan, Russia, Ukraine and other countries were exposed. And the hugest Bernard Madoff and Allen Stanford financial pyramids were made in the USA, causing damage to its customers from different countries respectively, at 65 and 7 billion dollars. According to media reports in Ukraine for the period from 2014 to November 2016 there have been eliminated about 80 commercial banks. These banks depositors suffered heavy losses and have been picketing the national Bank for a long time. In 2011, the dioxin scandal in Germany broke out, the feeding fat manufacture – the firm Harles & Jentzh while profit persuit has caused tremendous damage to many livestock products producers and consumers in the result of natural supplements additives change for production of biological fuel wastes.

It could cause irreparable harm to the health of millions of German and other countries inhabitants – importers of this production, if it was not rather quickly identified by the German state supervisors. The scandal of poor female prostheses for breast augmentation has got the international fame, produced by the French company Poly Implant Prothese and exported to many countries. In profit persuit medical silicone mass was replaced by the cheaper construction. This has caused severe disease among a huge number of women in France, England, USA and other countries, who had undergone surgery for breast enlargement. The large British pharmaceutical company Glaxo Smith Kline was pleaded guilty for the fraud and concealing information about the drug safety, which caused many of the patients’ serious health problems, and paid a record in the history of the United States fine of $ 3 billion. In 2013, a scandal with beef meat received widespread in the EU, it contained horsemeat
with harmful to humans medicine (see [9]). In 2016 France Consumers’ Association after studying of 245 meat products labels of thirteen national brands and seven supermarkets has published the results of the investigation. The main conclusion is that there is still no transparency about the origin of meat used in the ongoing food products. Though meat is in the center of many food scandals that shook France and the EU for the period 1980-ies. Here are the most notorious of them. In 1986 there was a scandal associated with the disease «mad cow disease» in England. The disease leads to irreversible fatal changes in the animals brain. Researchers estimate shows that over ten years around 200 000 cows will be infected with this disease. The infection spreads by inclusion in animal feed: meat and bone meal prepared from infected animals carcasses. In 1996 in England the first cases of transmission to people were discovered. In 2003 in Asia, the avian flu broke out.

It was gradually spreading in the middle East and then into Europe and Africa. This epidemic is particularly dangerous because the disease can be transmitted to humans. At the end of 2015 avian flu has caused considerable damage to waterfowl producers in South-Western France. According to farmers’ estimate, the crisis will cost up to 270 million euros, including 140 million euros for producers. The government has already announced assistance in the amount of 130 million euros for the victims of the hatcheries and waterfowl producers. Additional compensation for companies will be determined later. The avian flu breaking out in Scotland has forced the government to cut almost 40 thousand livestock chickens in early January [20].

In Ukraine, the low business entities’ social responsibility and their marketing is a consequence of the country economic system insufficient quality, insufficient social economy orientation, high corruption, insufficient state regulation. It is especially manifested on a large scale: by commercial banks; pharmacies that sell drugs without prescriptions and counterfeit medicines; in a large number of sold counterfeit goods (meat, dairy, alcoholic drinks, medicines, diesel fuel, gasoline, perfume), and also unfair advertising. In November 2012, pharmacies in Lviv region has withdrawn from circulation about three tons of counterfeit drugs, among them 30% of children’s medications. In addition, such goods quality laboratory researches repeatedly allowed the reduction in funding, that is equivalent to the temporary control cessation. This article of the state Budget should be protected (more details in [9]).

For example, 3.04.2014 Verkhovna Rada amended the Law of Ukraine «On Ukraine State budget for 2014». As a result, from August until the end of 2014 funding for state control has significantly been reduced. Besides, the article 31 has appeared in the law: «to establish that
inspections of enterprises, institutions and organizations, individual-entrepreneurs by controlling authorities (except Ukraine State fiscal service) may be carried out during August – December 2014 only with the Cabinet of Ministers of Ukraine permission or by the enterprise verification request» [10]. According to media reports, after this article publication, the state control of goods and services quality virtually ceased. Unfortunately, this deregulation has still been continuing in 2016, according to media reports, for the period between 2014 and 2016, the number of sold counterfeit goods has doubled. Everything is counterfeiting from poisons against pests to cement. The forgeries range has increased significantly: fake shampoos, perfumes, mineral water [15].

Huge damages with very slow crime investigation have been done by the group of companies «BRSM», which was composed of: company «BRSM-Oil», LLC «BRSM», LLC «Ukrtransoil-2009», «RusUkrEnergo holding», LLC «Biotechnologies 2000», LLC «Element oil», LLC «Bel oil», LLC «Neftesbyt», LLC «AZS-oil», LLC «Oil Sintez», LLC «Ukraifatrans». The Ministry of Interior of Ukraine found that in the period 2014-2015, abusing its position and acting on a prior agreement, the group of companies officials «BRSM» organized the illegal acquisition of oil products manufacturing and marketing. The press service of the Ministry of Interior of Ukraine reported the first results of the investigation: «the complex of facilities for storage, handling and supply of oil and oil products, owned by the company «BRSM-Oil», was built without permit documents, and was not commissioned properly, which might indicate illegal production and storage adulterated excisable oil products, particularly gasoline for a long time». [16]. It is possible to assume that such huge violations were able to be admitted only under high corruption conditions. Pre-trial investigation is being carried very slowly. During the meeting in the Cabinet of Ministers the Minister of Internal Affairs Arsen Avakov said: «We opened against the company BRSM a huge production of payments to the state budget in the amount of 1.2 billion UAH through the creation of counterfeit gasoline, mixed with toxic additives, surrogate mixtures, gasoline, condensate. This item was issued for 92-, 95-octane gasoline and sold at gas stations» [17].

Counterfeit gasoline production and sale is a huge manifestation of the BRSM social irresponsibility and its marketing. The massive fire occurred at the oil depot during production of counterfeit gasoline, according to the journalistic investigations, has been lasting for a very long time. The firefighters from Kiev region, Zhytomyr, Rivne and other regional centers were involved in its fighting. Some people were killed during the fire. The fire caused huge damage to the environment and many settlements inhabitants health, including some areas of Kiev.
Moreover, the counterfeit contained a toxic gasoline additive. Huge damage to the country environment and residents incurred during the counterfeit gasoline vehicles consumption process. It should take into account the damage caused to the vehicle owners, due to the counterfeit gasoline forced use and necessary repairs. The total damage caused to the state, the environment and society in general while complex evaluation over-passes 1, 2 billion UAH according to the Ministry of Internal Affairs of Ukraine estimates in the process of pre-trial investigation.

The counterfeit gasoline production and sale have been done by a lot of companies. The President of the Association «The Ukrainian Union of Oil Products Market Operators» Leonid Kosyanchuk gives such estimates to the counterfeit gasoline (counterfeit), and the scale of its production in the country: «What is counterfeit? It's not just we have refueled, and after some time have come to overhaul the engine. It also means – the taxes of it have not been paid. What is the gasoline tax? It 171,5 euros per 1000 litres .... forgers get from 6 to 8 UAH per liter. I’m willing to say that every third liter – is a criminal liter. That is, the taxes of it are not paid, and it is not what you pay money for, that is, not gasoline. It's just a fuel mixture including gasoline, which can be 40-50% gasoline, all the rest coke components». [19]. The abominable crime stopping is possible only in the result of operative crime detection and harsh punishment.

The above information confirms the correctness made by the author in 2009 of a figurative comparison of private entrepreneurship with the fire. As you know, wealth is only properly managed fire and uncontrolled fire is the fire that brings massive multi-faceted damage to people and society as a whole. And poorly or uncontrolled government private enterprise in the profit pursuit does not stop even before the most serious crimes against their own fellow citizens.

In mass media there was information that many pharmacies irresponsibly were giving children and young people drugs containing narcotic substances without prescription. Their responsibility for these crimes is restricted by a small fine. The Internet market isn’t practically controled. In Cherkasy region the police detained drug dealers who were selling drugs amphetamine and marijuana. Communication with customers was via the Internet. It is estimated that the number of drug addicts in Ukraine has been increasing annually by 8% – a trend one of the highest in the world. About 70% of drug addicts are young people under 25 years. The percentage of women drug addicts is the highest in Europe. The total number of addicts in the country is 1,5-2 million people [11]. In 2016 on the TV channel «112 Ukraine» social advertising against drug abuse was transmitted by Ilya Kyva, the Head of the Department
of Ministry of Internal Affairs of Ukraine. He rightly emphasized that
the pharmacy and all drug dealers started with the most vulnerable –
our children. Using the criminal responsibility absence for these grave
crimes and the presence of only very low material one, they are releasing
children medicines containing drugs without prescription. Children be-
come addicted to drugs very quickly, become their regular customers and
very quickly degrade physically and mentally. It is definitely a useful
social advertising against drug abuse. But the question arises, why it
has started so late. The Ministry in its current content has been already
being in its third year. Unfortunately, the social promotion did not last
long because of I. Kyva’s dismissal from the Ministry of Interior in 2016.

Producers and importers of alcohol, tobacco, and counterfeit products
in Ukraine for many years have profited at the expense of social irre-
sponsibility and caused huge harm to the society, according to the au-
thor’s point of view, should be required to pay quarterly 3-5% of net profit
on social advertising carrying out. The beer, because of the powerful lob-
bying, has related to alcoholic beverages only in 2015. Our country
should also use the foreign budget addition experience not through cuts
in social programs. In France, for instance, in 2011 the additional tax on
drinks such as Coca-Cola was imposed and was based 0,036 euros per
liter of beverage. This ensured the budget completion for 120 million eu-
ros per year. In response, the leadership of the European Coca-Cola
branch threatened to stop investing in France, but quickly abandoned it.
Apparently, because of scientists’ large claims about the drink quality
and its harm for the consumers.

In the work [12], published in 2009 the author proposed the priority
exit directions from the crisis:

- strengthening the social protection of the nation lower layers;
- the organization of effective fight against corruption, instead of
  the earlier practiced sight to the struggle, as the corruption extent in the
country was steadily developing and the record dimensions of the re-
vealed bribes has been recorded in 2008-2009;
- the implementation of the complex legal and economic measures
  aimed at the progressive elimination of the shadow economy, which
would significantly reduce the tax burden on enterprises by up to 40%
with increase in receipts in all budgets levels;
- the introduction of a ban and strict liability for capital withdrawal
to offshore zones with the purpose of tax evasion;
- improving the efficiency of state economy regulation, especially in
  the banking sector, within the legal field, as it was done in 2008, when
the NBU imposed a moratorium on early deposit withdrawals contrary
to the law.
It was emphasized that these problems are closely linked. The adoption of economic measures is not enough for solving them. If the corruption exists, it is impossible to eliminate shadow economy and block the capital export channels to offshore zones with the tax evasion purpose. With regret we have to acknowledge that significant improvements in these areas have not happened and for a lot of them the situation has worsened. Social standards have not been updated and the nation lower layers poverty has been increasing. Current legislation in the last 25 years allows numerous enterprises to use freely millions of Ukrainian citizens units that were allocated in the division of state property during the transition to a market economy. Some state leaders and politicians promised to solve this problem, but then the case was stopped. This is an example of not only enterprises social irresponsibility, and mostly government’s one.

In countries with much smaller income gap between rich and poor there has been made more for the social protection of the nation lower layers than in Ukraine. In this regard, according to the author’s point view, it is advisable to increase minimum wages and pensions, but state-owned enterprises and enterprises with domestic capital, to regulate the maximum and minimum wage by setting allowable gap between them. This will make quantities interrelated and will contribute to the income gap reduction between rich and poor. Now the gap in some areas is 250 or more.

Germany, France, USA and other countries government in crisis, do the policy of raising taxes on wealthy citizens with the purpose of helping the poor. In Ukraine, with much higher rich and poor income gap in 2011 the tax rates on income from 0 to 15 % were applied. This approach was consistent with the recommendations of Milton Friedman about the move from progressive income tax to a «flat». With the introduction in 2011 of the Ukraine Tax code there was a slight differentiation 0; 15 and 17%. In 2015, the rates were 0; 15 and 20%, and from the 1.04.2016 they were even reduced 0; 15 and 18%. For comparison, in France in 2008, the rates of income tax were 0; 5,5; 14; 30 and 40%. Later the rate of 75% was introduced for a short period. Besides, in 2011 the tax on dividends increased for more than 100 thousand euros per year from 19% to 41%. Income dividends are taxed in Ukraine constantly at the rate of 5% regardless of their size. The information suggests that in the past 25 years the tax laws were made in favor of wealthy citizens due to the excessively high representation and their interests lobbying in Verkhovna Rada.

There were signs that the EU lobby of commercial banks has achieved a significant easing of their state activities regulation. So, the newspaper «Les Echos» on the basis of data published by banks BNP Paribas,
Societe Generale and Natixis, found that in 2014 they had 71% of employees who were the millionaires than all the French banks had in 2011. In England and Germany, the situation was even worse. In 2014, Deutsche Bank had the largest number – 816 employees – millionaires. And 14 of them received from 6 to 9 million euros per month [13]. And this in a period when the second great depression came to the United States and several other countries. For example, in France – one of the most developed EU countries, in 2014 the overall unemployment rate was 10,4%, and among young people aged 15 to 24 years is 23,4%, versus, respectively, 10,2% and 9,8% in 2013.

In the EU banks the New economy innovations have again been practicing, including deregulation like in the United States. Joseph Stiglitz gave the following example of the bankers blatant gluttony. Nine of the largest creditor organizations suffered losses of $ 100 billion. Received from the government under a special program of salvation 175 billion. 33 billion of these were spent on the bonuses payment. Nearly 5,000 employees received $ 1 million and more. And the remaining money was spent on the shareholders’ dividends payment. Dividends are a form of profit distribution among the shareholders. However, in this case there was no profit, and money allocated by the government was distributed [14, p. 65].

Since 2009, the author reiterates the conclusion that in countries whose economies are not able to provide the appropriate level of state economy regulation and its social orientation, the population is doomed to be operated by socially irresponsible businesses subjects, moral and physical degradation and even extinction. Ukraine and most other countries with a market economy, according to the author’s point of view, should as soon as possible substantially improve the quality of economic systems and state regulation to encourage the formation of business entities social responsibility and their marketing activities. In the system of state economy regulation, special attention should be given to commercial banks and other subjects of financial market. There are signs that these entities billionaires’ and millionaires’ who are blinded by unrestrained profit pursuit and self-enrichment, have already begun preparation for the third great depression. Although it is still unknown when and what the outcome of the second one is.
Literature


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Transliteration


