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Formation of the Mechanism of Corporate Social and Environmental Responsibility of the Trading Company

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Abstract:

It was determined that the impact of corporate social and environmental responsibility (CSER) on the formation of the company's distribution policy has more integrated mechanism than previously assumed. The article emphasizes the fact that all intermediaries (major, regional, local distributors) must comply with the principles and provisions of CSER of manufacturer as the brand owner at the stage of providing consumer with the products. CSER mechanism of the trading company is suggested to form a sales management strategy for a trading company, that is developed on the basis of CSER of manufacturer and aimed at improving economic results and improving social, environmental and economic state of the territory. The conceptual foundations of the mechanism of cooperation with the local distributor are proposed and the expediency of its attraction, which is based on the analysis of the BCG matrix, is justified using Sumy affiliated branch of LLC Bayadera Logistic as case study.

Keywords: corporate social and environmental responsibility; trading company; strategy.

JEL Classification: E62; G38; K22; K32; M21; Q56.

Introduction

Many social and environmental problems are typical for the modern world. Social and environmental responsibility of business, namely enterprises and organizations connected with the production, distribution and supply of products and services becomes especially important in this regard. They have necessary financial and material resources that can solve social and environmental problems, which the world faces. On the other hand, for companies, corporate social and environmental responsibility (CSER) is one of the ways to enhance their competitiveness in the market.

The urgency of the problem of increasing the competitiveness is caused by rapid change in the methods of sales used by trading enterprises, as well as by their moral "aging", as trading enterprises that sell products most often determine the effectiveness of the manufacturer. Therefore, the establishment of an effective distribution system influences the formation of CSER of the company.

1. Research Background

Many domestic and foreign scientists devoted their researches to the study of corporate social and environmental responsibility of the enterprise (CSER) and the mechanisms for its implementation. These are the researches of I.K. Bystryakov (2005), M. V. Gayevska (2008), O. A. Grishna (2011), I. V. Kosyakova (2012), T.A. Vasylieva (2015), L.G. Melnyk (2018), N.M. Pusenkova (2006), M. M. Saldayeva (2013), D.O. Smolennikov (2017), I.M. Sotnyk (2013), S. Banerjee (2002), M. Porter and C. van der Linde (1995), A. Schaefer and B. Harvey (1998), *et al.*

At the same time, scientific literature has not enough practical data on the factors that influence the formation of responsible relations between market entities, especially in conditions of the Ukrainian economy. The analysis of publications on this topic (Akhnovskaya 2016) allowed to determine the main motives for the implementation of CSER by companies, and to distribute them according to the degree of their significance: 1) customer loyalty; 2) increase in profits; 3) image, profitability; 4) attraction of personnel and its loyalty; 5) stakeholder loyalty; 6) increase in market size; 7) innovation; 8) increase in efficiency; 9) risk management; 10) contribution to competitive advantages.

Despite the considerable experience of research in this field, in our opinion, the issue on CSER of business requires further analysis in the context of the sustainable development concept.

2. Methodology

The following methods were used in the research: analysis, synthesis and logical generalization for determining the essence of CSER of the trading company, system analysis for investigating the relationships in CSER supply system of the trading enterprise and the local distributor and for the formation of CSER mechanism of the trading enterprise. In addition, the analysis of the BCG matrix was used to assess the expediency of transferring brands to a local distributor.

3. Case studies

The World Commission on Environment and Development recognized sustainable social-environmental-economic development as a global priority task. At the same time, sustainable development is considered capable of meeting the needs of the today's generation without the threat that future generations will not be able to meet their needs (Smolennikov 2017). The transition to sustainable development requires significant changes in the economic and social field in the context of reducing the negative impact on the environment. Regarding the production and trading activities, the issue on social and environmental responsibility of business arises.

Corporate social responsibility of the enterprise is a concept that reflects the responsibility of those who make business decisions to those whom these decisions affect (Lysytsina 2016). That is, it is the responsibility of the enterprise to the state, society (community), consumers, staff and anyone who is involved in company's activities.

D.O. Smolennikov (2017) considers social and environmental responsibility of the enterprise as a set of voluntary social and environmental initiatives of the enterprise aimed at the formation of the subject-object relationship and mutually beneficial relations with all stakeholders in the context of ensuring the consistency of current business interests with the environmental, economic and social interests of future generations.

CSER plays an important role in the system of business relations, as it is one of the basic values of the interaction. Under the condition of the widespread implementation of CSER in the enterprise activities, trading companies should identify new management problems that arise during the implementation of business functions and focus their efforts on solving the tasks on improving the organizational level of the sales management system, as these tasks are the indicator of business activity.

Thus, the goal of the research is to develop the measures aimed at increase in efficiency of environmental management and at the increase in sales of the trading company through the implementation of CSER mechanism.

CSER for Ukrainian companies, especially for trading ones, is completely new lever of strategic management and the potential of its use is not yet fully disclosed. CSER elements, first, are implemented by international corporations that are present in the Ukrainian market or by companies with foreign capital participation. However, leading Ukrainian companies join this process too. Examples of such companies are presented in Table 1.

Table 1. Specific features of CSER of some trading companies of Ukraine

Company name	Specific features of CSER
"Coca-Cola Ukraine"	It publishes annual reports on corporate social responsibility on its website. It supports social projects around the world.
"Henkel"	It supports social projects in the field of sustainable development worldwide
"METRO Cash&Carry Ukraine"	It identifies its corporate social responsibility with constant attention to ethical business conducting and with the contribution to the development of the economy, creating conditions for improving the living standards of both workers and their families as well as local communities and society as a whole
"Bel Shostka Ukraine"	Corporate social responsibility (CSR) is an integral part of the development policy of Bel Group. Its task is to ensure the positive impact of Bel Group activities on the environment as well as stable, profitable growth of the company.
Group of companies "Foxtrot"	It is the signatory of the UN Global Compact on the principles of social responsibility of business activity. It encourages the constant growth of Ukraine not only due to its own achievements in business, but also with the help of social investment mechanism.
Metinvest Holding	The concept of social responsibility of Metinvest is based on the integration of social, economic and environmental components of sustainable development into the strategy and activities of company.
Bayadera Group	It appreciates the image of the company, which is based on long-term honest relations with partners and consumers, and therefore always fulfills obligations, improve the efficiency of partners' activities and promote social responsibility of doing business.

Source: based on data of companies' Web sites

The abovementioned companies have the common values of CSER. They are as follows: positive impact on the environment, ensuring sustainable development of the territory, social projects financing, etc.

In our opinion, the principles of CSER of the trading company may not be contrary to CSER of manufacturer and have fully reflect the main objectives, principles, measures, etc. Therefore, during the implementation of CSER of the trading company, it is necessary to take into account that the sales effectiveness and the opinion of consumers are vital for it and for the manufacturer, since these are the factors that ultimately form their profits. Consumers recognize products brands more often than the manufacturer and therefore we believe that all intermediaries (major, regional, local distributors) should comply with the provisions of CSER of manufacturer at the stage of providing the consumer with the products.

The main reasons why manufacturers address to trading enterprises while selling products, rather than do it themselves, are as follows:

- cost savings;
- lack of own transport, regional warehouses, staff, etc.;
- trading companies use innovative approaches;
- trading companies are able to adapt faster to consumer's needs, etc.

Establishing good relationship between the manufacturer and trading company creates a number of competitive advantages. They depend on three following aspects:

- attraction of intermediaries-distributors. This partnership can increase the sales and efficiency of both organizations (the trading company and the intermediary) and be a key differentiator in the market overwhelmed with goods and companies. Assessment of partnerships by specific indicators, for example, firstly, the degree of satisfaction of the outlets and end users, profits; secondly, the joint problem solving in the logistics chains, awareness of the product advantages of the sales representatives, etc. That is the help in effective business conducting for both parties.

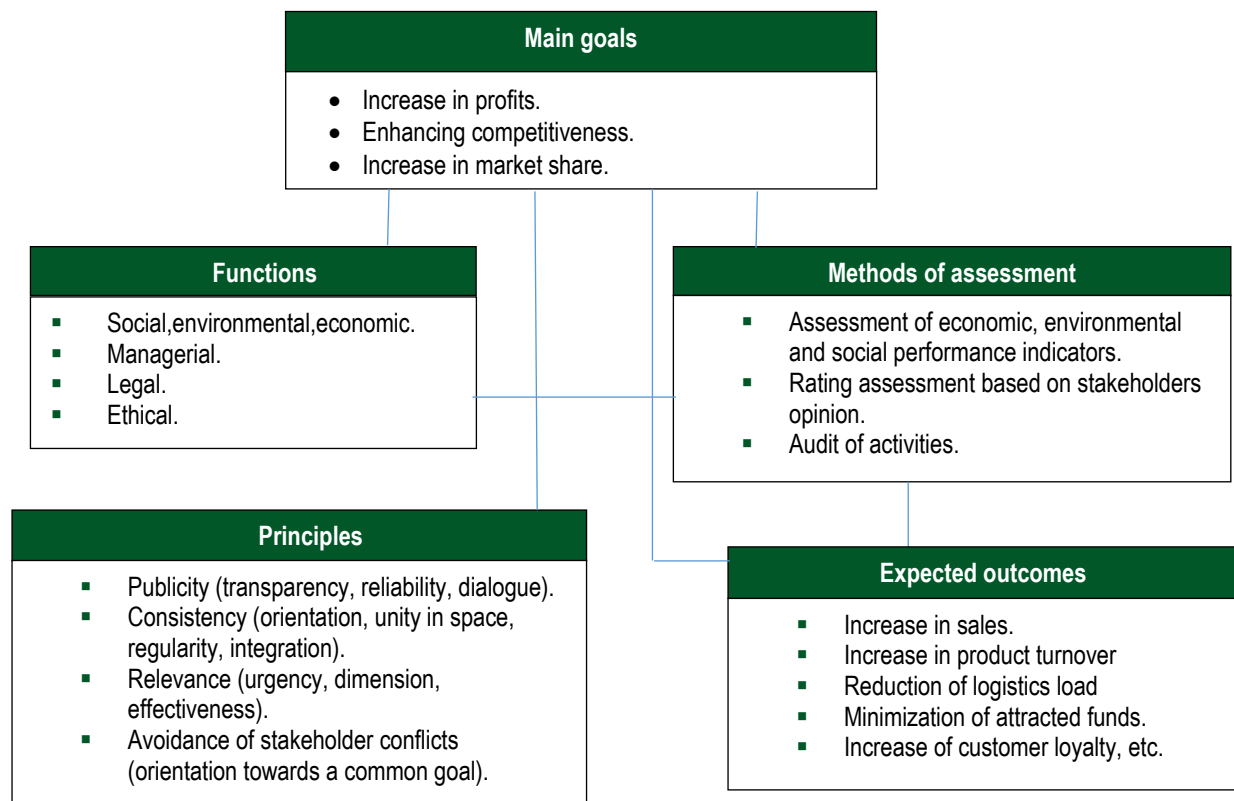
- attraction of end users. Feedback from end users, providing extensive information about the interactions with the products manufacturer provides the opportunity to receive reliable information about urgent needs, suggestions for improvement directly from the primary sources in a short time, the ability to understand the key problems, to determine the advantages and disadvantages of the product, market share and consumer loyalty.

- choosing the right sales representatives. Sales representatives often are the face of the manufacturer's brand, so the degree of their awareness of the product play a key role. Offering the effective tools to the distributor that help to hire and retain good employees, as well as providing all necessary information is great opportunity for creating partnerships.

Thus, CSER of trading company is a concept of the development and implementation a set of legal, technological, economic, marketing and other tools. These tools allow establishing special relations between the

manufacturer, trader and other stakeholders and these relations are based on the responsibility to each other and are aimed at ensuring sustainable development of the territory. We propose the following structure of CSER mechanism of the trading company (Figure 1).

Figure 1. CSER mechanism of the trading company



Source: adapted by the authors based on (Akhnovskaya 2016)

Thus, the suggested mechanism allows to develop a sales management strategy for a trading company based on CSER of manufacturer and aimed at improving economic results and improving social, environmental and economic state of the territory.

So, according to the proposed provisions on CSER of manufacturer and trading company, it is possible to analyze the state of CSER of Bayadera Group Holding and its trading company LLC Bayadera Logistic. Bayadera Group Holding is the largest alcoholic beverages company in Eastern Europe, one of the major exporters of alcoholic beverages in the world (more than 45 countries). Holding has the largest distribution network in Ukraine with 30 affiliated branches and it is the major taxpayer and budget-forming company of the industry, the largest employer in the region (more than 6000 employees worldwide). Holding has been listed among the most socially responsible companies in Ukraine (according to its Web site).

CSER of the holding company is determined by the following company values: people are on the first place, as well as self-realization of employees, constant self-development, honesty and business ethics, fair wage, comfortable working conditions, etc. (according to its Web site).

LLC Bayadera Logistic is the largest distributor of alcoholic beverages in Ukraine. It has been successfully working in the market since 1991. The company employs more than 3 thousand people. The largest distribution network carries out direct deliveries to 35 thousand outlets of the country. 30 affiliated branches in all regions of Ukraine ensure the availability of the brands of the holding in the great majority of outlets and the delivery of products within 7 days (according to its Web site).

LLC Bayadera Logistic works in the market by attracting regional distributors. According to (Zachko 2016) the attraction of such intermediaries is often caused by the decision to optimize the company's range in order to eliminate weaknesses and level the threats. For this purpose, it is necessary to identify brands that have the smallest share of their category and transfer them to local distributors. We offer an example of the product portfolio analysis of Sumy affiliated branch of LLC Bayadera Logistic. Five of alcohol brands were analyzed as well as their closest competitors (Table 2).

Table 2. Characteristics of the product portfolio of Sumy affiliated branch of LLC Bayadera Logistic

Brand	Market share in 2017, %		Matrix criteria		
	Share of brands of LLC Bayadera Logistic	Share of competitors	Market growth rate	Relative market share	Share in total volume
Brand 1	11	6	101%	1,83	29%
Brand 2	16	12	99%	1,33	29%
Brand 3	2	2	90%	1,00	18%
Brand 4	5	8	78%	0,63	9%
Brand 5	9	5	609%	1,80	15%
Total			195%	1,32	100%

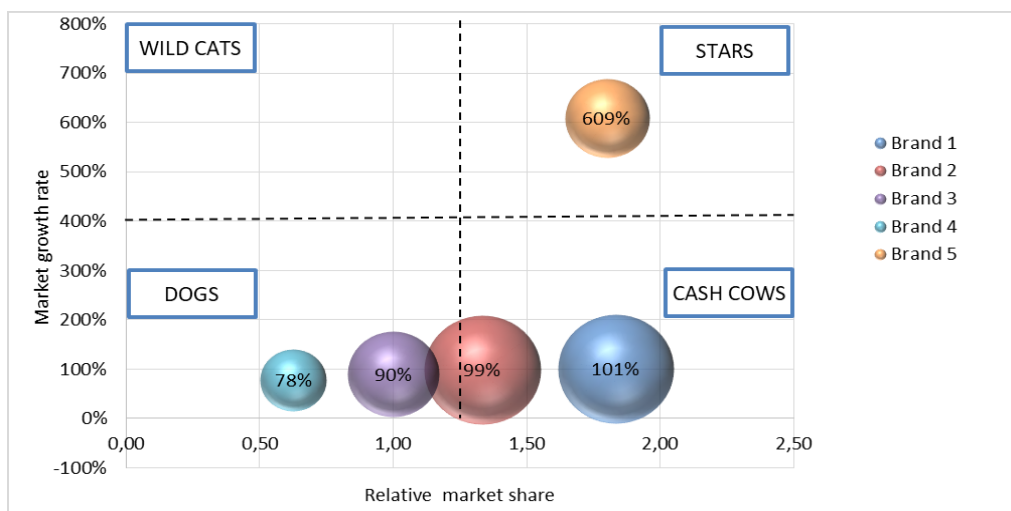
Source: based on data of LLC Bayadera Logistic

In order to choose the strategic direction of the sales activities of Sumy affiliated branch of LLC Bayadera Logistic, we will conduct an analysis of the BCG matrix, which will clearly show the dependence of volumes and growth rates of brands. The matrix allows to:

- determine which goods occupy a leading position in the market of LLC Bayadera Logistic in Sumy city in comparison with competitors,
- determine the dynamics of its market,
- balance the business portfolio in terms of financing,
- combine types of activities,
- use the results of analysis both within the enterprise as a whole, and in its divisions after implementation of some strategies,
- use objective criteria of attractiveness and competitiveness
- reduce the level of subjectivity.

Let's construct the BCG matrix (Figure 2) based on the results of the calculations presented in Table 2.

Figure 2. The BCG matrix of Sumy affiliated branch of LLC Bayadera Logistic



So, according to the results of the analysis, it is possible to conclude:

- Brand No. 5 shows the growth rate of 609% until 2016 and makes 15% of the volume of all vodkas of affiliate branch. This brand belongs to the "stars" and requires additional costs for promotion.
- Although brand No.1 and brand No.2 belong to "wild cats", but they have a huge impact on the alcohol market in general and occupy the main position in the company's sales volume (29% per each brand).
- Brand No.3 and brand No.4 fell into the "dogs", as recently the company did not focus on them and invested only to support sales. But these brands have the trust of certain groups of consumers. They are recognizable, therefore these brands are offered to be transferred to the local distributor, while the main task for Sumy affiliated branch is to keep sales volume (as it was before transfer). The main task for the local distributor is to keep sales volume or increase it. Under such circumstances, the provisions of CSER mechanism of the

manufacturer must be applied to the local distributor too, since it sells the products under the manufacturer's brand names.

To improve the cooperation of Sumy affiliated branch of LLC Bayadera Logistic with the local distributor, as well as to ensure the compliance with the declared provisions of CSER of Bayadera Group Holding, we proposed to include them in the agreement, defining them among the main responsibilities (Table 3).

Table 3. Main responsibilities of local distributor according to CSER

Direction	Essence
Regulatory, licensing	<ul style="list-style-type: none"> ▪ To define the protection and restoration of the natural environment to be company's strategic priorities. ▪ To adhere to environmental legislation. ▪ To be fully responsible for damages caused to the environment. ▪ To implement corporate culture based on environmental values. ▪ To submit the annual report on CSER and publish it on the website or make aware all stakeholders. ▪ To agree with supplier in written form the plans on establishment of new affiliated branches on sales on the territory not designated in the agreement with taking into account the impact on the environment. ▪ To allow the representatives of the supplier to check the storage areas where products are stored with purpose to determine whether the storage conditions comply with the principles of environmental and health standards. ▪ To sell products in the same condition as received, do not waste or change the products or packages, do not remove or modify labels, instructions, brands, attached or supplied with the product, do not stick to the product or package labels that were not previously approved by the supplier in writing form. ▪ To participate in social, environmental projects initiated by the holding company and, if possible, implement them independently. ▪ To respect and protect the legal rights of the supplier arising in connection with the agreement, in particular, to preserve trade secrets that may become known to the distributor in the result of the fulfillment of the agreement, etc.
Managerial	<ul style="list-style-type: none"> ▪ To use effectively natural resources, give priority to renewable energy and recycled materials. ▪ Constantly, actively and insistently promote the sale of products through the retail network, using less environmentally destructive ways of delivery and packaging. ▪ To take all possible measures in order to increase the number of outlets selling the products. ▪ To monitor sales of products. ▪ Always have products in stock. ▪ To distribute actively the products within the territory designated in the agreement, using its own infrastructure and consumers. ▪ To ensure the availability and sale of the products of supplier within its own network, place the products in accordance with the recommendations and requirements of the supplier; conduct and maintain activities aimed at support of products sales through their own distribution channels , etc.
Financial and economic	<ul style="list-style-type: none"> ▪ To conduct the analysis of environmental costs and advantages. ▪ To provide financial and organizational support to projects aimed at sustainable development of the territory where the products are sold. ▪ To finance health programs for staff, etc.

The established cooperation between the regional affiliated branch and a local distributor, without a doubt, is social, environmental and economic effective measure that is long term oriented. Joint efforts within a particular territory aimed at the compliance with CSER provisions on improving the lives of employees and the population at large, reducing the harmful impact on the environment, supporting the social projects implementation, etc will contribute to the development of sustainable development of a particular territory and the country as a whole. In addition, the further implementation of CSER mechanism by the trading company and distributor provides the additional distribution efficiency within a particular territory.

Conclusion

The intersection of non-standard management problems with business functions provides new opportunities for enterprise development in the modern social and environmental context of responsibility. Today, gaining customers' trust becomes a compulsory and important component of the corporate strategy of the world's leading

companies. At the same time, the loss of trust between partners can lead to the irreparable financial losses and loss of business image for both parties.

According to (Zachko 2016) manufacturing and trading companies seek to meet the best world standards in a competitive environment, and therefore a lot of attention is paid to CSER. This trend gives advantages to the state and society, helping to solve some of the key environmental issues, establishing compliance with the norms and standards of the world economy taking into account the environmental component, improving security and economic life of the population, etc. Another important feature of CSER is its assistance in establishing relationships between business, society and government. According to (Smolennikov 2017), CSER should not be isolated cases, but should become a life philosophy for society, enterprises and authority in order to achieve sustainable development of the country.

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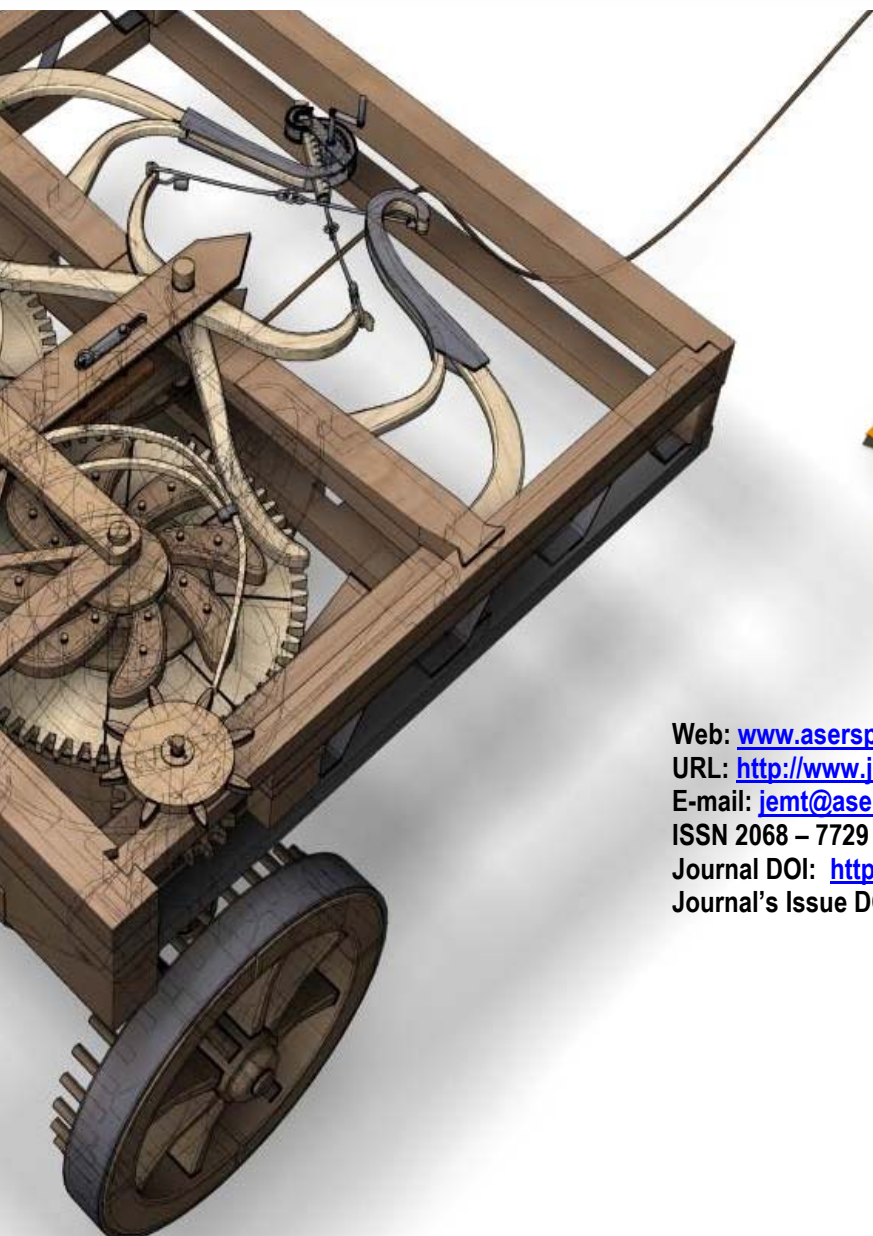
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