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**CORPORATE SOCIAL RESPONSIBILITY: RUSSIAN COMPANIES  
EMPHASIZE THE ROLE OF THE ENVIRONMENTAL  
COMPONENT**

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***Abstract***

Recently, the problem of the environment responsibility of a business organization has become more urgent. Many works concerning corporate social and environmental responsibility indicate that this concept is well established in the theory and practice of corporate governance. It has commonly been assumed that efficient use of resources indicates a positive effect on three levels of sustainability i.e. environmental protection, accelerated economic growth and social development. Great attention of the community and politicians is attracted to the corporate social and environmental liability of business organizations as well as to the role of business in achieving sustainable development. The findings of this study proved that the Russian business community recognizes the strategic value of CSR (Corporate Social Responsibility). Some Russian companies contribute to society, encourage innovation and distribute some part of revenue to social and environmental projects. However, environmental programs and projects do not attract attention of every Russian business organization. The leadership in environmental programs is concentrated in the hands of extractive industries, as well as forest industry, pulp and paper industries and electric power industry. However, the environmental liability of business organizations does not receive sufficient attention. The results of the study provide important insights into the role of the environmental component in the socially responsible practices of Russian companies.

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**Keywords:** Corporate social responsibility, ecological responsibility, sustainable development, social investment, investment into the human capital.



## 1. Introduction

A new paradigm of national and regional development involving a combination of environmental, social and economic policies is becoming established and significant. This is due to the fact that environmental policy is concerned with such issues as efficient use of natural resources, their protection and restoration. This policy is implemented in the economic strategy of developed countries around the world. The issues of managing the environmental safety of countries and its regions have always attracted many scientists. It is widely believed that the problem of environmental responsibility of business organizations has become urgent and important. Many works concerning corporate social and environmental responsibility indicate that this concept is well established in the theory and practice of corporate governance.

The concept of social and environmental liability of business organizations was originally interpreted as an extension of the ‘polluter pays’ principle. The principle was introduced in environmental economics and its development as a requirement of social and environmental liability of entrepreneurship. Modern concepts emphasize that business organizations should demonstrate their social and environmental responsibilities not only through compensation for environmental damage caused by the activities of their enterprises but also through preventive measures. Business organizations should support significant social and environmental initiatives like a high level of health protection, preservation of cultural and historical heritage, support of specially protected natural areas, saving of endangered species, etc. In addition, the function of social and environmental responsibility is closely related to the observance of the formal legal system standards and requirements of officially adopted laws, standards, regulations, etc., as well as moral standards and principles thereby enhancing the effect of formal institutions.

## 2. Problem Statement

It is necessary to determine the strategy of interaction between the state and business in implementing the principles of social and environmental responsibility and whether the state can gain some benefit from companies implementing socially responsible behavior. It is obvious that the state should offset a market failure as negative externalities arising from the implementation of the social responsibility of business organizations. Externalities are considered to be external effects of the main activity of an economic agent i.e. the production or consumption of goods that can have a negative impact on third parties who are not sellers or buyers of goods in this case they are stakeholders.

Business and society conduct a kind of negotiations. This negotiation process rarely takes place in explicit forms, although it occurs in developed economies in the form of roundtables, public discussions, hearings, and press campaigns and as a result companies undertake certain obligations. One of the main forms of figurative expression employed is that the company gains a “public license” which means it gains the consent of the society.

The company is ready to avoid actions that stakeholders consider to be a violation of their environmental, social, economic and other rights, or pay compensation in the form of social investments for the damage. De jure there are two cases for the protection of property rights. In the first case, a violation

of property rights is not permitted a priori, whereas in the second case it is technically possible under the condition of financial compensation for the damage.

Russian scientific community is gradually accepting the concept of “public license” though it is a common practice in the West. But what happens if a western company infringes on the rights of stakeholders? - A process of public consultation and discussion begins and as a result the company undertakes various kinds of self-limiting obligations like using more environmentally friendly technologies, refusing to use child labor in third world countries, promising to pay fair procurement prices to its suppliers, etc. Besides, the company provides funds to social investments in order to improve its image in the eyes of the public. Otherwise, the company may be subject to sanctions ranging from boycotts, press campaigns, picketing, lobbying to government interventions.

The problem of externalities may be solved applying one of two options - government regulation and voluntary regulation through the corporate social responsibility (CSR). Different countries combine these options in certain proportions depending on their advantages and disadvantages. All other things being equal, social and environmental responsibilities of business organizations have significant advantages over government regulation.

Nowadays, many international documents and standards provide the definition of corporate social responsibility.

UNIDO (United Nations Industrial Development Organization) produced its own precise definition: Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (UNIDO, 2018). This definition is enshrined in international documents (UN Global Compact, ISO 26000: 2010 Standard) and is shared by Russian business community.

It should be mentioned that economic forecasts turn out to be true that the development of world production and consumption systems leads to depletion of natural resources, depletion of ecosystems and climate change (Stamm et al., 2009) and other experts; the UN program “Assessment of Ecosystems on the Threshold of New Millennium”). This ensures that efficient use of resources indicates a positive effect on three levels of sustainability i.e. environmental protection, accelerated economic growth and social development (Bleischwitz, Welfens, & Zhong, 2009). It attracts great attention of the community and politicians to the corporate social and environmental liability of business organizations as well as to the role of business in achieving sustainable development.

Specific research by Russian scientists of the role of environmental responsibility in the context of CSR and sustainable development is done into global trends. Environmental economics investigate the significance, role and place of the natural (environmental) factor in the economy. However, the public insists to take into account the production of public anti-blessing - various kinds of pollution, waste, etc. (Vinogorov, 2015; Bobilev & Kornilova, 2017) which represent negative environmental result of economic activity. Social responsibility contributes to economic, social and environmental sustainable development through increasing the positive effect of an economic entity on civil society and reducing the negative impact on the environment (Vittenberg, 2010). Responsible environmental behavior of a company can

greatly contribute to the expansion of ties with partners and clients, the range of consumers of goods and services assist in obtaining government orders, because authorities, firms and citizens in developed countries prefer to deal with companies that care for nature and produce environmentally friendly products.

Corporate social responsibility in the context of sustainable development is the topic for research by numerous scientists (Eskindarov & Belyaeva, 2008; Bataeva & Kozhevina, 2017; Bataeva, 2018; Mantaeva et al., 2018). They also study the role of economic, environmental and social factors for the balanced development of territories in the context of companies' activities towards achieving the goals of sustainable development and a green economy (Tichonova, 2010; Bobylev & Kornilova, 2017; Zamyatina, 2016).

A group of scientists is engaged in assessing the negative impact and have proposed a simple and clear methodology for assessing the disclosure of information about the social and environmental responsibility of companies. This technique is widely applied in calculating the ratings of companies' sustainable development (Kornilova & Nikanorov, 2017; Kopytova, 2017).

Most authors currently agree that “Russian business community is beginning to recognize the strategic value of CSR and the fact that these projects earn real benefits, that ethical investment may bring profit too”. A group of experts like Orlov A., Pecheritsa E., Vishnyakov Ya., Gurlev I. argue about the need to create a strong national ideology based on understanding the relationship between human populations and the natural environment that would be highly beneficial to the latter (Orlov, 2015; Pecheritsa, 2015; Vishnyakov & Gurlev, 2016).

Year after year, Russian companies carry a range of programs in the field of corporate social responsibility. However, expenditures on CSR were reported to be mainly on social projects, and it means that less attention is paid to the environmental component. The Association of Russian Managers regularly reports on social investments of Russian business. The Russian Union of Industrialists and Entrepreneurs annually publishes the Indices on Sustainable Development (the Responsibility and Openness Index and the Sustainable Development Vector Index) starting in 2014.

### **3. Research Questions**

After a brief review of the various researches conducted in the field of Russian corporate social responsibility a number of assumptions (hypotheses) have been made for an empirical study.

1. Companies carry a range of CSR programs; however, funding is being squeezed by the economic crisis and sanctions.
2. The main focus of CSR programs is social projects, projects for employees, and not environmental programs.
3. The leadership in environmental programs is concentrated in the hands of extractive industries.

### **4. Purpose of the Study**

The main purpose of the study is to analyze how successfully Russian companies carry a range of programs in the field of Corporate Social Responsibility. Some tasks were set out as follows: to identify companies and industries that have leadership in innovations as innovative activity is included in the

company's social responsibility; to define the amount of social investment of companies per employee; to assess how much funds are distributed to environment programs.

## 5. Research Methods

About 600 large Russian companies were selected for our study on the basis of sift criteria involving the volume of revenue (works, services) in 2017. As banks, insurance and leasing companies and non-state pension funds have different nature of activities we couldn't use the index of profits from sales. We had to apply other data from the financial statements that were clear in economic terms. The study period was twelve months of the year 2017. We selected companies from all sectors of the economy. If holdings were selected, their subsidiaries were not included in the list in order to avoid double counting. The data collection involved 3 stages. The first stage was a preliminary rating of a thousand companies on the basis of past years' ratings and statistical reporting. In the second stage we conducted a survey of companies and asked information on the main indicator for 2016-2017. We distributed electronic questionnaires to companies. They were asked to fill in and submit an electronic questionnaire, a scanned copy of a certified form with questionnaire sheets, and a scanned copy of financial statements. In the third stage we sourced the missing information from database of the Russian Federal State Statistics Service or official corporate websites. Profits of the rating participants are comparable to 85% of the country's GDP. We used data of the Rating Agency RAEX (RAEX-Analytics) to check the hypotheses we put forward.

We compared indicators based on the analysis of the company's websites and non-financial reports, as well as the rankings of companies:

1. Investment money through its assessment in percentage from sales.
2. The company's capital contributed to social development through the assessment of expenses on social development within a company and investment in human capital per 1 employee in thousand rubles.
3. The environmental costs by evaluating funds for environmental protection in percentage from the sales.

## 6. Findings

We developed a list of twenty leading companies in the field of innovation activity, in the field of social programs and companies contributing the most to environmental costs.

In rankings by the volume of investment money, a Russian maritime shipping company Sovcomflot secured first place among six hundred companies (Table 1).

**Table 01.** Top twenty companies in the field of investment activity 2017

Rank	Rank in RAEX-600	Company	Branch of industry	Investment money in % from sales
1	151	Sovcomflot	Transport and logistics	43.33
2	14	Transneft	Transport and logistics	34.70
3	85	Polyus	Industry of gold and diamond mining	30.48

4	43	EuroChem Group	Chemical and Petrochemical industry	30.43
5	25	SIBUR Holding	Chemical and Petrochemical industry	28.98
6	223	Mosvodokanal	Municipal and urban Engineering	26.41
7	95	Zarubezhneft	Petroleum industry	25.91
8	34	RusHydro	Electric power industry	24.44
9	54	Slavneft Group	Petroleum industry	24.43
10	5	Russian Railways	Transport and logistics	23.85
11	26	United Aircraft Corporation	Mechanical engineering	23.44
12	12	Rosseti	Electric power industry	22.75
13	268	TogliattiAzot	Chemical and Petrochemical industry	22.14
14	1	Gazprom	Petroleum industry	22.02
15	22	Nornickel	Non-ferrous metallurgy	21.75
16	11	Rosatom	Holding of numerous branches	21.37
17	158	Rusagro	Agroprom	21.10
18	125	Polymetal	Industry of gold mining	21.10
19	105	Russneft	Petroleum industry	19.96
20	39	Rostelecom	Telecommunications	19.90

Source: Companies' database, RAEX (RAEX- Analytics) (<https://raexpert.ru>)

Data in Table 1 show that the share of investment funds in the revenue of Sovcomflot products reached 43.33%. Twenty best companies in terms of investment activity allocate in average 25.42% of their revenue for investment. Companies of the petroleum industry are the most effective in investment activities and we should emphasize that companies related to infrastructure development are also interested in investment such as three companies of power engineering industry (including Rosatom), three companies of the sector transport and logistics (including Sovcomflot) and one company of the sector of telecommunications.

The next stage of the analysis was an assessment of the social activity of the 600 largest Russian companies. We analyzed social activity of six hundred Russian companies in the next stage. Table 2 shows the results of top twenty companies.

**Table 02.** Top twenty companies in the field of social programs 2017

Rank	Rank in RAEX-600	Company	Branch of industry	Funds for social programs and investment in human capital per one employee within the company in thousands of Russian rubles 2017
1	16	Tatneft	Petroleum industry	401
2	20	Novatek	Petroleum industry	338
3	3	Rosneft	Oil and gas industry	301
4	13	InterRAO Group	Electric power industry	257
5	22	Normickel	Non-ferrous metallurgy	227
6	125	Polymetal	Industry of gold and diamond mining	197
7	27	Magnitogorsk Iron and Steel Works	Metallurgy	192
8	2	Lukoil	Petroleum industry	174
9	19	NLMK Group	Metallurgy	164
10	95	Zarubezhneft, JSC	Petroleum industry	162
11	32	Metalloinvest	Metallurgy	153
12	268	TogliattiAzot	Chemical and Petrochemical industry	146
13	139	Federal State Unitary Enterprise "State ATM Corporation"	Transport and logistics	114
14	297	Chelyabinsk Zink Plant	Non-ferrous metallurgy	113
15	47	Alrosa	Industry of gold and diamond mining	107
16	363	Arkhangelsk Pulp and Paper Mill	Forestry, pulp and paper industry	107
17	36	SUEK	Coal mining industry	105
18	446	FGC UES	Electric power industry	104
19	34	RusHydro	Electric power industry	103
20	337	Tatenergo	Electric power industry	96

Source: Companies' database, RAEX (RAEX- Analytics) or <https://raexpert.ru/>

Table 2 shows that top companies in the field of social programs are companies of petroleum industry like “Tatneft” (401 thousand Russian rubles), “Novatek” (338 thousand Russian rubles) and “Rosneft” oil refining company (331 thousand Russian rubles). Top best companies represent basic branches of industry like petroleum industry; chemical industry; metallurgy; gold and diamond mining; electric power industry; coal mining; transport and logistics; forestry, pulp and paper industry. The reason of high proportion on social programs is that many of these companies employ citizen in their location.

We analyzed funds of Russian companies distributed to environmental protection in the third stage. The results are given in Table 3.

**Table 03.** Top Russian companies in the field of environmental protection 2017

Rank	Rank in RAEX - 600	Company	Branch of industry	Funds distributed on environmental protection in percentage from revenue in 2017
1	22	Nornickel	Non-ferrous metallurgy	4.99
2	117	Ilim group	Forestry, pulp and paper industry	3.53
3	363	Arkhangelsk Pulp and Paper Mill	Forestry, pulp and paper industry	2.,95
4	83	Uralkali	Chemical and Petrochemical industry	2.50
5	11	Rosatom	Holding of numerous branches	2.33
6	67	PhosAgro	Chemical and Petrochemical industry	2.31
7	9	Surgutneftegas	Petroleum industry	2.03
8	3	Rosneft	Petroleum industry	1.98
9	32	Metalloinvest Management Company	Metallurgy	1.81
10	169	EnelRussia	Electric power industry	1.73
11	47	Alrosa	Industry of gold and diamond mining	1.64
12	85	Polyus	Industry of gold and diamond mining	1.49
13	125	Polymetal	Industry of gold and diamond mining	1.36
14	297	Chelyabinsk Zink Plant	Non-ferrous metallurgy	1.23
15	268	TogliattiAzot	Chemical and Petrochemical industry	1.18
16	1	Gazprom	Petroleum industry	1.11
17	27	Magnitogorsk Iron and Steel Works	Metallurgy	1.09
18	16	Tatneft	Petroleum industry	1.08
19	19	Novolipetsk Steel	Metallurgy	0.98
20	51	TMK	Metallurgy	0.84

Source: Companies' database, RAEX (RAEX- Analytics) or <https://raexpert.ru/>

Table 3 showed that top Russian companies in the field of environment protection in average distributed 1.9% of the revenue on ecology. Three top companies allocated in average 3.8% of revenue on

ecological programs. We name these companies- “Nornickel”, mining and smelting company distributed 4.99% of revenue; “Ilim” group allocated 3.53% of revenue; “Arkhangelsk Pulp and Paper Mill” distributed 2.95% of revenue. Three top companies allocated total 32 bln Russian rubles on environmental programs in 2017, in USD the sum equals to \$ 0,5 bln.

## 7. Conclusion

The study proved that Russian companies carry a range of programs in the field of Corporate Social Responsibility. They invest in innovation and distribute funds on social and environmental projects. However, environmental programs and projects do not receive significant attention of Russian companies. They differ in their attitude to Corporate Social Responsibility from companies in developed countries.

As we mentioned above, the average share of investments in revenues of 20 top companies in investment activity is 25.42%. This percentage is higher than the overall share of investment in the country in GDP in 2017 according to data of the Russian Federal State Statistics Service (17.30%). In 2015 the share of investment was equal to 16.7% of GDP.

The results of the study showed that the average volume of funds for internal corporate social programs and investment in human capital per 1employee in 20 top companies in 2017 increased in comparison with the previous year and ranged 178.1 thousand rubles. This sum amounted to 70.8 thousand rubles in 2016. In other words, investment in human capital doubled during 12 months.

The top 20 Russian companies in terms of environmental activity distributed on average 1.9% of revenues, it is double the size of the average Russian indicator (the annual share of environmental costs of companies in the whole country is about 0.8% of GDP). These figures are slightly higher than the average share of European companies. The average share in this area is equal to 1.5% in the European Union.

But if we evaluate the funds of Russian companies on environmental programs on average in the country we will see that they spend less than European companies. This conclusion is partly supported by the results of the review of the RSPP Indices in the field of corporate sustainability for 2017, according to the indices environmental aspects are among the least disclosed aspects of the activities of Russian companies (<http://rspp.ru/>).

This backlog was one of the big concerns of the presidential decree in May 2018. In order to implement the decree of the President of the Russian Federation it was planned to “Increase budget spending on the federal national project “Ecology” worth \$ 1 trillion 551 billion rubles.

The study was conducted on the analysis of the data of the RA-Expert ratings for 600 top Russian companies and we came to some the following conclusions. First, Russian companies paid more attention to innovations in 2017 than in 2016. It means that despite Western sanctions and instability of the economy companies became more responsible and continued to invest in innovation.

The study did not confirm opinions of some researchers who thought that economic crisis would force Russian companies reduce funds for social programs and investment in human capital. This study shows an increase in investment for social programs per 1 employee.

Today business organizations pay insufficient attention to the environmental responsibility. The findings of this study make some contribution to determining the role of the environmental component in the socially responsible practices of Russian companies. The leadership in environmental programs is

concentrated in the hands of extractive industries, as well as forest industry, pulp and paper industries and electric power industry. We strongly believe that companies should increase investment on environmental protection.

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