

The complexity of economic and social aspects of business activities and their impact on the transition process towards sustainability

Halyna Chybiskova

National University of Kyiv-Mohyla Academy

Address: Ukraine, Cherkassy,
Ordzhonokidze str., 40, app.57

fon: (044) 432 81 43

e-mail: chybichybi@yahoo.com

Abstract

New effective economic trends are to involve not only the numerical models with maximum rational actions of economic agents, but to deal with management analysis that provides qualitative analysis. The last one provides activity within lack of information, ultimate rationality, lack of opportunism and maximization of purpose function. These means provide that managerial decisions may organize transactions inside a corporation or by cooperation on the independent agents market (price mechanism), i.e. market and corporation are the alternative ways of transactions organization. A corporation may have one or several technological process, and may have no process, but anyway, it's a set of contracts; it has more benefits in comparison with market organization, otherwise all transactions are made on the market and a corporation is not obligatory. Corporation is a managerial structure and it has its costs. There are costs of coordination – determination of prices, costs on information processing. Costs of motivation are spent on coordination of contract stimulus. Corporation has more benefits than market. Analyzing a corporation it is important to see how impact workers and managers on corporation's activity.

In past years, the term “sustainability” was spoken mainly in environmental circles as a descriptor of a balance among environmental consciousness, resource reduction, economic resilience and social responsibility. In recent years sustainability has become prevalent in business as a way to improve the overall bottom line of the business. Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. The reality of the business world is changing. Until recently, all that mattered was the cash nexus.

In fact, for some companies sustainability has become an imperative and established way of conducting business to drive profitability, to set short and long term strategies and to ensure that the business is considering broader shareholder expectations and social and ethical imperatives.

Approach of corporate sustainability provides long term integrity of economic, environmental and social aspects of the business. Corporate sustainability strategies are designed to use financial, natural and social resources in an efficient way. Reducing or eliminating waste and inefficiencies can save money and reduce environmental and social impacts. It therefore makes business sense to achieve corporate sustainability. This approach can help companies to develop a corporate sustainability strategy that will enable it to position a business in the way that demonstrates economic competitiveness and environmental and social responsibility.

Achieving corporate social responsibility is one of the most vexing, yet most promising, issues ever to face the business sector. On the one hand, the importance of traditional business imperatives such as benefit and profit growth are universally accepted components of corporate strategy. Shareholders as well as the public are increasingly demanding more attention be given to new business imperatives such as corporate social responsibility.

In nowadays world we face a situation when human actions which even are not concerned with war are very hazardous¹; the planet has been under threat from humanity; never before have so many of the world's people experienced such material wealth and so many others lived in abject poverty; never before have so many had such fulfilling work and so many others had such degrading work or no work at all.

This critical situation has been brought by multiple causes, but one contributing factor is the rise of the corporation. Corporations are the fundamental cells of modern economic life and their phenomenal success in transforming the earth's resources into wealth has shaped the world in which we live. Corporations have brought enormous benefits. They have also brought huge problems. Corporations are using global resources at a rate that is unsustainable into the future. Corporations create the vital goods and services we consume, but some corporations also produce 'bads' as well as goods, and 'disservices' as well as services. Most economists fail to mention this when discussing economic progress.

Corporations have been a large part of the problems we are experiencing and therefore they must be part of the answer. Now it is important to embed the theories in action and to engage in dialogue around working models. For this transformation to be successful, people at all levels of organizations must work together to redesign their organizations for the future. We are moving from a world where wealth was based on the production and acquisition of material possessions to a world where wealth is increasingly based on knowledge and the availability of services. In the past there was a real clash between the push to increase productivity and the need to protect the environment. If we made more products, we created more waste and pollution. Now many corporations are discovering that they can be successful in business terms while

making less. Action on these issues can't be delayed until the ideological debate about sustainability is resolved. The urgency of the ecological and social crisis that faces us demands that change begin now. We work out our ideologies in the hot human process of engaging with the issues, and with each other, in the complex, messy world of shared hopes and conflicting interests.

Human consciousness is the most critical factor. Corporations seem such formidable structures but they are merely 'social fictions'. Ultimately corporate leaders depend on others accepting their leadership. A groundswell of public awareness, commitment and social action can create the conditions for instituting sustainable practices. Public opinion has had a marked effect on the operations of firms. All of us have a part to play, as citizens, as consumers and as members of the workforce in demanding sustainable practices.

The outer reality of our social worlds is a mirror reflection of the dynamic reality of our inner worlds. Inner consciousness and outer reality are intimately related and co-create each other. It follows, therefore, that to transform the world about us we must also transform our inner consciousness. The most important change agenda is internal, and intensely personal. In the end, individuals make the difference in the course of social change: our convictions, our awareness, knowledge and skills matter.

Individual as a part of corporation

The Economics use to operate with a model of rational individual. Which means, that a person tries to maximise a benefit by evaluating a situation and making right and objective conclusions. It presumes that creative individual has full information that is necessary for making solutions. This individual doesn't care about welfare of

other people. There are no restrictions for outer change in condition of benefit maximization. Increasing of welfare takes place by means of change but not of theft.

These assumptions cannot cover all reasons of human acting. A person doesn't act separately from other economic agents, thus it's important to take into consideration all of restrictions in process of decision-making.

The fact is that not all consumers know what they want and not all the needs are connected functionally. Decisions of agents impact the decisions of other agents.

There are two types of social person. The first one implies that a person is socialized, plays its role and may be prone to sanctions. He is absolutely controlled by society, the aim is absolute socialisation, and this process is directed by society.

The other one implies that an agent has its own opinion, he is active, but he is not an economic person – he doesn't have restrictions, creativity and rationality.

Rationality might be explained in this condition: agent A will never choose variant X if in the same time he may choose variant Y, which, on his opinion, is better than X.

According to Hayek, rational behavior is a type of behavior that aims strict, determinant results. There are two types of rational behavior: rationality and pursuing one's own interest.

According to Williamson², there are three main types of rationality: maximization, limited rationality, natural rationality.

Maximization – a choosing of the best variant. In terms of this theory firms may be understood through their productive functions, consumers – through utility functions, optimization takes place everywhere.

Limited rationality implies that agents try to act rationally, but in fact this capability is confined.

This theory takes into account intellect and attempts to save on it by means of personal abilities, experience, more comprehensive information or with help of people at the helm.

Natural rationality³ exists when we are dealing with money, market and so on. It is better to have only a slightest idea how they operate for aiming some purposes.

Pursuing one's own interest is especially important when we talk about information and its disposal. Ideally a harmonium using information should exist, but agents act opportunistically – they use distortions, concealment of information or confusing the partners. It creates information asymmetry that complicates the purposes of economic organization, because in lack of opportunistic behavior any behavior might be submitted to rules⁴.

The possible way to neutralize opportunism is to discuss all the points where partners do not entrust each other.

Simple pursuing one's own interest - partners begin the process of change, they know the aims and principles of other partner. All actions are discussed; all necessary information is easy of access. The objects are secured and there are no such restrictions as irregular behavior or violating the rules.

Obedience is actual when an individual is identified with a goal, but in fact it is difficult to obey in Economics, especially remember that everyone persecutes its own interests and everyone thinks that it is he who makes decisions concerning about him.

Each person has a system of predilections that is formed of habits, stereotypes, values, aims, religion, which may testify to independent decision-making. It defines the choice, but not the results. Nevertheless the results are important, so it is fair to suppose, that optimal aims and purposes must be settled. Thus, instead of utility maximization one can use a prerequisite about compara-

tive importance of needs and it's best satisfaction with a probably less number of goods.

In fact in Economics satisfaction is not so important as in Psychology or motivation theory, where dissatisfaction is an inducement for further action. According to this assumption a firm's aim is not maximization but achieving a certain level of profit, retention of certain market segment and certain sell-quantity. This assumption is in accord with a formula "price formation based on expenses plus standard extra charge" and in accord with thesis that corporations which are stable on the market are less active (but there are a lot of exceptions).

Ethical standards are the restrictions, which sometimes may explain economic phenomena. Thus, not only formal institutions of the state may restrict opportunistic behaviour. Really, if minimisation of opportunistic behaviour decreases the transaction costs and increases effectiveness of the system, than compliant institutions will strengthen in society. One of those institutes is the ethical norm that changes during centuries and generations. In terms of primitive society these norms guaranteed a power of chieftain and duties-division inside the tribe. Further, with development of labour-division and trade appears property of certain people. It implies gaining of such interpersonal instincts as respect of one's property, honesty, thrift; they serve for obeying rules, which appeared because one group was more successful in achieving goods than others.

These gained institutions, evolving, let to appear a modern civilization based on economic and social change between people and nations. Due to these rules law systems appeared.

There were civilizations that neglected the role of change, of trade, of competition and individualism in general. They are called "the close one", for example totalitarian states.

Thus, the size of expenses of market transactions depends not only on law rules, but also on traditions of market behaviour of agents. If society does not have rules of respect of property, honesty and obeying the contracts, than a control of even the very best law doesn't reduce transaction expenses. In society with the best law system and poor set of moral rules the transaction expenses still will be very high.

In terms of centralised planning the transaction costs are extremely high, because there are no mechanisms of market change. A state partially takes on it this role, but it is unable to make it work. For instance, there is a shadow market, where transaction expenses are high because the change takes place without the law. Under impact of such situation peculiar ethical norms are developed. These norms help to succeed. In transition to market economy this system was legalised, but its agents cannot change the norms of conduct. This conduct is opportunistic and it increases the expenses of whole system.

Acting according to set of common moral rules, an individual may get much more approval/disapproval from society, than he could foresee due to positions of rationality.

Ethical norms impact the subjective mental constructions. Having different ways of comprehending of economical phenomena, people make different conclusions in different circumstances. That is why the success of economic reforms depends on changing way of thinking.

Rating transition to sustainability we assume that solely economical approach to nations-welfare is too narrow. Problem of common values is very important in Economics. There are a lot of sociological conceptions in poverty, low life-level, lack of progress. According to Hunar Mural, who analyzed problems of southern and south-eastern Asia, the poverty might be explained among other economic reasons be leading archaic and outdated institutions in social and

economic life. Numerous theories of economic growths are criticized, especially taking into account violating elementary labour discipline, punctuality, slow response on or denial of innovation. There are no creativeness, enterprise, and initiative. People are unready for collective actions, which paralyzes technical and economical modernization, and causes increasing of distance between developed and developing countries. So, the matters of vital importance are to provide both economic reforms and eliminate impact of outdated institutions. Only reforms in population-growth, distribution of agricultural areas, systematic medical cure and reforms in education may result reduction of the gap.

Intracorporational relationships

For a long time a firm was comprehended as an integral agent, with labor and capital input and ready-made goods as output for the sake of benefit maximization. A firm has a lot of inner aspects such as organization, personnel behavior and control.

Set of rules between workers and managers of the firm are defined in contracts. Contracts may be formal (on the paper) and informal (moral, verbal agreements). In its activity a firm faces two types of expenses – transactional (outer) and expenses of control (inner). The first group of expenses exists for covering all needs concerned with business including time for seeking a business partner.

The second group serves to guarantee a proper contracts performance.

Ineffective outer contracts constrain the market sphere. In a corporation there are a lot of workers and a lot of types of productive process, so the final good or service is a result of numerous subdivisions activity. There is no immediate connection between a labor and its result.

Decreasing of labor intension of one worker has no impact on general result. Self-control of intension is ineffective, thus a controlling organization should exist. The bigger is firma, the bigger are costs of control.

Property separation from control may cause a conflict of interests between owners and business-managers. The aims of owner – benefit maximization, the aim of business-manager – are the professional interest, well being, and prestige. The conflict became deeper because of asymmetrical information. Business-managers are more inclined in firm's activity because they are closer to firma. Problem of manager's opportunistic behavior (on owner's mind) may be solved by means of control of their activity.

Corporation possesses a very important property – it creates information by means of price mechanism, because all economic information faces with prices. This information is not complete and sometimes is a result of other kinds of information (for instance, of quality). Information may be outer and inner, which is more interesting for us, because it describes connections between agents of corporation. These connections are stable, and only market can change them (corporation became large and has more subdivisions). On the other hand, agents itself in rare cases can change the market (for example, interpersonal decisions between personnel may cause division of corporation, changing the name or something else).

Management in corporation

This chapter may be interesting not only for the sake of theory, but also for senior company directors and managers with a corporate social responsibility, but is also valuable to senior staff of all disciplines, including operational and policy personnel. Managers taking responsibility are finding an apparently unending stream of improvements and projects that are good for busi-

ness and the environment. The idea that "environment = cost" is simply wrong. New effective economic trends are to involve not only the numerical models with maximum rational actions of economic agents, but to deal with management analysis that provides qualitative analysis. The last one provides activity within lack of information, ultimate rationality, lack of opportunism and maximization of purpose function. These means provide that managerial decisions may organize transactions inside a corporation or by cooperation on the independent agents market (price mechanism), i.e. market and corporation are the alternative ways of transactions organization. A corporation may have one or several technological process, and may have no process, but anyway, it's a set of contracts; it has more benefits in comparison with market organization, otherwise all transactions are made on the market and a corporation is not obligatory. Corporation is a managerial structure and it has its costs. There are costs of coordination – determination of prices, costs on information processing. Costs of motivation are spent on coordination of contract stimulus. If transaction strikes on the market, the price mechanism guarantees coordination of goods and money streams with some costs, and price includes all necessary information. Corporation has more benefits than market:

Advantages and number of ruling tools, coordination and motivation of elements, that can't be guaranteed by long-run contracts or agreements, because of price wars. Center divides recourses according to efficiency of sub-units. It helps to invest perspective projects in proper time saving and controlling investments.

Corporation has more ways to solve conflicts, because intercorporational conflicts require a lot

of money and time. Intracorporational conflict requires only a better management and more efficient mechanism of cooperation within the corporation. Advantages in motivation - concordance of missions and stimulus of achieving. Advantages in getting and processing information – access to cheaper resources of information. Failure to execute aims of the whole industry is more serious than failure to execute aims of sub-unit.

Firm expansion is restricted with costs increasing because of complication management structure, loss control and so on. These costs are the results of restricted rationality and opportunism that harm inner interests.

The structure and the size of corporation may cause the result not only in technology but also in management. Nowadays example is a tendency to globalization.

Solution making on the market and inside the corporation is different, it causes being a winner or a loser. On the market (polyarchy) everyone can make a solution and implement it. Within the corporation (hierarchy) a solution has to go from down to top, and it's impossible to avoid distortions. From the point of view of efficiency hierarchy exclude some good decisions, polyarchy may approve inefficient ones.

In conclusion I would like to add that there are a lot of situations when a market rules are ineffective or do not work at all. Sometimes market is weaker than a human nature and principles of human cooperation and interaction. Analyzing economical phenomena we should remember about social aspects of it.

Notes and References

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- ⁴ Menger, Karl. 1963. *Problems in Economics and Sociology*. Trans. F.J. Noch. Urbana: University of Illinois Press.