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CONSEQUENCES OF APPLICATIONS FINANCIAL INCENTIVES AND EVALUATIONS IN CSR

***Abstract:** This paper provides an introduction to the problem of application financial incentives and valuations in corporate social responsible activity. The main purpose of the paper is to persuade that applying them change the meaning of CSR (corporate social responsibility). We have found that application financial incentives and valuations in the field of social responsibility can lead to an exclusion of moral values. We state that business should abandon financial incentives in practice of social responsibility.*

Keywords: corporate social responsibility, financial incentives, financial valuation.

1. Introduction. In modern society most or almost all can be evaluated in monetary terms. Cost parameters used to determine the level of state development, economic development in the country, the development of branch etc. The monetary value is the key of the monetary measurement principle (Conceptual..., 2009), that is one of the basic principles of accounting. Today the monetary value is transferred from the economic sphere to the social because the economy is not something separate from the social. The expressions "social economy ", "social side of the business ", "corporate social responsibility" are used now more often than ever before. Subjects of monetary valuation become such items that have never been assessment before: knowledge, health, organs of the body, environmental protection etc. This is due to the fact that in recent decades the market and the market relationship are included in such spheres of social life that have traditionally governed by non-market norms.

At the same time the fact that the object has a price in terms of money often confronts society utilitarian nature dilemma: whether it's always possible to use financial incentives while solving a problem of moral character and whether/how financial evaluation affects the very essence of categories that have to be assessed in CSR? *To this issue the present article is devoted.*

Problem of the financial valuator's influence on the evaluated categories has *theoretical and practical aspect*. According to the classical formulation of J. Bentham (the utilitarianism founder) morally is everything what brings the greatest happiness to the greatest number of people (Bentham, 1988). However can we all actions of corporations that bring suffering to at least a small number of people considered moral even while most will enjoy. The answer to this question reveals the theoretical side of the problem. From a practical perspective, we attempted to explain why applying of financial evaluations and financial incentives as the basis of market-based approach breaks the very concept of a socially responsible business.

The object of research is the social responsibility of business. *The subject of this study* is the monetary value of the object, with that business operates, and financial incentives during the implementation of socially responsible activity. *The main hypotheses* that we would like to define in this work are:

1. Does the presence of financial evaluations of significant social categories affect the very essence of the concept "socially responsible business"?

2. Can financial incentives be applied while stimulate people to take part in CSR activities?

2. Theoretical framework of the research. Valuation and measurement are questions that can be put not only in economics, but also in philosophy, ethics, and psychology. The theories of value appeared at the appropriate stage of the development of society and the number of them confirmed complicated theory of value: mercantilist theory of value; cost theory; revenue theory; the marginal cost theory.

Determination of non-market goods value was undertaken for the first time in the history of early institutionalism by J. Commons (Commons, 1934) and W. Mitchell (Mitchell, 1937). They conducted the analysis of the psychological, social and legal aspects of the purchase price. Representatives of social and institutional areas that are critically rethink the theory of marginal cost. According to prof. Sosnina T., institutionalists understand economy as a large-scale evaluation process and the concept of value is extended to the entire complex of value relations (2005, p. 162).

The incentive is the psychological process that influences how personal effort and resources are allocated to actions pertaining to work, including the direction, intensity and persistence of these actions states Kanfer R., Chen G., Pritchard R. (2008, p. 13).

Research of results of application financial evaluations or incentives in the sphere of CSR is not been found, although the prerequisites to determine the impact of CSR on the profitability of firms in the economy appeared in the early twentieth century. We can face out with 3 main concepts of direction of CSR measure (Botsian T., Diachek S., 2014)

1) increase costs arguments, implying competitive disadvantage

2) cost saving and revenue increases argument

3) the impact of governance dimension (or relation to third part) on profitability is straight as there is no downside to it.

3. Research methodology. As a methodological framework research we selected comparative and logical analysis, as well as case studies.

4. Research.

4.1. Financial incentives substitute for other, more correct motives.

Smoking employees provoke for companies considerable costs such as performance decline as a result of a greater number of breaks, increasing the number of hospitality cases compares with workers who do not smoke, the high cost of health insurance. As a result many companies set bonuses for non-smokers as well as cheaper health insurance to decrease such “smokers expenses”. This also applies for people with overweight, blood pressure and cholesterol levels.

Since March 2010, the United States enacted amendments to the legislative act “The Patient Protection and Affordable Care Act”, which allow businesses to use remuneration of its employees or a fine of not more than 30 % of the cost of health insurance for the achievement of relevant goals such as stop smoking, reduce blood pressure (U.S. Government, 2009). Eighty percent of major U.S. companies now offer financial incentives to those of its employees who participate in wellness programs. And nearly half are being punished for bad habits, usually by increasing their contributions for health insurance (Sandel, 2013b, p. 63).

People are incentivized to quit smoking by the promise of having their own money returned to them state Giné X., Karlan D., and Zinman J. (2010). Smokers in the Philippines were offered the chance to deposit money into a noninterest-accruing bank account while they tried to quit with the promise they would get it back if they passed a nicotine and cotinine urine test six months later. If they failed, the money would go to charity.

The annual Hewitt Associates study of trends related to health conducted in 2010 states that 600 large U.S. companies, which represent more than 10 million workers (47%) use or plan to

use financial penalties over the next 3 years or 5 years in relation to employees who do not participate in programs related to improving health organization Society for human resources management (Miller, 2010).

In the UK the National Health Service spends five percent of its budget for the treatment of diseases associated with obesity. As a result to the overweight patients offered up to 425 pounds in weight loss and weight maintenance at that level for two years. This scheme is called "Pound for pound" (Holli, 2010).

From a liberal point of view this is not acceptable, because in this situation, a person perceives the company as a responsible person, left no field for person's own actions. Financial incentives substitute for other, more correct motives. This process looks like manipulation through financial incentives.

4.2. Financial incentives in CSR provoke changes in ethical behavior

Companies that pollute the environment, sometimes choose for themselves an extra cost to local communities calling it CSR, rather than installing expensive equipment for processing waste or water and air filters. In this case, considering such payments simply as additional costs, companies flout rules on the protection of the environment and replace the concept of social responsibility concept of paying for additional services. Meanwhile it claims as a CSR activity. In some cases it is even regulated by international agreements. In the 1997 at the Kyoto conference on the problem of global warming, the United States insisted that any binding international emission standards should include trading schemes that allow countries to buy and sell the right to pollute (CNN..., 2013). Today, there are CO₂ trading markets. For instance Texas Climate & Carbon Exchange (Texas..., 2014) offers an unparalleled trading platform which is robust, transparent and secure. In terms of full anonymity the exchange promises to help you sell or buy vouchers for carbon dioxide emissions.

Under the pilot program, 635 companies in Shenzhen (China), responsible for about 38% of the city's emissions, face obligations to reduce their carbon intensity by 6.68% on average per year by 2015. The first day of trading on the Shenzhen Emissions Rights Exchange saw eight transactions of emissions allowances completed for a total of 21,112 tCO₂e. While only allowances have been traded so far, emitters have the option of trading carbon offsets in the form of Chinese Certified Emission Reductions (CCERs), which are issued by the National Development and Reform Commission (NDRC) (Yin, 2013). However "we should try to

strengthen rather than weaken the moral responsibility for environmental pollution (Sandel, 2013b, p. 81)."

Oil and airlines companies offer their customers to contribute money in order to neutralize their personal contribution to global warming. British Petroleum site (British Petroleum, 2014) allows everyone to calculate the amount of CO₂, person emits into the atmosphere using the car and offset these emissions through donations for the implementation of "green" energy projects in developing countries. Make a like calculation offers the British Airways company (British Airways, 2014). ICAO Carbon Emissions Calculator a device presents a general methodology developed for estimating the amount of carbon emissions generated by a passenger in a flight, for use in carbon offsetting programmes. Person can neutralize the share of greenhouse gases released into the atmosphere during the flight by paying corresponding amount of money. Airline promises to compensate the damage caused to the nature by your trip, sending money through "One destination carbon fund" to respective needs.

All of these actions are considered in the context of corporate social responsibility, which is quite natural, but they have with certain danger inside. Such a charge is essentially the price of the responsibility for pollution. Strengthening the role of the monetary value significantly violates the ethical issue of environmental protection.

5. Conclusions. The above cases indicate that in the context of social responsibility the application of financial valuations as well as financial incentives abolish the very concept of social responsibility. So, the first hypothesis of the article is confirmed. The presence of financial valuations of significant social categories affects the very essence of the concept "socially responsible business".

The business concerning with it, in our opinion, should abandon the introduction of financial incentives into the analyzed practice of social responsibility, even if it has positive results. Other way application of financial incentives in implementation social action not be considered as a part of CSR.

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Боцян Т.В. Результати використання фінансових стимулів і оцінок в КСВ

Ця стаття представляє собою введення в проблему застосування фінансових стимулів і оцінок в корпоративній соціальній діяльності. Основною метою роботи є довести, що їх застосування змінює сутність КСВ (корпоративної соціальної відповідальності). Ми виявили, що використання фінансові стимулів і оцінок в області соціальної відповідальності може привести до нівелювання моральних цінностей. Вцілому бізнес повинен відмовитися від фінансових стимулів і оцінок в практиці соціальної відповідальності.

Ключові слова: корпоративна соціальна відповідальність, фінансові стимули, фінансова оцінка

Боцян Т.В. Результаты использования финансовых стимулов и оценок в КСО

Эта статья представляет собой введение в проблему применения финансовых стимулов и оценок в корпоративной социальной деятельности. Основной целью работы является доказать, что их применение меняет сущность КСО (корпоративной социальной ответственности). Мы обнаружили, что использование финансовых стимулов и оценок в области социальной ответственности может привести к нивелированию нравственных ценностей. В целом бизнес должен отказаться от финансовых стимулов и оценок в практике социальной ответственности.

Ключевые слова: корпоративная социальная ответственность, финансовые стимулы, финансовая оценка