

FORMATION OF THE SYSTEM OF FAIR BUSINESS PRACTICE OF THE COMPANY UNDER CONDITIONS OF CORPORATE RESPONSIBILITY

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ABSTRACT

The economic and social benefits of introducing a system of fair business practices in the company are considered. It has been proven that the formation of social programs as an element of a system of fair business practice contributes to the creation of a favorable social environment and more stable development for the company in the long term period. The advantages and disadvantages of business practice assessment methods are analyzed: The index method, rating models and business reputation assessment. The proposed author's methodology for business practice assessment based on the concept of goodwill measuring and the method of scenarios allows determining the economic effect already at the start of the introduction of the management mechanism of the company's fair business practice.

Keywords: Fair Business Practice, Goodwill, Stakeholders, Social Programs, Scenario.

JEL Classifications: M5, Q2.

INTRODUCTION

In order to build effective corporate activity in a modern market economy, it is necessary to create a platform for dialogue between government, business and civil society. It is the degree of development of fair business practice that reflects the level of social partnership between companies, government structures and the main participants of civil society in order to solve social problems and accelerate the development of social relations in corporations.

The basic condition of a socially responsible business is the implementation of fair business practices of corporations regarding the main groups of stakeholders. On the one hand, this practice assumes the timely fulfillment of tax obligations in full, directly influences the formation of the revenue part of the budget, the financing of state social programs. On the other hand, it assumes transparency of business operations, including disclosure of information on financial and social issues and verification of relevant reports by independent auditing companies, which, in turn, contributes to a gradual decrease in the level of the black economy in the country and overcome the budget deficit.

Nowadays, the economy has tools for socialization, in particular, mechanisms of social partnership, formation of human capital, corporate social responsibility, etc. Among modern tools that simultaneously are practical tools for enhance the efficiency of activities and areas of social activity, the mechanism for introducing fair business practice in corporate

activity. Despite the fact that good business practice is recognized as a component of corporate social responsibility, it leads among the practices of social activities in general. This is due to the specific set of measures that form it, and their exceptional relevance.

The theoretical developments of scientists from this field are based on studies of the analysis of human development, corporate management and the social role of corporations in human life, and such the content analysis performed by the authors allows to define a scientific problem and identify research hypothesis.

Modern scientific concepts of development of corporate social responsibility and fair business practices are based on the recognition of common human values and becoming of priorities of human development in the moral system of coordinates of society in comparison with technological development, accumulation of wealth and stratification of society. The paradigm of humanistic development of mankind has become a single methodology for the development of social relations. This paradigm forms the general methodological approaches to the scientific knowledge of phenomena in the field of socio-economic research.

LITERATURE REVIEW

The system of fair business practices in developed economies covers various issues related to improving the quality of working conditions of employees. In this field, the study of fair business practice is manifested in the following areas (Dias et al., 2018): provision of appropriate wages, conditions and qualifications of the employee; payment of material assistance to employees in cases of illness, dismissal, staffing reduction, etc.); implementation and funding of training programs and staff development; implementation of a social package in the form of medical insurance, social benefits and the like; provision of safety conditions and labor protection; fair treatment of employees (respect for the individual, non-existence of racial, religious, political or gender discrimination in hiring).

Secondly, a fair business practice involves appropriate business relationships with business partners, including (Platonova et al., 2018): responsibility to investors; responsibility to competitors; responsibility to business partners.

Thirdly, the implementation of fair business practice is to ensure positive relationships between the company and the society, which include (Ali et al., 2017): responsible attitude of business towards relations with regional and local authorities; implementation of support programs for vulnerable groups of the population: mothers, orphans, the unemployed, pensioners, the disabled, and so on; implementation of joint programs and socially important projects by non-governmental organizations; financing activities for the preservation of cultural, historical and religious objects; observance of local traditions and customs in business activities.

METHODOLOGY

The development of fair business practices allows to increase profits, accelerate the growth rate of key financial indices. The implementation of the basic principles of good business practice allows companies to gain access to socially responsible investments, at allocation of which investors take into account the indices characterizing the company's activities in the social and ethical fields, in the field of environmental protection; to promote the brand and reputation, that in turn will help to develop and open new markets and directions of business; to increase sales, customer loyalty (consumers want to know that products are made with an understanding of environmental responsibility, as well as other social aspects, some consumers are even willing to pay more for “*responsible*” products); to increase the productivity and quality of the product (service); to get more opportunities to attract and retain employees (people prefer to work in companies whose values coincide with

their own); to reduce claims by regulatory authorities; to make risk management more efficient; to improve the competitiveness of enterprises and products.

The potential possibility of fair business practices introduction directly depends on the volume and efficiency of the enterprise, generally affects the total amount of taxes, contributions and other obligatory payments, the current expenses of the enterprise, the amount of profit that can be directed to the realization of social and other needs. To meet the needs of various social groups, an enterprise needs to choose the effective form and method of implementation, to conduct a cost assessment of opportunities and to decide on sources of funding.

In our opinion, in modern conditions it is very important to realize that the enterprise exists in order to meet the needs of all stakeholders.

Only under these circumstances one can count on long-term profits for shareholders and the balanced development of the country and society as a whole.

RESULTS AND DISCUSSION

The economic efficiency of introducing elements of fair business practices of corporations in the management system is the growth not only of the social effect index (efficiency for society), but also the growth of the benefit for the enterprise-the impact on the core business. At the same time, the economic benefits of fair business practices introduction are most pronounced in fields such as finance, marketing and personnel management.

Social benefits from the introduction of fair business practices are characterized by the creation of a stable business environment, reduction of operational risks, creation of a positive image, confidence building, increased capitalization, growth of financial indicators, increased labor productivity, development of innovations, that promote market growth, and the like.

As part of the analysis of approaches to assessing the effectiveness of the process of forming a system of measures of fair business practice in an enterprise, it is impossible not to pay attention on the so-called social indices, which are carriers of information about the company's social activities. In world practice, social indices are divided into stock and non-stock. The purpose of social stock indices (DSI400, FTSE 4 Good, Dow Jones Sustainability Index, NASDAQ Social Index)-to ensure decision-making in the framework of socially responsible investment (Lee et al., 2017). Non-stock indices (CPI, Social Index (SI) of the Danish Ministry of Social Policy) are used for comparative positioning of corporations and are based on the assessment of the company's activities by various groups of stakeholders (Arrive & Feng, 2018). To calculate the indices, both public and internal information about the company is used, surveys are conducted among all interested parties.

However, it should be noted that the index approach to determining the level of fair business practices among domestic enterprises is not productive enough, since most of the companies operating in Ukraine are not represented on the national stock exchange. In addition, it should be emphasized that enterprises that are not part of joint-stock companies cannot be subject to analysis.

Another equally common approach to assessing the level of fair business practice in an enterprise is rating models. To build a rating model for assessing the level of fair business practice, the company widely uses parameter matrices (Tetiana et al., 2018a). This allows companies to be segmented into homogeneous groups with the same quality of fair business practice. Each target group is presented with a specific set of requirements to the level of fair business practices of a bank that works with customers, counterparties, partners, shareholders and other target groups. Among the disadvantages of the aforementioned approach is the

selection of indicators for assessing business reputation and, accordingly, the choice of a reference sequence for assessing threshold values.

Another approach, which partially reflects the content of the concept of fair business practice and is widely used among international corporations, is goodwill-the difference between the purchase price of an organization and the value of its assets.

The main methods of goodwill assessment (business reputation) are reduced to such characteristics.

The first is the accounting method. This method is used only when you buy a company and the purchase price of the company exceeds the value of tangible and intangible assets on the balance sheet, in this case the difference is attributed to the value of goodwill. In fact, this method helps to evaluate goodwill and other unidentified intangible assets using the “*big boiler*” method.

The second is the non-analytical method of fair business practice. The main idea of this method is that the elusive elements of intangible assets almost or not at all appear in accounting, so the goal is to determine these assets or “*hidden*” investments (Nakashydzė & Gil'orme, 2015). The analytical method has an advantage in the sense that it indicates the internal origin of business reputation, but it is difficult to analyze and calculate. In addition, it must be borne in mind that some items have value only when they are combined. After all, business reputation itself is, above all, a synthetic indicator (Al-Kahtani, 2018).

The third is the fair business practices assessment using of business activity indicator. This method is most often used in the west to evaluate commercial enterprises. Typically, an indicator of business activity is sales (most often sales over the past three years), to which a multiplier factor is applied to assess business reputation.

The fourth is the fair business practices assessment using the excess income method. It is based on the premise that excess profits bring an intangible asset that is not reflected in the balance sheet, providing returns on assets and on equity, which is above the industry average. (Tetiana et al., 2018b). The method involves a direct comparison of the levels of profitability of the assessed enterprise and other enterprises-analogues of the industry, followed by the capitalization of that part of the difference between them, which is not explained by the influence of tangible assets. The disadvantage of the method is that it is not universal, because the company may not receive excess income, but still have goodwill, and, on the other hand, have excess income for some time, which is not directly related to the company's business reputation. The European TEGOVA valuation standards contain a provision according to which the appraiser can verify the correctness of the results of goodwill valuation obtained by comparing the difference between the business value, which is determined by the discounted cash flow method (and/or capitalization) and the total value of tangible and intangible assets. Another way to check is to take the difference between the value of the entire enterprise (business) on the assumption that it owns and uses intangible assets in the business, and compare it with the total value of the enterprise on the assumption that it does not own the same intangible assets. In general, the above approaches focus on certain elements of the concept of fair business practices of enterprises, but the fragmentation of their internal content is obvious. In addition, these standards focus only on quantitative aspects, bypassing the qualitative characteristics.

Based on the method of excess income of goodwill (goodwill) valuation of a company, let's define an assessment of fair business practice.

The formula for calculating goodwill:

$$G = P_{net} - (A - N_A) \quad (1)$$

Where,

G - Amount of goodwill based on evaluation of the actual amount of profit, USD.

P_{net} - Average annual net profit, USD.

A - Average annual value of assets, USD.

N_A - Rate of return on assets, share.

The growth of the fair business practice is accompanied by the growth of the value of the company's goodwill and a corresponding growth of its capitalization, and is calculated as the sum of the book value of assets and liabilities and the value of goodwill:

$$EV = A + G \quad (2)$$

Where,

EV - Growth of company's capitalization, USD.

Then the resulting economic effect from the growth of fair business practice of the company can be calculated by the formula:

$$EV = EV_{sc} - EV_{fact} \quad (3)$$

Where,

EV_{sc} , EV_{fact} - Growth of company's capitalization according to scenario and actual value, USD.

Three scenarios for the growth of fair business practice of the company have been developed: basic (starting), medium and optimistic. The economic effect of the introduction of the management mechanism of the company's good business practices are presented in Table 1.

Indicator	2013	2014	2015	2016	2017	Average value	Forecast	Economic effect, E
Assets, millions of dollars	320	346	318	324	356	33.8	-	-
Net profit, millions of dollars	41.6	34.6	29.6	24.3	16.2	29.26	-	-
EV, millions of dollars	-	-	-	-	365.43	-	-	-
Scenario-satisfactory level of fair business practice of the company								
Return on assets– 2018, level (evaluation),%	-	-	-	-	-	-	8.79	-
Net profit, millions of dollars	-	-	-	-	-	29.26	-	-
Goodwill, millions of dollars	-	-	-	-	-	-	9.43	-
EV, millions of	-	-	-	-	365.43	-	366.53	1.10

dollars								
Scenario-medium level of fair business practice of the company								
Return on assets - average level of competitor-counterparts, %	-	-	-	-	-	-	11.4	-
Net profit, millions of dollars	-	-	-	-	-	37.94	-	-
Goodwill, millions of dollars	-	-	-	-	-	-	13.4	-
EV, millions of dollars	-	-	-	-	365.43	-	367.1	1.653
Optimistic scenario-high level of fair business practice of the company								
Best level for 2013-2017, %	-	-	-	-	-	-	13	-
Net profit, millions of dollars	-	-	-	-	-	43.26	-	-
Goodwill, millions of dollars	-	-	-	-	-	-	16.1	-
EV, millions of dollars	-	-	-	-	365.43	-	-	2.61

The results of our study complements the existing study. The development of corporations that seek to develop a fair business practice is based on such types of programs as (Gong et al., 2018):

1. Programs (strategies) of own enterprise development.
2. Programs of social partnership with local, regional and public authorities.
3. Social development programs in cooperation with public and professional associations.
4. Programs of informational cooperation with mass media.

The development of fair business practices should include the formation of social programs in enterprises. The formation of such programs involves certain stages, in particular, the following: determination of priorities for the company's social policy; creation of a special structure for social programs management; implementation of training programs in the field of corporate social responsibility; assessment and informing of stakeholders on the results of the implementation of social programs of the company (Esa & Zahari, 2017). An effective fair business practice allows a company to fulfill its basic needs for survival, security and stability. In turn, this increases the confidence of society, investors and shareholders in the company, and thus increases the competitiveness of the business. The fair business practice contributes to creating for the company in the long run a favorable social environment and more stable development.

CONCLUSIONS

There are numerous factors of opportunistic influence on the market value of enterprises, objective differences in the cost of capitalization by different assessment methods. But, according to the results of the scenario analysis of the implementation of the management mechanism of fair business practice and, as a result, increase in the level of competitiveness of services from satisfactory to medium, it makes possible to get an economic effect of 50 thousand dollars already at the start of the implementation of the mechanism.

As evidenced by the differentiation of the constituent parts of traditional corporate management and management, issues of fair business practice relate to virtually all areas of

the company's activities—from customer relations to supplier review, from environmental impact assessment to developing an ethical business culture and confirming the transparency of the corporate management structure. Most of the enterprises in question, when forming a system of fair business practice, do not form special departments, and the heads of various departments are engaged in issues of this area. In most cases, they are competent only in their industry (for example, HR, PR, etc.), and do not have a complete understanding of other industries. As a result, the formation of processes of fair business practice is more complicated and more painful, it leads to conflicts in relationships within enterprises, its effectiveness decreases.

Identifying the impact of fair business practices of corporations on economic processes allows approving that the development of fair business practices allows increasing the profit level, to speed up the growth rates of individual financial indicators. The implementation of the principles of fair business practices also allows enterprises to gain access to socially responsible investments, in allocation of which investors take into account the indicators characterizing the activities of enterprises in the social and ethical fields, in the field of environmental protection; position the brand, which will help develop and open new markets and lines of business; increase sales level, customer loyalty; increase the productivity and quality of the product (service); get more opportunities to attract and retain employees, reduce complaints from regulatory authorities; make risk management more efficient; improve the competitiveness of enterprises and products.

Multidisciplinary and a significant level of novelty necessitate the further study of these processes. Such issues as introducing fair business practices such as the prevention of fraud, corruption and bribery, fair competition, proper cooperation with political structures, promotion of fair business practices, respect for property rights, etc., are required in detailed analysis.

RECOMMENDATIONS

The development of proposals and recommendations for the improvement of the institutional mechanism for regulating fair corporate business practice is based on the author's proposition according to which the formation of an institutional mechanism of fair business practice largely depends not only on the needs of stakeholders and the vigor of market participants, but also on how much the government realizes the importance of principles of fair business practice and uses them. Most corporations have a low level of informational transparency of their activities (for example, there is no disclosure of information on corruption and monopoly actions) and a lack of awareness of the principles of fair business practice.

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