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## **Russia: The Evolving Corporate Responsibility Landscape**

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In Russia, the issue of social responsibility of business – in other words, its responsibility towards the society as a whole – has in recent years been the subject of quite a substantial, albeit not uncontroversial, evolution. On one hand, there have been enough voluntary moves on the part of the most conscientious and strategically thinking section of private big business in this sphere. On the other hand, this vanguard is only a small group of enthusiastic companies that realize the strategic importance of this particular work for the sustainability of their business.

This group of leading Russian companies – which have some basic experience in this field – have come to realize that CSR is not merely a function of public relations, but an essential part of corporate governance. Being part and parcel of strategic planning and company management, these activities are reflected in the system of economic, environmental and social indicators of sustainable development, and are implemented by means of a permanent dialogue with society. The essence of this approach is that all commercial and economic decisions are taken with due regard for their social and environmental implications both for the companies themselves, and the societal change. This approach turns CSR into a powerful factor of strategic development, improves business image and competitiveness of companies and increases their market capitalization. In fact, CSR and sustainable development are being viewed as “two sides of a coin” in Russia.



**Alexey Kostin**

Tellingly, the CSR-related changes are slow to come among large and medium-sized state companies and companies with predominant state control. This is largely due to a general lack of transparency of the Russian business. According to research carried out by Standard & Poor's in 2005 and 2006, the level of transparency in Russian government-owned businesses is much lower than in private businesses, though the latter is also not entirely up to global standards.

And importantly, the implementation of corporate social responsibility (CSR) in Russia does not yet involve small and medium-size enterprises (SMEs). These actors have so far preferred to confine themselves to charity work at a local scale, viewing it as the main form of their social engagement.

Throughout the world, the issue of non-financial risks is becoming increasingly important for companies, and Russia is not an exception. These risks are increasingly viewed by investors as an important factor. And it is precisely the reports on CSR which fill this “information gap” for investors by demonstrating that a particular company pays due attention to environmental and social aspects of its business, thereby reducing the risks of internal and external social conflicts and environmental sanctions. This is a clear indication that CSR in Russia is set to gradually become the basic ideology of corporate governance and management – just as it happened in many developed countries.

However, Russian companies have yet to make sufficient efforts to reach international standards in social and environmental responsibility. Some have already realized that they need to embrace the concept of sustainable development and socio-environmental responsibility – choosing partners and forums that are most suitable for them, including the most basic ones, such as thematic sections in their annual reports, as well as specifically reporting on social and environmental challenges. It is crucially important to build up a continual and structured formal dialogue with authorities at all levels, as well as with the civil society, on the social impact of their business. And this dialogue makes sense only if it is substantive, rather than populist.

Russian regional and municipal authorities are also gradually starting to realize the need for establishing

relationships with business on a stable and comprehensive basis. In the past, the authorities used to turn to businessmen mostly to patch up holes in the social or environmental spheres, or in infrastructure, but nowadays quite a number of governors and regional legislatures and city mayors prefer to draw joint medium-term plans and programs in various fields. However, the elaboration of sustainable development plans for all Russian regions is still a long way down the road. Long-term development programs in the Tomsk region and Novosibirsk can be viewed as the only meaningful attempts along these lines.

At the federal government level, there are no empowered bodies or departments, let alone clear state policies, dealing with social responsibility of business. Furthermore, regarding sustainable development of the country as a whole, the importance of such plans and strategies is grossly under-estimated: since December 1997, the government-approved state strategy of sustainable development has never been a subject of discussion with a view to its implementation or review. The impression is that the state bureaucracy, absorbed in the controversial administrative reform and grappling with current social problems, has no motivation for identifying and formulating strategic goals in this sphere.

### **CSR Reporting and Rating in Russia**

Where do we stand today? Russian companies, by embarking on major projects in the field of CSR and sustainable development, are moving to address two goals at the same time: gaining a dramatic boost of image domestically and bringing themselves closer to the level of international leaders. At the beginning of 2007, the CSR system and sustainable reporting were part of business practice of more than 40 Russian companies. Fifteen of them featured such reports as a separate section in their annual reports, while 18 produced social reports, 8 reported on sustainable development and the remaining 4 issued environmental reports. Thirteen of these documents were prepared on the basis of methodology and indicators of international standards GRI and AA1000S by the following companies: OJSC Norilsk Nickel, OJSC Lukoil, OJSC Unified Energy System (UES) of Russia, OJSC Tatneft, OJSC Yukos, Ilim Pulp, OJSC Northwest Timber Company, NOVOGOR-Prikamie LLC, EvrazHolding Ltd, Shell, BP, OJSC Mineral and Chemical Company EuroChem and OJSC Siberian Coal Power Company (SUEK). The Rusal corporation released its non-financial report in compliance with its practice of observing the 10 principles of UN Global Compact, and at present it is one of few Russian companies which is publicly and fully reporting on its work in this sphere.

The detailed account of OJSC UES of Russia, produced and presented for public discussion in the middle of 2006, deserves a special mention. Already having gained certain experience in environmental reporting, this energy conglomerate has made a critically important step by integrating the ecological component into the general concept and account on sustainable development (using the brand new third generation standard GRI-G3). Taking into account OJSC UES of Russia's share in the production of electric power (70%) and thermal power (32%) nationwide, the corporation's social and environmental impact is of critical importance.

Currently, only four Russian companies provide separate environmental reports: OJSC Gazprom, OJSC Ryazan GRES, OJSC Arkhangelsk Pulp and Paper Mill and OJSC North-West Forestry Company. This is certainly too little for this country, but these documents are sufficiently transparent and set a good example for other Russian companies to follow suit. This is even more so considering the fact that Gazprom – by far the largest company in this country – is among these corporations.

It is important to note that Russian national ratings in this sphere play an increasingly important role in public monitoring of social and environmental responsibility. The major ratings are: Environmental Responsibility of Biggest Russian Industrial Enterprises (MOO NESPI), the rating of socio-environmental efficiency of the International Socio-Environmental Union (MSoES) and the Independent Environmental Rating Agency (NERA).

The aims and methodologies of the above ratings significantly differ. The point is that they assess different spheres and directions of environmental responsibility of companies. The profile of the companies is certainly another matter to be taken into account. However, among the leaders of the MOO NESPI rating are – a bit surprisingly – representatives of the "dirtiest" branches, which perhaps testifies to their proactive behaviour in the environmental area, introduction of ecological management systems, and their maturity in terms of legal, communications and public relations issues.

In 2006 the International Design Bureau "Delovaya kultura" (Business Culture) published the first Russian "Rating of Corporate Responsibility" based on the methodology of one of the world's leading experts in CSR – the British institute AccountAbility. Following are the first five ranked Russian companies:

1. OJSC Norilsk Nickel
2. OJSC Lukoil
3. OJSC UES of Russia
4. SeverStal-Group
5. OJSC Novolipetsk Steel (NLMK)

### Looking to the future

In conclusion, there are many important potential trends and tasks that could greatly contribute to the development and further mainstreaming of CSR and non-financial reporting in Russia.

At the federal level:

- A clear focus on formulating national agenda and "managing" CSR and non-financial accounting at the level of a federal minister (without creating any new administrative structures);
- Annual forums on social and environmental responsibility of the business and forms of its interaction with the state;
- Making public the government's views on future orientations of the system of corporate social and environmental responsibility;
- Recommendations on voluntary introduction of international management and reporting standards developed by the leading business and sectoral associations of producers;
- Budgetary support and selection through tender of projects in the field of CSR, sustainable development and environmental reporting intended for non-governmental organizations (NGOs).

At the regional and local levels:

- Special public-private forums on sustainable development of the regions;
- Implementation of special target programs and social investments jointly sponsored by regional administrations and companies;
- Participation of regional and municipal officials in corporate events, including "dialogues on social responsibility of business";
- Involvement of NGOs in the implementation of joint social programs launched by the government and businesses with a view to increase their efficiency and guarantee transparency.

And finally, working together at the international level in this sphere is also important. Leading Russian corporations are already involved in this process of sharing experiences and competing for the best system of CSR and sustainable development, some within the framework of the Global Compact. However, most Russian companies are still passive. Corporate initiatives alone are not enough to boost this process. A greater effort is needed on the part of authorities and competent NGOs, as well as new initiatives on the part of international organizations. Russia's possible membership in WTO is likely to give an impulse to this work.

Targeted efforts on the part of the UN system agencies would be welcome, but those so far have not made full use of Russia's potential. Formal invitations to participate in the Global Compact or use international standards of non-financial reporting are not enough. More specific Russia-oriented initiatives are needed, in particular since governmental bodies have yet to gauge the stakes in this sphere. One should also remember that a small network of competent NGOs has already emerged in Russia, which are capable of assisting business in implementation of new international projects.

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