

## SOCIAL INNOVATION IN INTERNATIONAL BUSINESS

*The evolution of nature, value and role of social innovations for sustainable development is investigated. The institutional framework of social innovations is analyzed. The main reasons and motivation for active implementation of the corporate social responsibility by corporate sector are certain.*

**Keywords:** social innovation, social entrepreneurship, corporate social responsibility, sustainable society growth.

*There is nothing as powerful as a new idea in the hands  
of a Social Entrepreneur.  
Bill Drayton, founder of Ashoka<sup>1</sup>*

Science, technology and innovation (STI) have long driven advances in productivity, and it is quite obvious that much of the efforts to intensify STI for society were focused on economic objectives such as competitiveness and economic growth. However, the current economic crisis has reminded us of the importance of intensifying STI not only for generating economic benefits, but also for responding to different societal needs and problems. The growth of modern economic systems is generating more and more new numerous complex and urgent social challenges. Today, there is a growing consensus that the disconnection between economic growth and social welfare is deeply increasing. Growth does not automatically lead to social welfare anymore as it used to be in the last century. This results in the persistence of social challenges even in countries with significant economic growth and a growing social polarization between different population classes and countries.

The theme “social innovation” existed long before the 20<sup>th</sup> century. For example, B. Franklin, wrote about small modifications within the social organization of communities that could help to solve everyday problems. In the 19<sup>th</sup> century the reformer R. Owen (founder of the cooperative movement) and all the great sociologists including K. Marx, M. Weber and É. Durkheim promoted innovation in the social field and focused their scientific attention on a broader processes of social change.

Later in the 20<sup>th</sup> century social innovations were disclosed in the works of P. Drucker and M. Young [2]. Further this meaning also appeared in the 1970s in the works of such French writers as: P. Rosanvalon and J. Fournier. Other theories of innovation became famous in the 20<sup>th</sup> century, many of which (J. Schumpeter’s, for example) had social implications, without putting social progress at the center of the theory. But since the 1980s, many

writers on technological change (A. H. Khan, M. Yunus, the founder of Grameen Bank which invented the concept of microcredit for supporting innovators in developing countries, and S. Goldsmith, former Indianapolis mayor who engaged the private sector in providing many city services [6]) have increasingly addressed to the theme how social factors affect technology diffusion.

Nowadays innovation really differs from the model which used to work in the last 20<sup>th</sup> century and which can be characterized as profit-oriented and nationally targeted when the main motive of innovation has been generating economic value. Thus, modern ecological, social and other problems of sustainable growth has brought to live a new concept according to which it is crucial to construct a new system that enables us to meet social challenges through innovation by collaborating. Thus, there is a need to find ways to faster innovation which generates social and public value.

Social innovation refers to new strategies, concepts, ideas and organizations that meet social needs of all kinds – from working conditions, education to community development and healthcare – that extend and strengthen civil society [1]. This term has extra exceeding meanings:

– It can be used to refer to social processes of innovation, such as open source methods and techniques, in which the intellectual property involved in a production or service is made freely available.

It refers to innovations which have a social purpose – like microcredit or distance learning.

– It can also be related to social entrepreneurship, which is the practice of creating new organizations focusing on non-market activities.

<sup>1</sup> Ashoka – innovators for the Public is a nonprofit organization based in Arlington, Virginia, USA, supporting the field of social entrepreneurship.

– It is also shut with innovation in public policy and governance. Social innovation can take place within government, the for-profit sector, the nonprofit sector, or in the spaces between them. Innovation in public services was pioneered particularly in some Scandinavian and Asian countries. Governments are increasingly recognizing that innovation requires healthcare, schooling ordemocracy [4].

– It is also associated with collaborative approaches which involve stakeholders who are not directly responsible for some activity, such as stockholders and unions collaborating on business issue and business collaborating with government on regulatory issues [5].

– It refers to innovation diffusion.

– It can be used to refer to institutional or system entrepreneurship which focuses on agents who work at a broad system level in order to create the conditions which will allow innovations to have a long-lasting impact [8].

– It focuses on new work and new forms of cooperation/business models.

These, along with the above mentioned there are much more topics usually related to social innovation: access to capital and changes in financing; employment, targeted insertion, delivery of social and community services; balanced growth approaches to development; social cohesion in the New Economy; social enterprises and social entrepreneurship; corporate social responsibility; community capacity building; study visits, events, international conferences, and publications are the output of these activities.

Social innovation gives new answers to social problems by: identifying and delivering new services that improve the quality of life of individuals and communities; identifying and implementing new labor-market integration processes, new competencies, new jobs, and new forms of participation, as diverse elements that each contribute to improving the position of individuals in the workforce. Social innovation differs from economic innovation because it is not about introducing new types of production or exploiting new markets but is about satisfying new needs which is not provided for by the market or creating new, more satisfactory ways of insertion in terms of giving people a place and a role in production. “The key distinction is that social innovation deals with improving the welfare of individuals and communities through employment, consumption and/or participation, its expressed purpose being to provide solutions for individual and community problems” [1]. The social innovation theory emphasizes three key dimensions to social innovation [7]:

– first, innovations are usually new combinations or hybrids of existing elements, rather than wholly new;

– second, their practice involves cutting across organizational or disciplinary boundaries;

– lastly, they leave behind compelling new relationships between previously separate individuals and groups;

– social innovation is also gaining visibility within academia [3].

However, social innovation is not only an inevitable constraint, but it is also great opportunity. There are business opportunities and synergies to be exploited in better integrating social challenges at the core of innovation activities. Social challenges have a strong mobilizing effect, which would allow gathering of competences and resources, beyond sectors and disciplines boundaries.

Social Innovation became a worldwide phenomenon as people realized that it is time to work together to find out new solutions to the facing our society challenges and to move towards a sustainable society. New initiatives are being launching all over the world by official authorities, research institutions, companies and by different independent organizations.

Governments support social innovation in different sectors, notably in the UK, Australia and Denmark [7]. In the United Kingdom, the government has established rules to delegate public service to Social Entrepreneurs with the most effective model. In the United States of America the Obama administration has created a “Social Innovation Fund” to invest in the most promising innovations of Social Entrepreneurs that have the potential to be scaled nationally and combine public and private resources and support social innovation<sup>2</sup>.

The European Union’s innovation strategy was the first well-funded research and development strategy to emphasize the need of social innovation. The Social Innovation Europein initiative<sup>3</sup>, funded by the European Commission’s Directorate General for Enterprise and Industry, was set up to map social innovation at a European level, by creating a directory of grass-roots examples of social innovation from across the 27 member states. The European Commission has launched a new initiative in 2013 under Frame Program 7 funding – BENISI Project – with the aim to build a network of incubators for social innovation across regions and countries. This network facilitates identification of 300 social innovation examples and facilitates its scaling [9]. The network is organized in

<sup>2</sup> Social Innovation FundUSA – <http://www.whitehouse.gov/administration/eop/sicp/initiatives/social-innovation-fund>.

<sup>3</sup> Social Innovation Europe – <http://socialinnovationeurope.eu>.

a way to identify new models for scaling of social innovations across various geographical clusters in collaboration with each other, communicating the ideas, finding the tools and funds, developing business plans and models in order to promote the new promising ideas throughout Europe.

Moreover, different educational institutions actively support research and teaching in the field of social innovation. Among such institutions which offer short-term programs in the field the most known are: Harvard Business School's Initiative on Social Enterprise (founded in 1993), Said Business School's Skoll Centre for Social Entrepreneurship (founded in 2003). While such educational institutions as Goldsmiths, University of London are offering masters courses which are dedicated to the study of theory and practice of social entrepreneurship and innovation.

In Bangladesh, DANONE collaborates with Muhammad Yunus's Grameen Bank to distribute locally produced enriched yoghurts to poor children. However, this socially oriented activity of corporations (Corporate Social Responsibility – CSR) is quite motivated and is caused by significant benefits which they receive:

**1. CSR is an investment.** Previously companies mostly preferred philanthropy and supporting social initiatives which were chosen intuitively and guided solely by moral leader, but today we can say that such approach has changed. Nowadays each social topic is reasonably and carefully selected, initiatives or projects that meet the goals and mission of the company and provide a return on investment are chosen. Advanced companies are trying to focus on several areas that in some way responses business activities of the company, have clear objectives and thus deepen communication between consumers the company's mission.

**2. Increase Sales.** One of the large-scale examples of charity marketing conducted by American Express took place in the early 1980s when company decided to raise funds for the restoration of the Statue of Liberty. The company promised cardholders to transfer a certain amount to fund the restoration of the Statue of each card transactions. As a result of its action the company brought \$1,7 million for the famous statue, the number of transactions increased by 27 % and the number of new cardholders – 10 %.

**3. The strengthening of the brand.** Consumers are steadily climbing to the top of the Maslow's pyramid of needs and seek fulfillment through involvement in something special, meaningful. If consumers are aware of how the brand that he "thinks and feels" they asked a new question: "What he (brand) believe". Actually socially significant initiatives can provide a brand new face, it is advantageous to distinguish the product, create a unique, long-term relationships between brand and consumer.

**4. The high level of reputation.** Reputation is particularly important for companies operating in the insanely competitive market, it can play an important role in crisis, providing better opportunities to attract, motivate and retain highly skilled employees.

**5. The decrease in operating expenses.** For example, decrease in expenses for promos and commercials for the company became reality since the deeds of the company speaks loud instead its commercial. The rapid growth of social networking has opened up new opportunities for the companies in this field. For example, Procter and Gamble has offered bloggers and their readers to collect drinking water for residents of Africa.

**6. Attractiveness to investors and financial analysts.** The value of shares on the stock exchange is largely dependent on the value of the brand, its reputation and faith in him.

The needs of society, business and each individual are endless, but the resources to satisfy them are limited. This is an objective fact. Making any action necessary to reflect how they affect the environment and what can lead in the future. If until recently it was "cool" if the company takes into account the principles of sustainable development in its operations, nowadays it is "it would be very good" to do it, then very soon in the nearest future it will be the only way for business development. But what is important and what is already stimulating the business model rethinking, is that products and technologies which are already basing on the principles of sustainable development help companies to reduce costs and increase revenue. That is the key to sustainable development of innovative companies and therefore the key to progress, which is especially important in times of economic crisis.

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## СОЦІАЛЬНІ ІННОВАЦІЇ В МІЖНАРОДНОМУ БІЗНЕСІ

*Досліджено еволюцію сутності, значення та ролі соціальних інновацій для сталого розвитку суспільства. Проаналізовано інституційне середовище реалізації соціальних інновацій. Визначено основні мотиви корпоративного сектору активного впровадження системи соціальної корпоративної відповідальності.*

**Ключові слова:** соціальні інновації, соціальне підприємництво, соціальна корпоративна відповідальність, сталий розвиток суспільства.

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## THE IMPACT OF FINANCIAL DOLLARIZATION ON THE BANKING SYSTEM OF UKRAINE

*The general purpose of this research is to evaluate how financial dollarization can influence the profitability of Ukrainian banking system and what banks are the main players with highest level of deposit and loan dollarization. So, in this research was used the sample of commercial banks in Ukraine to provide the clustering analysis. In a result, it was separated four groups of banks by three main indicators: profitability, level of deposit and loan dollarization. Also, it was build a regression to figure main drivers of deposit and loan dollarization in Ukraine. To solve the issue of estimating impact of dollarization on bank's profitability was performed the multiple regression analysis of banks for last thirteen years. Additionally, it was explored main risks of the Ukrainian banking industry connect to the dollarization degree.*

**Keywords:** loan dollarization, deposit dollarization, profitability, bank assets and liabilities, net foreign currency position, net foreign assets, banks' external debt.

Commercial bank is one of the most important economic agents in the financial market. The unique role that banks play in capital formation and channeling funds to those with productive investment opportunities, any change in the banking

system can lead to declines or increases in financial dollarization.

First of all, we start from liabilities of banks that mainly consist of deposits. The main reasons of deposit dollarization are the lack of monetary credibili-