



REPORT ON SOCIAL INVESTMENTS IN RUSSIA

2004

Role of Business
in Social
Development





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Moscow
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The 2004 Report on Social Investments in Russia has been prepared by a team of Russian and international experts. The present report reflects the point of view of the authors and not that of the institutions by which they are employed. The analysis and strategic recommendations of the present report do not necessarily conform to the viewpoint of the United Nations Development Programme.

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The first national Report on Social Investments in Russia is presented herewith. Its main focus is to analyze the role of business in the societal development.

The Report gives an overview of the main models of corporate social responsibility both in Russia and abroad. It further provides a comparative analysis of these models and introduces a concept of social investments as a practical tool for CSR implementation. A unique calculation method - “Social Investment Index of Russian Business”, developed within the framework of the Report, was designed to evaluate current status of social investments of Russian companies, track their distribution by industries and investment types as well as forecast changes in social investment dynamics.

The Report is based on numerous inputs from local and foreign sources, findings of research on corporate social responsibility done by the Russian Managers Association as well as unique data provided by Russian companies. It targets both Russian and international audience - business community leaders, government officials, representatives of international agencies and civil society organizations.

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Patrons' Foreword

We are pleased to present the first national Report on Social Investments in Russia, prepared by joint efforts of leading Russian and international experts. The topic of corporate social responsibility has become in the spotlight of business and state leaders, civil and international organizations throughout the world over the recent years. It is exciting that the topics of corporate social responsibility and social investment find their due attention at this point, when Russia is integrating into the world economy and going through rapid social and economic transformations.

The analysis of business contribution to societal development presented in the Report provides an in-depth examination of the evolving role business has and will continue to play. The Report considers this role within the framework of the agenda of the President of the Russian Federation and the Millennium Development Goals which came out of the United Nations Millennium Declaration. The approach and methodology used in the Report to assess Russian business's social role is crucial at the current stage of the country's development.

The key outcome of the Report is a measurement of business's contribution to social development. The Report begins with a definition of corporate responsibility and places it within a global and Russian context. The authors then introduce the concept of social investments as the most pragmatic form of corporate responsibility. A methodology purposely developed for this Report is used to assess the current profile of Russian businesses' social investments by social investments areas, types of industry and social programs. The Report goes on to look at future trends and the dynamics of social investments.

We would like to thank the authors for their diligence, professionalism and expertise in making this Report a valuable and meaningful research and public policy tool. The authors of the Report have succeeded in presenting an unbiased view of business involvement in the societal development.

We hope that the Report which is presented herewith to your attention will provide a solid foundation for a new round of public discussions on the formation of Russia's social setting and that it will generate feedback within a wide circle of readers. The applied and innovative nature of the present Report will be in demand among professionals in Russia and abroad.

Best regards,



Stefan Vassilev
Resident Representative
of the United Nations Development Programme
in the Russian Federation



Dmitry Zelenin
President of the Russian Managers
Association
Governor of the Tver Region

Lead Author's Foreword

The first issue of the Report on Social Investments in Russia is herewith brought to your attention. The report was launched during the official visit of the UNDP Administrator, Mr. Mark Malloch Brown, to Russia in February 2004. The Russian Managers Association was selected as the national partner for the project on preparing this Report. Considering that the topic of the Report has been a prevalent and hot one on the global scene, we were able to mobilize the best expert resources, leading Russian companies and international organizations to prepare the Report in the shortest time possible.

The Report on 2004 Social Investments in Russia is the first national report dedicated to the issue of social investments of Russian companies. An interesting fact about the present Report is that representatives from the business community, the Government, international organizations as well as independent experts have all been actively involved. The CSR Committee of the Russian Managers Association played a central role in developing, discussing and validating the concept of the Report. This work deserves special attention, as it is the first of its kind to be published in Russia.

The Report provides an overview of the major models of corporate social responsibility in Russia and in the West, as well as a comparative analysis of these models. The concept of social investments as a practicable form of CSR is introduced. The expert team developed and tested a unique method to calculate the Social Investment Index of Russian Business, which meets international requirements and reflects Russian singularity. The Index provides a framework to evaluate the status of social investments by Russian companies, and can cross-reference their distribution by industries and investments. The Index is also a tool to forecast changes in social investment trends. We are sure that the conclusions drawn in the Report will stimulate a re-examination of social investments in Russia and encourage the development of a CSR model in Russia.

The authors have used the data obtained from a survey of 100 Russian companies, which took part in the Social Investments Index of Russian Business. We have also used official published materials from Russian and foreign sources as well as numerous corporate responsibility research findings of the Russian Managers Association.

We encourage you to join the discussion of the unexpected findings in the Report. We hope that the Report will be useful to Russian as well as foreign readers, that it will generate a lot of discussions and will lead to active participation of business in the development of Russian society.

Yours sincerely,



Sergei Litovchenko
Executive Director
Russian Managers Association

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To the Companies Participated in the Social Investments Index of Russian Business Survey

For your decision to disclose information on your company's social policy and to fill in the questionnaire of the Russian Managers Association;

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And, finally, we would like to thank all the participants of the numerous public events on corporate responsibility organized by the Russian Managers Association, for your active involvement, ideas and insights which we tried to embody into the present Report.

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EXECUTIVE SUMMARY AND STRATEGIC RECOMMENDATIONS TO THE PUBLIC AND PRIVATE SECTORS

Corporate social responsibility as a reflection of the socio-economic setting

There are several well-established models of corporate social responsibility (CSR), each of which reflects the socio-economic setting historically developed in a particular country.

The range of international CSR models is, first of all, characterized by a dilemma: either corporations independently define their level of contribution for societal development or formal and informal institutions agree on public interests which are then transformed into mandatory requirements for corporations.

Over the last few years, CSR topic became the most publicly discussed amongst all the other debated social issues. However the CSR debate does not go beyond the scope of business operations. It is easy to

understand as the private sector is still perceived ambivalently by the general public and the Government is not able to fully and effectively finance social needs. At the same time, the scale of Russian business has not yet reached a level where direct and indirect benefits allow to create sufficient public wealth.

In its essence, the CSR discussion reflects a situation where business is the first to respond in the dispute about fairness of mechanisms for creating public goods as well as fairness of their distribution principles.

This used as a background for an idea to occur over the recent years that it is necessary to reconsider the basics of the socio-economic setting of the country, which means transition from the oligarchic capitalism restricted development methods to balanced methods of socio-market economy and civil society.

Since CSR being in its infancy in Russia, there is still lack of understanding of its integral concept, use-proven practices and usefulness. CSR has been and continues to be oriented towards the closest circle of stakeholders – the Government, the owners and the employees. A wider circle of stakeholders (local communities, suppliers, etc.) is not considered so far.

This is mainly due to the major CSR implementation drivers being either a small number of the most advanced companies, or big-scale companies, created during the privatization, or the Government. Since the civil society organizations and

Corporate Responsibility to society is a philosophy of conduct and a concept of running business focused on the following:

- Offering high-quality products and services to consumers;
- Creating safe working environment, paying documented salaries, investing into human capital development;
- Compiling with legislative (fiscal, labor, environmental, etc.) requirements;
- Building credible and genuine relations with all stakeholders;
- Improving business operations with a view to add value and increase shareholders' wealth;
- Considering public expectations and following generally accepted ethical values within business processes;
- Contributing to the emerging civil society through partnerships and local community development projects.

traditional public activists are still underdeveloped, consumers and citizens do not have much influence on business.

However, as the market develops and the society matures, local communities, consumers and other stakeholders will get involved.

CSR is a voluntary contribution of the private sector to societal development through the mechanism of social investments

The most pragmatic form of corporate social responsibility to apply at this stage of the country's economic and social development is social investments. Analysis of recent trends in Russian business involvement in societal development evidences a move from a traditionally unorganized and "chaotic" philanthropy towards social investments.

Social investments in Russia face a number of challenges resulting from institutional imperfections. The Government does not create efficient legal and social institutions, and the business structures have to offset "failures" of the Government by making substantial social investments and thus "substituting" the Government in the public service sector. With the immature domestic businesses still searching for their niche on international arena, such development trend undermines the country's competitiveness in external markets.

This institutional imperfection has another effect: private sector does not always comply with the social and tax obligations imposed by law.

Social investment measurements in Russia are impeded by a number of problems

In practice, CSR realizes in social investments. The measurement of social investments in Russia is complicated by the deficiency in the systematic approach and lack of institutional experience:

Social Investments of Business are material, technological, managerial and financial resources of companies that management decides to allocate on social programs linked to the interests of key internal and external stakeholders, and expected to return certain (though hard to measure, if at all) strategic social and economic benefits.

- Lack of common understanding about social investments;
- Predominantly non-systematic approach to social investment process;
- Different, often conflicting, accounting and managerial rules and procedures;
- Lack of generally accepted standards for social reporting.

However, the considerable problems of measuring social investments do not outweigh the societal need for development of practicable tools for such measurements.

To form a systematic view of social investments made by Russian companies, it is worthwhile to look at the social investments from two related view points: **quantitative** (i.e. how much money is invested into social tasks) and **qualitative** (i.e. **how and to what extent** this process is organized).

The suggested indices system goes beyond providing a general outline of social investments to bring forward meaningful conclusions about the interactions between business, the Government and society. A notable distinction of the social investment indices system developed by the authors of the present Report is its lead to unprejudiced views on the social "background" of Russian business.

In terms of companies' transparency about their social programs, Russia is now at a transition stage.

While many major Russian companies have fully disclosed information about their social programs, the majority of enterprises are only willing to partially disclose the relevant information. This state of affairs is deeply rooted socially and economically.

A company's decision to disclose information regarding its social programs results from two sets of factors.

The first set combines potential threats and conflicts which a company might face as a consequence of disclosing information on the true scale of its social activities. The second set combines external motivators for disclosing information about a company's social programs.

The Russian Managers Association's researches give grounds to believe that while a number of serious factors prevent the private sector from disclosing informa-

tion about their social investments, an actual move towards disclosure has already taken place, particularly among large and multinational corporations. A critical number of Russian companies have come to realize the need to volunteer in improving access to, and transparency of, their social activity information as a strategically proven step towards a higher capitalization.

Based on the **quantitative measurements** from the Social Investment Index, the sample average of **annual social investments per employee (IL) is 28,330 RUR, the ratio of social investments to gross sales (IS) is 1.96%, and the ratio of social investments to pre-tax income (IP) is approximately 11%.**

These ratios are significantly differentiated by industry, evidencing that social investment flows are generated depending more on industrial and production specifics of a company than its ownership status.

Breakdown of Social Investments by Industries (% of the Total Volume of Social Investments)

Sector of Economy	HR Development	Health & Safety	Resource Saving	Ethical Business Conduct	Local Community Development	Other
Fuel industry	37,0	6,1	35,5	5,5	10,9	4,9
Non-ferrous metallurgy	36,4	15,5	37,7	2,2	7,0	1,0
Ferrous metallurgy	47,8	7,0	32,0	1,3	10,5	1,6
Power industry	40,7	9,1	42,0	1,3	4,9	1,8
Timber industry	48,4	9,7	15,9	1,7	16,9	7,2
Mechanical engineering	61,8	6,8	5,5	15,5	9,0	1,2
Consumer goods and services	47,1	10,1	11,7	1,2	20,2	9,4
Chemical industry	42,9	11,2	35,1	1,2	5,5	3,8
Professional services	49,1	45,1	0,6	5,2	0,0	0,0
Services	79,1	0,4	0,0	9,9	10,5	0,0
Telecommunications	70,0	10,8	0,4	1,9	3,1	13,5
Transport	58,4	33,0	2,9	1,5	2,8	1,1
Financial sector	75,9	0,0	0,0	6,9	17,0	0,0
Trade	59,0	10,6	17,7	0,0	12,7	0,0
Inter-industry holdings	31,7	13,8	18,6	0,9	20,9	14,0
Average	52,3	12,6	17,0	3,7	10,1	4,0

Currently, the burden of social expenses is unevenly distributed over the industries and is borne mostly by the “heavy” industries.

Steady leaders are transport, chemical, and ferrous metallurgy industries which represent the main focal points of social investments. All of them belong to “heavy” industries.

Overall, social investments in Russia are mostly directed towards “internal” programs, that is the development of companies’ human capital.

The Table above provides an overview of the “*Breakdown of Social Investments by Industries*” (% of the Total Volume of Social Investments).

The amount and the structure of a company’s social investments depend on the mix of labor and capital output ratios, which confirms truly investment nature of social investments.

Quantitative tracking of social investment process is insufficient without the qualitative component.

In fact, the amount of money allocated to social programs is only one attribute of a socially responsible company. Quantitative indices, which were reviewed in the previous section, answer the question of “**how much** money is invested”. However, the question of “**how** social investments are made” is no less important.

At present, many Russian companies base their social programs on a comprehensive strategy, taking into account organizational fundamentals of the investment process.

Nevertheless, there is a certain discrepancy between the declared and the organizational sides of the Russian companies’ social investment processes. While the business is relatively prepared to carry out social programs in an institutional way, the relevant practice evidences a low efficiency.

Research has shown that the social investments of Russian companies under internal and external social programs have now taken a firm stand in corporate strategies and are becoming part of daily managerial practice. Internal social

programs mainly driven by HR goals are the priority social expenses.

Without civil society’s pressures, demands and clear-cut benefits for Russian companies, their motivation to openly share information runs low, which is further complicated by the absence of any distinct formalized mechanisms of public-private sector interaction.

Social programs contribute to the creation of image and improvement of business reputation and, as such, are a long-term investment into a company’s intangible assets. The main challenges for the leading Russian companies are to find an optimal information disclosure mechanism (e.g., social reporting based on international standards), to formulate the principal objectives for their social policies, and to assess all risks and benefits the chosen degree of transparency brings for the company, the State and the society.

Russian business social investments are expected to increase by 10%.

A survey of 100 domestic companies conducted by the Russian Managers Association has only detected 8 companies to forecast a reduction of their social investment volumes. So, Russian business is almost unanimous in respect to the social perspective.

Thus, the high expected growth of Social Investment Index indicates that Russian companies are optimistic about their future, since the expenses on social programs would otherwise decline to reflect worsening economic indicators.

There is now a shift in social investments towards local community. This means that the interest of businesses is passing the limits of their own staff to address their social environment. In fact, we can now witness “centrifugal forces” behind this shift in Russian business’s social interests extending beyond the internal production activities. This is likely to become a long term trend of social investment development in Russia.

RECOMMENDATIONS TO THE PUBLIC SECTOR

- The Government has to ensure equal, strict and efficient controls over the fulfillment of statutory social and other fiscal responsibilities by all market participants.
- Public officials at all levels should refrain from imposing any further direct and indirect requirements on companies towards CSR beyond the standards set by law. To be more efficient, this waiver needs to be public and should be part of official politics.
- At the same time, the Government could provide incentives for the development of responsible business practices and social investments beyond set mandatory levels. This can be achieved by creating and promoting a system of rewards and enticements for social activity and through mechanisms for public recognition of commendable CSR practices. The Government has all the necessary leverage and authority in key economic and public spheres (including the mass media) to develop this system.
- The Government should seek to form a favorable public opinion about Russian businesses as well as the constructive role it plays in the socio-economic development of Russia.
- The Government should provide active and systematic support to the development of civil society institutions, first of all, by creating effective financing mechanisms for civil initiatives. This can be achieved through establishment of an independent system of governmental and non-governmental grant giving agencies.

RECOMMENDATIONS TO THE PRIVATE SECTOR

- Corporations should fulfill their social responsibilities to comply with the requirements set by law in an open and transparent manner. They should accept and support a possible reinforcement of state control over the compliance with the mandatory norms.
- Corporations should assist Governmental bodies in the improvement of legal norms regulating corporate social liabilities.
- Corporations should strive to enlarge established circle of stakeholders (the Government, owners, employees) focusing on the traditionally marginalized parties - local communities, public associations, business partners, etc.
- Corporations should strive to establish partnerships with other companies, public and civil society organizations, as well as state authorities in order to develop general and systematic approaches to corporate responsibility.
- Corporations should look at the ways of disclosing information about their social activities, for example, through the social reporting tool. At the same time, social reporting should be voluntary and companies should decide on their own which aspects of social life to disclose and to what extent.

RECOMMENDATIONS

Russia has now all the conditions required for creating a qualitative **supply** of forms and tools of corporate responsibility: CSR is becoming an integral part of corporate strategies, institutional basics as well as ‘real practice’ social activity processes are now also progressing and developing.

The major challenges for CSR’s efficient further growth in Russia, however, stem from the weak public **demand** for social activity of the private sector. Indeed, this demand is not yet vocalized, public ideas about justice are distorted; stakeholders are mainly limited to the Government and owners, tools for presenting information to the public and public recognition of the companies’ social work are still inadequate.

As a result, the Government had to substitute public demand for social activity with increased regulatory pressure and compulsion on business. Earlier, this practice allowed for initial advancements in CSR development but by now it has exhausted itself and is becoming more of a hindrance for sustainable social development.

The CSR public discussion in Russia is revolving around CSR fundamentals. In this respect, this Report provides some general strategic recommendations to the main participants of the process.

Chapters 1, 2 and 3 of the Report provide main results of the expert analysis and research done by the Russian Managers Association which led to the above-mentioned conclusions and recommendations.

Chapter 1.

CORPORATE SOCIAL RESPONSIBILITY AND SOCIAL INVESTMENTS: THE SOCIO-ECONOMIC CONTEXT

CSR Discussion in Russia is at Early Stage

Globally, there are several different corporate social responsibility (CSR) models each reflecting the social context of a developed democracy, a transparent and open state machine, functioning civil institutions, a system of dispute resolution and freedom of speech and choice. Such a complex system for regulating relationships and roles of public, private, and non-governmental sectors evolved over the last centuries. This well-balanced system functions as a self-regulating mechanism where each party has its own rights and responsibilities that allow them to perform independently while remaining interconnected.

Corporate social engagement in social life is either strictly regulated within the existing legislation for commerce, capital markets, labor and the environment or exercised independently through specifically developed incentives. In the first case, the Government defines the parameters and provisions for interaction between the private sector and the society. Under this framework, regulatory mechanisms, along with civil society organizations, create necessary conditions for business to engage with society. In the second case, the Government, influenced by civil society,

provides businesses with strong fiscal incentives to support socially responsible initiatives.

Thus, an efficient society regulation structure is obtained in which individual party roles involvement and interaction levels are clearly defined.

How is this interaction built in Russia?

In recent years the topic of CSR has gained momentum in Russia. It is arguable that the growing interest in CSR and increased intensity of public discussions on CSR are a reflection of different, and not always coherent, views on the social context and the way the social contract should function. These disparate views lead to ambiguity in the roles and areas of responsibility of the civil society, the private and the public sectors. As a consequence, major distortions and a lack of coordination become evident in the efforts of key players within society to improve country's socio-economic development. This is aggravated by the inefficiency of regulatory mechanisms as well as a lack of civilized mechanisms for putting societal pressure on businesses and governments.

Under these circumstances, contradictory public disputes arise around the topic of CSR. The major involved stakeholders¹ can be categorized as follows:

The contemporary CSR model illustrates how the public sector and civil society regulate and stimulate business to engage in societal development

CSR in Russia is affected by the inefficiency of regulatory mechanisms and a lack of civilized mechanisms for putting societal pressure onto businesses and governments

Diverse stakeholders interested in promoting CSR in Russia have no common grounds and as of now no common language is utilized yet

Another reason behind the unspecified nature of the Russian CSR model is found in the lack of public mechanisms to articulate societal demands

Initiated by business, CSR in Russia has transformed from chaotic philanthropy to pragmatic social investments

- **“Wise Foxes”**. This group includes leading companies and multinationals with large scale operations, that have been in business for a long time. They have incorporated codes of conduct and responsible business practices. These businesses monitor public expectations and use them as indicators in adjusting their business conduct.
 - **“Tycoons”**. Companies which obtained state assets during the privatization process in the 1990s. In order to maintain good relations with the authorities and avoid complications and difficulties, they try to keep the status quo in terms of sustainable environment. For many of the companies within this category, the objective has become more immediate especially in light of actions taken against YUKOS Oil Company.
 - **“Fat Cats”**. Enterprises which have inherited a large social infrastructure. They are working on reducing and optimizing this infrastructure and establishing partner relations with local authorities in respect to social policy issues.
 - **“Image-makers”**. Companies, trying to enhance their brand-image and reputation through CSR. Quite often they are substituting their poor business performance with publicity campaigns.
 - **“Beggars”**. This group petitions and attacks with different requests and appeals PR departments of companies. Representatives of various state authorities sometimes fall in the same category.
 - **“Boy scouts”**. Organizations that want to make the world a better place to live and bring a positive change in resolving global issues. Civil associations hoping for political dividends are often among those represented by this group.
 - There are also a few other groups like **“Fund Raisers”**, **“Consultants and Experts”** who aim to benefit from the constantly growing popularity of CSR.
 - Another group is **“Regional Barons”**. This group usually consists of local authorities that force the private sector to make additional contributions to the underfinanced public budgets. This type of “cooperation” is imposed on companies by regulators upon whom a company’s sustainability in the region is largely dependent.
- The analysis of these various interest groups leads to several insights about CSR in Russia:
- There is no common language for CSR today in Russia, as the groups listed above often have different and incompatible objectives.
 - Unlike the West, where CSR is instigated through social pressures, civil society is not represented in CSR discussions in Russia as a key player. There is no mechanism of voicing and articulating societal demands.
- Despite all the challenges, Russian business community continues to invest financial and non-financial resources into the development of the society. Over the last fifteen years though, CSR in Russia has transformed from a fragmented and often chaotic form of philanthropy to a more coherent and organized social investments.
- Table 1 below compares different patterns of private sector engagement in societal development.

Before examining viable CSR models suitable for Russia, it is critical to study the distinctive features of CSR put into practice in other countries with longer CSR traditions.

Comparative Overview of CSR: USA, Europe, UK and Russia

A brief overview² of general trends and business attitudes towards social responsibilities, as understood and applied both in the Western countries and in Russia, is outlined below.

The USA has the longest history of CSR whereas both Britain and the European continent developed CSR practices intensively over the last 20-25 years, driven

largely by external factors. The American doctrine has not dramatically changed over the last 100 years and has been developing smoothly reflecting gradual shifts in social development.

The UK business community is distinctive for being more enthusiastic about CSR than its European counterparts³. Despite the rich CSR heritage in America, it can be argued that British and continental European CSR experiences within the last 20-25 years have more in common with today's Russia. Relevant parallels and distinctions between Europe and Russia can be drawn especially in consideration of the dramatic changes in Russia's economic and social systems in the past 15 years. The transitional period was and continues to be

Table 1

Levels of Company Engagement in Societal Development

	Traditional Philanthropy	Strategic Philanthropy	Social Investments
Motivation	Unbiased desire to help	Company's strategic interest, not aligned with development goals	Company's long-term interest which links company's interests to the needs of local communities
Recipients Selection Criteria	Executive management preferences	Consideration of the recipients' interests, social efficiency	Social efficiency, local communities' needs and business implications (often for the long-term perspective)
Alignment with Core Business	Not aligned	Indirect alignment	Direct: Internal corporate social programs Indirect: External social programs
Financing Mechanisms	Philanthropic donations, sponsorship	Philanthropic donations, grants, not aligned with company's business interests	Inter-sectoral social partnership
Social Effect	Low and often not measurable	Partially measurable	Deferred in time, measurable

Source: Adapted from the book by S.V. Ivchenko, M.I. Liborakina, T.S. Sivayeva "The city and the business: forming a social responsibility among the Russian companies". Moscow: Foundation "The Institute for Urban Economics", 2003, page 17.

The range of international CSR models is characterized by a dilemma. Corporations independently define their level of social engagement. Or formal and informal institutions agree upon societal interests which are then transformed into mandatory requirements for corporations.

The American CSR model is initiated by companies and implies maximum independence of corporations in determining their engagement. It is encouraged by law to direct social investments into areas beneficial for the society. For that, appropriate tax benefits and tax payment set-off schemes are applied, and CSR regulation by the Government is minimal.

a turbulent time for Russia. Therefore, a closer look at British and continental Europe's CSR experiences might have some practical value.

The Western academic community considers CSR in Russia a recent phenomenon. Some academics feel that CSR is mostly absent in Russia. This is due in part to the existing conditions and *modus operandi* for civil society and the private sector in Russia, which are very different from Western counterparts⁴. However, these statements are more academic than practical in nature. It is more appropriate to make distinctions and examine correlations between contemporary Russian model of CSR with European and American forms.

CSR patterns in the USA and Europe have recently been defined as 'explicit' and 'implicit' CSR.⁵

Explicit CSR refers to *corporate lines of behavior/policies* that lead companies to assume responsibility for some interests of society. Explicit CSR would normally involve voluntary, 'self-interest driven' policies, programs and strategies of corporations to address issues perceived by the company and/or its stakeholders as part of their social responsibility.

Implicit CSR refers to a country's *formal and informal institutions* through which the corporations' responsibilities for society's interests are agreed and assigned to corporations. Implicit CSR normally consists of values, norms and rules, which (mostly) result in mandatory requirements for corporations to address issues, which social, political and economic interests consider a proper and reasonable obligation upon corporate actors.

CSR in the USA

Corporate social responsibility is often regarded as an American phenomenon based on the principles of self-help and participation. The culture of philanthropy in America can be traced to the early 20th century and provides an excellent outline of its historical evolution (i.e. Rockefeller's public libraries, Carnegie's initiatives, etc).

Due to the nature of American entrepreneurship, which is based on maximising the freedom of participants, there are a number of self-regulating mechanisms in contemporary American society. Thus, employer-employee relations are mainly the subjects of bilateral agreements between the respective parties. The right to health protection is regarded as an individual choice, i.e. to acquire health insurance or not (hence, voluntary medical insurance). The Government guarantees the fundamental rights of citizens in this sphere. Likewise, all CSR initiatives are carried out on a purely voluntary basis by corporations.

America has developed numerous mechanisms through which the private sector participates in social support initiatives, such as through corporate funds that address various social problems. It is well-known that higher education in the USA is sponsored by the private sector to a far greater extent than in most other countries (this benchmarking excludes the countries where education/public health/etc. are funded by respective Governments by law). Education financing pattern can partially be accounted for by the motives of corporations to voluntarily support education, pension and insurance schemes for the staff, and other socially important programs. Socially responsible corporate behaviour is often underpinned by appropriate fiscal incentives that are statutory by law.

It is important to point out that the American Government has a "hands-off"

approach when engaging with the private sector. At the same time, there are several instances of corporations taking an active interest in areas that are of concern in the public domain and quite often exist outside the scope of business's commercial activities. The Bill & Melinda Gates Foundation, with a capital base of almost 27 million dollars, is a striking example, being fully financed by Bill and Melinda Gates, it aims for an improvement of educational and health protection systems in different countries throughout the world.

CSR in Continental Europe

Unlike the United States, where CSR tends to be initiated by corporations and often exceeds the bounds of corporate responsibility to stakeholders as required by law, the private sector in Europe is more inclined to carefully define and circumscribe its responsibilities towards society. European CSR practices rarely originate from the explicit policies of corporations. Corporate activities, which are traditionally carried out on a voluntary basis in the US (i.e. initiated by the business community), are normally implicitly codified in the norms, standards and legal frameworks of respective countries in Europe.

Distinctions between American and continental European models of CSR⁶ can be discerned from a company's economic, legal and ethical responsibilities and philanthropic activity:⁷

- *Economic* responsibility concerns itself with ensuring the profitability of business and protecting shareholder interests (as is the case for the US). European companies have an expanded concept of economic responsibility which encompasses the welfare of employees and local communities⁸;
- *Legal* responsibility in Europe is a basis for any social responsibility. European businesses mainly consider the State as the entity that enforces accepted rules, whereas in the USA such regulations would be viewed as governmental interference in private liberty;
- European corporations tend to regard most social issues as lying in the area of *ethical* responsibility. Due to a strong civil society in Europe, business operations are subject to close public scrutiny⁹ (for instance, issues of nuclear power, animal testing, genetic engineering are always on public's agenda);
- *Philanthropic* responsibilities do not play a large role in European businesses in Europe in contrast with the US. This is accounted for by the higher tax burden in Europe than in North America. Accordingly, European corporations are generally engaged in philanthropy through vested legal frameworks.

The above factors have contributed to the emergence of the term 'Corporate Social Responsiveness' as a more accurate description of the European model of CSR.¹⁰

Another significant deviation in Europe from the US is governmental oversight of CSR. Due to the increased role of government regulations, the European CSR model is also known as '*implicit*' CSR and is reflected in legislation dealing with systems of health insurance, pensions and other socially relevant issues. Furthermore, employer-employee relations are more clearly defined and regulated in Europe than in the United States. In general, the European model of state regulation on CSR-related issues surpasses its North American counterpart.

While European countries differ from each other, they share several common ele-

The European CSR model is for the most part a system of governmental oversight

ments that serve as unifying factors. The first such factor to mention is European politicians paying close attention to various CSR initiatives. Three years ago, the European Commission defined CSR as ‘a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis’.¹¹

CSR in the UK

CSR in the UK combines elements of the American and Continental European models. There is active governmental support in CSR development in Britain that encourages socially responsible corporations to work within a well-developed welfare system. On the other hand, following Thatcher era reforms in the UK, many practices appeared which may be considered similar to those followed in the US.

CSR in Britain has the following characteristics:¹²

- A well developed CSR consultancy industry;
- Increased interest in CSR from the investment community accompanied by the growth of socially responsible investment funds;
- Increased media attention to CSR. The *Times* publishes a social responsibility index in its weekly company profiles;
- UK business education surpasses that of Continental Europe in terms of variety and quantity of CSR focused courses;
- Active involvement of the UK Government in CSR development through public-private partnerships in the educational sector, co-financing of CSR projects, fiscal incentives to socially responsible companies and encouragement of con-

sensus on UK and international codes of practice. In view of his concern about CSR development in the country, the Prime Minister created the position of Minister for CSR.

It is also apparent that CSR projects are widely initiated and fuelled by businesses in the country, a fact which demonstrates the voluntary nature of CSR development by corporations. In general, the evolution of CSR in Britain can be depicted as a gradual and emerging process. There are, however, a few external factors that have influenced the qualitative transformation of CSR in the UK within the last 20-25 years.

During the 19th century and the first three quarters of the 20th century, CSR as philanthropy was evolving ‘implicitly’. Philanthropic initiatives were driven by a number of businesses focussed mainly on supporting local communities, employees and their families. In the 1980s, British forms of CSR shifted towards more ‘explicit’ modalities and became more concerted at the national level.

The last 25 years were marked by major economic upheavals, escalating unemployment rates and public demonstrations. Big business realised that the British Government was unable to manage the situation neither physically nor financially. Instead of waiting for the Government to increase the tax burden and intensify labour-relation regulations, the private sector took a proactive stance and initiated CSR implementation measures, which has since been considered the ‘*first wave of explicit CSR*’. At first this meant the emergence of the Special Programmes Unit at the national level. Corporations created opportunities for higher education targeted at youth by using their own resources (Youth Training Scheme). The Special Programmes Unit held conferences, interacted with certain

The UK CSR model combines elements of the US and Continental Europe models. There is active governmental and social institutions’ involvement in the agreeing of societal interests as well as promotion and encouragement of best practices.

companies and acted as an intermediary in resolving conflicts. One of the milestone events in terms of CSR in the 1980s was the meeting convened by the largest umbrella association for CSR initiatives, Business in the Community (BITC) which stimulated the emergence of public-private partnerships to pool resources for dealing with economic and social problems¹³.

Further CSR developments were made in the 1990s when businesses became more eager to demonstrate their socially responsible products and processes (the second wave) and socially responsible employee relations (the third wave).

It is now common for most large UK-based businesses to have CSR dedicated staff/departments with allocated budgets and board level representation. Nearly 80% of the FTSE 100 companies adopted social reporting as a part of their annual reports.

The UK Government is actively involved in encouraging companies that disclose their policies and practices on decisions which impact their actions on social, environmental and employee issues. There are a number of Acts which introduce fiscal incentives for ethical and socially responsible business – energy efficiency, re-use of production wastes, etc.

The common feature for both British and Continental Europe’s CSR practices is their inherent *implicit* modalities taking on more of *explicit* CSR characteristics.

Table 2 below highlights a few of the more notable distinctions between the American and European patterns of CSR.

CSR in Russia

Despite a plethora of Russian publications on CSR in the country over the last 2-3 years, there is still a shortage of

Table 2.

CSR Models in the American and European Contexts

	American Context	European Context
Economic Responsibilities	Corporate policies with regard to “good corporate governance”, “remuneration” or “consumer protection”	Legal framework, codifying corporate constitution (“Betriebsverfassungsgesetz”), the 35h-week, minimum wage legislation, overtime regulation, development and testing of pharmaceuticals
Legal Responsibilities	Relatively low level of legal obligations on business	Relatively high levels of legislation on business activity
Ethical Responsibilities	Corporate policies with regard to local communities	High level of taxation in connection with high level of state welfare provision
Philanthropic Responsibilities	Corporate initiatives to sponsor art, culture or fund university education	High level of taxation sees governments as the prime provider of culture, education etc.

Poor understanding of the CSR concept and the desire to report asap to the Government are somewhat a threat to the development of the Russian CSR model

in-depth analytic research similar to what is available in the West. The conclusions below are based on currently available Russian materials and do not pretend to be exhaustive.

Based on existing academic papers and media reporting on CSR in Russia, it appears that the prevailing academic and private sector opinion is over-optimistic regarding the current state of CSR development in the country. In the same way, some companies seem to be rushing to present themselves as socially responsible entities when, in fact, they have not had enough time for a proper CSR screening by authoritative experts/auditors.

This optimism is probably due to CSR related *elements*, inherited from Soviet regi-

me (holiday camps, holiday houses, other social and cultural programs). It is a fundamental mistake when employer-employee relations are considered a comprehensive socially responsible way of doing business. Other stakeholders (with the exception of the State) are given less consideration. Another reason for such an overestimation of CSR practices is the relatively short period of time for fostering a CSR culture – maximum three years by now – and in misapprehensions of the concept of CSR as applied in countries with longer CSR traditions. Finally, the private sector may be motivated to report positive CSR outcomes to the Government which wields a large influence and closely observes business practices.

Unlike the American and European CSR models and, probably, due to some

Table 3

Distinctions between the Russian and European CSR

Comparative indicators	UK and Continental Europe	Russia
Target Stakeholders the CSR Policies are Oriented to (by rank)	<ul style="list-style-type: none"> • Employees • Customers • Community • Shareholders 	<ul style="list-style-type: none"> • Government • Owners • Employees • Customers
Drivers of CSR Development	<ul style="list-style-type: none"> • Corporations • NGOs and community • State 	<ul style="list-style-type: none"> • State (High executive bodies) • Corporations • Local authorities
NGO Role	<ul style="list-style-type: none"> • Large in number and profiles • Considered to be among the principal CSR drivers that pressure/encourage businesses for cooperation in CSR related issues (Greenpeace, BITC, etc.); • Have high influence on public opinion and possess pressure mechanism on business (e.g., Shell and Brent Spar case) 	<ul style="list-style-type: none"> • Relatively few in number • Considered to be facilitators rather than drivers for CSR • Relatively unknown in society and lack real influence on CSR decisions
Social Reporting (SR) Development	<ul style="list-style-type: none"> • SR is being initiated by businesses • SR is well adopted and widely used • Oriented to all/most stakeholders 	<ul style="list-style-type: none"> • SR is at a very early stage • Rarely properly understood as concept and long-term utility • Mainly oriented to the State and shareholders (less to the society)

command system elements inherited from the Soviet era, the role of the Government as a CSR driver is hard to overestimate. This prominence can be considered as a principal feature of Russian CSR, compared with the Western equivalent. In the absence of sufficient CSR experiences in corporate philanthropy (at least after 1917), this tendency can even be regarded as a positive national attribute (Table 3).

It is quite obvious that CSR in Russia is still at the early stages of development. As a result, the practical value of CSR is, with few exceptions, quite often misunderstood. There is a danger of substituting a positive CSR concept with needless documentation on quasi-positive social reporting. Overall, the impression is that most Russian companies lack a sensible long-term strategy for CSR.

The current view on the principal distinctions between Russian CSR and its European counterparts (UK and Continental Europe) is presented in Table 3. This table is by no means a comprehensive listing of comparative indicators nor a blanket statement of conclusions applicable to all Russian companies with CSR practices.

With respect to governance sources, the Russian CSR model combines elements of the UK model (voluntarily initiated by businesses) and the Continental European model (where businesses desire to get clear legislative CSR framework from the Government). Since CSR development in the country is still in the early stages of being applied, the concept, practices and utility of CSR are not fully understood. CSR as it currently stands is relevant to the immediate stakeholders – the Government, the owners and the employees. The broader degree of interested parties, such as local communities, suppliers, etc., is not yet part of the system, but the process will by ne-

cessity become more inclusive as the market develops and society matures.

Which CSR Definition Best Suits Russia

There are many different approaches to interpret and understand CSR. One of the recent definitions of CSR states “CSR is a cluster concept which overlaps with such concepts as business ethics, corporate philanthropy, corporate citizenship, sustainability and environmental responsibility.”¹⁴

The US-based organization Business for Social Responsibility has another definition¹⁵: “Corporate social responsibility means conducting a business in such a way that conforms to ethical and legal norms and public expectations and even exceeds those.”

According to one of the early definitions made by the Russian Managers Association, corporate social responsibility is a voluntary engagement of business in the societal development in social, economic and environmental areas, which is aligned with core business and exceeds the boundaries of the legally defined minimum¹⁶.

In the recent years, public debates over the issue of CSR in Russia have identified the need for a broader definition of CSR:

- It is important to consider not only compliance with law (i.e. tax payments), but also those activities which exceed the legally defined minimum.
- It should provide companies with clear and measurable reference points.
- It should consider corporate actions to meet public expectations and follow widely accepted ethical values.
- It is desirable to avoid the word “social” when defining the Russian CSR model. In this context, it may be misleading by association with “socially unprotected”

There is a danger of substituting a positive CSR concept with a production line of quasi-positive social reporting

The Russian CSR model is now oriented to the Government, the owners and the employees. However, as the society matures, the broader circle of stakeholders such as local communities, consumers etc. will be involved.

The approach to CSR in Russia should be broader and more pragmatic

Corporate Responsibility to society is a philosophy of conduct and a concept of running business focused on the following:

- Offering high-quality products and services to consumers;
- Creating safe working environment, paying documented salaries, investing into human capital development;
- Complying with legislative (fiscal, labor, environmental, etc.) requirements;
- Building credible and genuine relations with all stakeholders;
- Improving business operations with a view to add value and increase shareholders' wealth;
- Considering public expectations and following generally accepted ethical values within business processes;
- Contributing to the emerging civil society through partnerships and local community development projects.

The new definition of Corporate Responsibility for Russia

where it has a more narrow meaning. Instead, the use of the term “corporate responsibility to society” is suggested.

Considering afore mentioned criteria, the following definition is proposed:

Corporate Responsibility to society is a philosophy of conduct and a concept of running business focused on the following:

- Offering high-quality products and services to consumers;
- Creating safe working environment, paying documented salaries, investing into human capital development;
- Complying with legislative (fiscal, labor, environmental, etc.) requirements;
- Building credible and genuine relations with all stakeholders;
- Improving business operations with a view to add value and increase shareholders' wealth;
- Considering public expectations and following generally accepted ethical values within business processes;
- Contributing to the emerging civil society through partnerships and local community development projects.

Thus, corporate responsibility is integrating into contemporary Russian business practices. It has an increasing influence on management decision-making that balances the interests of all stakeholders.

The Definition of Social Investments within the Russian Context

To come up with a clear definition of the term ‘social investments’, specific features of the Russian socio-economic settings have to be taken into account. As such, the definition of ‘social investments’ has to meet the following criteria:

- Be as reflective as possible of private sector contribution to the development and implementation of internal/external corporate social programs;
- Reflect the nature and availability of information on the engagement of Russian business in societal development;
- Distinguish from similarly worded terms that are applied elsewhere, but can have different connotations in the Russian context;
- Be flexible and adaptable to adjustments and modifications without losing its original meaning;
- Avoid uncertainty in the interpretation, e.g. when business activity is regarded as ‘bridging the gaps’ which appear in the public sector due to poor performance of the Governmental institutions or as a way of “whitewashing” the business;
- Keep off PR abuse;
- Prevent local and federal officials from putting business under administrative pressure to refund their failures in public sector.

Given the above-mentioned criteria and having reviewed terms and concepts applied globally, the writing team of this Report came up with the following definition for the term “social investments of business”.

Social Investments of Business are material, technological, managerial and financial resources of companies that management decides to allocate on social programs linked to the interests of key internal and external stakeholders, and expected to return certain (though hard to measure, if at all) strategic social and economic benefits.

At the present stage of the country's economic and social development, social investments should be regarded as a pragmatic form of corporate social responsibility

Social Investments of Business are material, technological, managerial and financial resources of companies that management decides to allocate on social programs linked to the interests of key internal and external stakeholders, and expected to return certain (though hard to measure, if at all) strategic social and economic benefits.

¹Based on the speech of S.E. Litovchenko "Nothing but truth about CSR in Russia" at the conference "Corporate Responsibility of the Companies: The Technology of Trust". Moscow, October 22, 2004.

²This section was written by Jeremy Moon, Professor, Director of the International Center for Corporate Social Responsibility, Nottingham University Business School, UK, and Stanislav Graftski, International Centre for Corporate Social Responsibility, Nottingham University Business School, UK, MBA.

³Buckley, C. 'UK "most socially aware" The Times, 18.06.2002.

⁴Kogut, B. and Spicer, A. 'Capital Market Development and Mass Privatization Are Logical Contradictions: Lessons from Russia and the Czech Republic'. *Industrial and Corporate Change*, 2002, Vol 11, Number 1, pp. 1-37: Oxford University Press. Spicer, A., Dunfee, T., Bailey, W. 'Does National Context Matter In Ethical Decision Making? An Empirical Test of Integrative Social Contracts Theory'. *Academy of Management Journal*, 2004; forthcoming.

⁵Matten, D. and Moon, J. 'Implicit' and 'Explicit' CSR: A Conceptual Framework for Understanding CSR in Europe' in A. Habish, J.

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⁷Carroll, A. 'The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders'. *Business Horizons*, 1991, July-August: pp.39-48.

⁸Hunt, B. 'The New Battleground for Capitalism'. *Financial Times (Mastering Management)*, October 9, 2000.

⁹Woolliff, J., and Deri, C. 'NGOs: The New Super Brands'. *Corporate Reputation Review*, 4/2, 2001, pp.157-165.

¹⁰Crane, A. and Matten, D. *Business Ethics – A European Perspective*. Oxford: Oxford University Press, 2004.

¹¹European Commission, 2001.

¹²Moon, J., 'CSR in the UK: An Explicit Model of Business – Society Relations' in A. Habish, J. Jonker, M. Wegner, R. Schmidpeter (Eds.), *CSR Discovery*, 2004: in print. Germany: Springer.

¹³Moore, C. and J.J. Richardson in association with J. Moon (1989). *Local Partnership and the Unemployment Crisis in Britain*. Allen and Unwin, London, UK.

¹⁴Matten, D. and Moon, J. 'Implicit' and 'Explicit' CSR: A Conceptual Framework for Understanding CSR in Europe' in A. Habish, J. Jonker, M. Wegner, R. Schmidpeter (Eds.), *CSR Across Europe*, 2004: in print. Germany: Springer.

¹⁵www.bsr.org/resourcecenter

¹⁶'Social Responsibility of the Business: Agenda of the Day'. Moscow: The Russian Managers Association, 2003.

Chapter 2.

MEASURING SOCIAL INVESTMENTS IN RUSSIA: OBSTACLES, CHALLENGES AND TOOLS

Institutional and systemic immaturity of social investments measurement prevents its further development

There is sporadic and limited public demand for information on social investments

Given the peculiarities of current socio-economic development, the level of social investments is extremely hard to estimate in an accurate and consistent manner because of:

- **Absence of a common understanding about social investments.** There are no clear guidelines for how to classify financial investments that have social implication as social investments vs. direct operational expenditures (for example, investments in the personnel).
- **Predominantly chaotic approach to social investing.** Various divisions within a company have their own sets of priorities and motivations that influence corporate strategy.
- **Different and often contradicting accounting and managerial standards.** In particular, those covering employee benefit package and external programs.
- **Lack of generally accepted social reporting standards.** Started in 1997 Global Reporting Initiative guidelines, being the most widely accepted sustainability reporting standard in the world, are for voluntary use by organizations for reporting on the economic, environmental and social dimensions of their activities, products and services.

The following outlines social investments information disclosure.

- The concept and the context of social investments have not penetrated the public consciousness and as such, they are not ready to be perceived and appreciated;
- The Government often uses this information to its own benefit, often at the expense of the private sector;
- There is only an occasional demand for this type of information from experts, partners, investors and practitioners in the field;
- Top-management usually discloses only general information about corporate social investments, without providing any crucial financial information, disclosure

Social Investments of Business are material, technological, managerial and financial resources of companies that management decides to allocate on social programs linked to the interests of key internal and external stakeholders, and expected to return certain (though hard to measure, if at all) strategic social and economic benefits.

of which is a potential danger for its activities.

The above-mentioned shortcomings in the information transparency of Russian companies emphasize the difficulties that the private sector, the public sector and the civil society face in interacting with each other. Yet, the difficulties and obstacles do not outweigh the societal need for development of practicable tools to measure social investments.

Objective evaluation of social investments needs a qualitative assessment of relevant economic indicators. A suitable methodology can be found in the ***social investment index***.

A systematic and integrated understanding of social investments of Russian companies stems from two interrelated, qualitative and quantitative, perspectives. ***The quantitative perspective*** measures quantifiable variables and data, such as actual expenditures of Russian companies on social programs and initiatives. The resultant data can then be organized into sub-indices and incorporated into the quantitative index. These indicators will assess both absolute and relative amounts allocated by company for social programs.

The qualitative perspective assesses the social investment process as a whole, resulting in a qualitative social investment index. In fact, this index is a means to determine the range of social investments, the level of organizational support for social activities, and information availability and transparency.

These indices present an overview of social investments and, furthermore, lead to conclusions about the nature of interactions between the Russian private sector, the public sector and the civil society. It should

be emphasized as well that the social investment index is meant to facilitate the formation of non-biased views on the social background of Russian businesses.

Problems Caused by Disclosing Information on Social Investments

The Russian private sector is moving towards a new pattern of giving access to information on its social programs. While many leading Russian companies have already fully disclosed information about their social programs, the majority of enterprises still stick to the position of providing limited access to the information.

This position to limit the degree of disclosure is influenced by two sets of factors. The first set considers the potential risks and conflicts which a company can expose itself to by releasing information on the true scale of its social activities. The second set reflects on the external state of affairs which can effect the decision on whether to disclose information about a company's social programs, and to what degree.

A detailed analysis of local companies' exposures when disclosing information about social activities was presented at the expert meeting "Transparency of Russian Companies Social Policy"¹, held by the Russian Managers Association in April 2004.

What Keeps Companies from Disclosing Information on Social Investments

The following factors can be singled out as the most significant in preventing companies from disclosing information about their social investments:

1. Conflict between company managers and investors (owners). The policy of expanding social programs, run by mana-

The considerable problems of measuring social investments do not, however, outweigh the societal need for development of practicable tools for such measurements

When measuring social investments, it is important to analyze not only the amount, but also the quality of such investments

The issue of social investments information disclosure goes far beyond the "It's good to be transparent" paradigm

Informational transparency goes hand in hand with a number of objective risks and threats which require a discriminating approach to disclosures and presentations

gers, promotes the strategic efficiency of a company but curtails the profit margin for shareholders (owners). Accordingly, the disclosure of information about social investments in many cases leads shareholders to demand reductions. Furthermore, larger social investments, which directly tap production investments, reduce the company's economic efficiency and thus lead to dissatisfaction of its investors.

2. Conflict between the producer and the consumer. All social investments which are predominantly for the company's employees' sake are reflected in the pricing and, in the end, are covered by the consumer. A shift towards transparency of social programs could lead to consumer demands to bring down prices by curtailing internal corporate social programs.

3. Conflict between the company and tax authorities. Companies occasionally finance their social programs from sources other than net income or even allocate such expenses to the cost of production. Disclosure of substantial amounts of social investments draws closer attention of the tax authorities which could instigate a more thorough audit of the company's activities. Moreover, disclosure of social programs can turn to be a signal to the Government and the public that the company has surplus profits and financial reserves. This encourages the Government to change institutional rules with a view to increase the tax burden, to reinforce tax discipline and control over the company.

4. Conflict between the company's employees and lower income groups. There are often significant gaps in the pay-rates and benefit packages of employees in the private sector compared to the public sector. Disclosure of social programs can lead to a greater dissatisfaction of lower le-

vel income brackets targeted at the private sector, thereby aggravating social tensions, and sometimes provoking social conflicts of all kinds.

5. Conflict between recipients and distributors of social investments. This conflict can be further categorized as:

- *Conflict between a company's top managers and employees* can arise when upper management receives a disproportionate number of commercial bonuses through the social programs, compared to the rest of the employees. Correspondingly, disclosure of such information leads to a greater dissatisfaction amidst the company's staff and provokes internal corporate conflicts.
- *Conflict between the distributors and the recipients of social investments* can arise when the investments are not allocated and spent appropriately. Disclosure of information about social investments can reveal potential discrepancies between social packages as they appear on paper versus what is actually provided. This gap in social investments dissatisfies those who do not receive declared social bonuses in full.
- *Conflict between groups of social investment recipients* can arise when a company's social programs do not give even access to differently located or socially positioned recipient groups. Disclosure of differentiated social bonuses can stir feelings of unfairness and resentment against the distributor of social investments and other recipients.

6. Conflict between the company, the authorities and the public. There are cases where the social investments channel gears non-formal interactions between a compa-

ny's management and the authorities. Such latent corruption disguised under social investments, if disclosed, can expose the guilty parties at both ends. And such a disclosure can directly result in an intervention of the law-enforcement bodies into the company's affairs.

Incentives to Disclose Information on Social Investments

As opposed to all above-mentioned factors that hold companies from providing information, there are also a number of significant incentives for companies to disclose information about social programs:

1. Companies' pursuit to inform the public about real problems of running business. With few exceptions, the social investment activities of large scale companies are being enforced. In the absence of social investments, a company's operations and performance can come under closer scrutiny. Concealing information on a company's social programs can lead the public to jump to conclusions and formulate short-cut impressions of the company's overall activities, operations and conduct. Disclosure of social investment data can dispel hazy notions which the general public may have of a particular company's operations.

2. Companies' pursuit to form a positive corporate image and a favorable public opinion. In many cases, disclosure of large scale social programs is used to enhance a company's brand-image and reputation as a socially responsible business. This is often accomplished by publishing social indicators of the company's activity. A typical example: the airline companies' decision to disclose high incomes of their pilots including their benefits serves as a guarantee of the high quality and reliability of services for the public.

3. Meeting transparency eligibility criteria to enter international stock market. To tap Russian and international stock markets, a company needs to meet strict criteria on transparency and access to information. Under these requirements, companies are prompted to disclose as much information as possible, which applies to their social programs as well.

4. Partnering with international companies, investors and experts, who seriously consider social programs of Russian companies. Most profit-making companies in developed countries have high standards for CSR especially in the areas of environment, wage and labor rights. When applied to cooperation with Russian partners, they create incentives for them to be as transparent as possible with respect to their social investments.

5. Expansion into foreign markets. This process is similar to entering the stock market as companies need to conform or adapt to existing international corporate social responsibility standards, which requires disclosure of a company's CSR profile.

The above incentives and obstacles indicate that a number of social investments issues, including legal ones, have not been resolved yet. At the same time, the Russian Managers Association's surveys show the majority of Russian companies understand the need for, and advantages of, a clearly defined social policy coupled by regularly run social programs. However, the issue of transparency will require a differentiating approach to disclosure and presentation of social investment information due to the emerging threats and risks.

The researches made by the Russian Managers Association have detected a critical mass of evidence from Russian companies that they deem the need for volunta-

Despite a number of serious factors which inhibit the private sector from disclosing information about social investments, a shift towards disclosure has already been made, first of all, by large and multinational corporations

ry (as opposed to mandatory) improvements in the transparency of their social activities as a strategically proven step towards higher capitalization, which becomes clearer and more accountable to shareholders and other related parties or affiliates.

While the level of transparency for most companies is far from perfect, the progress made to date should not be underestimated. The numerous disincentives to transparency have clearly overrated influence. In fact, Russian business has already shifted towards disclosing information on its social programs in an acceptable format.

The Russian Managers Association's contacts with domestic businesses on the issue of social investments show that most of them already have mechanisms and organizational structures in place to start disclosing social information. Many companies have their top executive bodies involved in formulating social policy, and their social programs run routinely and budgeted at the general corporate level.

The actual disclosure of relevant financial indicators was set back by inconsistent information management systems

or business cultures of many companies. Such reasons for companies' not being ready to exchange relevant information are not overpowering and can easily be addressed. A continued systematic assessment of Russian companies on the issue of social investments is likely to stimulate the process of companies' declaring their financial indicators and, therefore, to increase the level of information transparency in the private sector as a whole over the next 2 – 3 years.

This prediction for a greater disclosure is supported by the research of Standard & Poors on information transparency of major Russian companies. The comparative analysis of these companies, conducted in 2003 and 2004, indicates a certain improvement in the general information disclosure level. As a result, the 2004 average transparency level (also known as the transparency index) went up to 46% compared to 40% in 2003.

¹“Transparency of Russian Companies Social Policy”. Moscow: The Russian Managers Association, 2004.

Chapter 3.

SOCIAL INVESTMENT INDEX OF RUSSIAN BUSINESS

The social investment data results from a survey of 100 Russian companies. The research methodology and the list of surveyed companies are cited in Appendices 1 and 2.

The present report incorporates three different types of quantitative social investment indices. Their values for 2003 are given in Table 4.

Social Activity Assessment: Findings of the Quantitative Social Investment Index

Comparable quantitative assessments from other sources confirm the validity of the results obtained. The ratio of social investments to gross sales (1.96%) is in line with 2.2 % share of social allocations in the total cash inflow into industries according to the 2001-2002 data from the State Statistics Committee of the Russian Federation¹.

The ratio of social investments to pre-tax income (11.25%) is supported by an analogous allocation ratio of 17% found by the Center for Economic and Financial Re-

search and Development in its 2001-2002 survey of industrial companies².

Industries show a greater volatility in the scale of social programs. As illustrated in Table 5, there were significant differences in the values of the social investment indices for three industry clusters (raw materials, manufacturing and services). The value of specific social investments (IL) for the service sector was 1.8 times greater than for the manufacturing sector and 2.2 times greater than for the raw materials sector.

This significant volatility indicates that the industrial sector a company belongs to has a stronger influence on the formation of social investment flows than company's specifics such as size and ownership.

However, the industrial sector classification of such a degree says nothing about the direction of the investment flows. Taking this further, it is useful to examine which industrial sector niches pool the most of funds allocated to social programs.

Companies' social investment strategy largely depends on the industry specifics

Table 4

Values of Social Investment Index

Social Investment Index by Types	2003
Social investments value per employee (IL)	28 330 RUR
Ratio of social investments to gross sales (IS)	1.96 %
Ratio of social investments to pre-tax income (IP)	11.25 %

Source: The Russian Managers Association, 2004

Table 5

Russian Companies Social Investment Indices by Industrial Sectors - 2003

Industrial sectors	Social investments per one employee (IL)	Social investments to gross sales (IS)	Social investments to pre-tax income (IP)
Raw materials sector	25 750 RUR	1.7%	8.2%
Manufacturing sector	30 480 RUR	3.8%	24.4%
Service sector	56 380 RUR	1.2%	30.6%

Source: The Russian Managers Association, 2004

A detailed classification of companies by industrial sector finds considerable differences in the scale of social programs (See Figures 1 and 2). Specific social investments per one employee (IL) vary from \$109.7 to as much as \$3300. The upper range figures suggest that some companies indeed bear considerable socially driven costs.

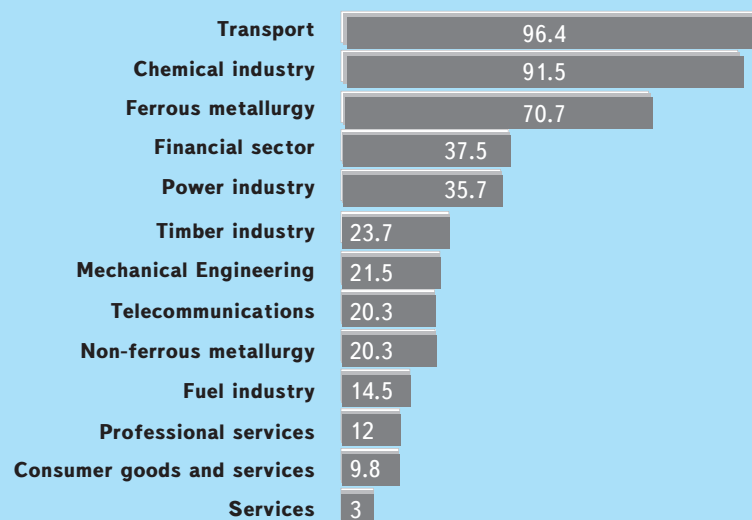
Leading sectors are transport, chemical and ferrous metallurgy industries. These sectors, usually classified as “heavy” in-

dustries, turn to be the first to bear the social expenses burden, which is unevenly dispersed over industrial sectors.

The high level of differentiation in social investments by industry has been validated by the results of other sample surveys. In 2003, the Centre of Economic Analysis and Monitoring of the Russian Government surveyed industrial enterprises to find that 22% of them invested into housing programs. This rate reached 48% and

Figure 1.

Social Investments by Sector per Employee, in Thousand RUR



Source: The Russian Managers Association, 2004

76% in oil and gas industries, but only 2% and 3% in the “light” and food industries³ respectively. The “light” industries (consumer goods, services, professional services) are distinct for rather modest amounts for social investments.

Social Investments by Industry

A further social investments breakdown by industrial sector gives a clearer picture of their target distribution, and supports the conclusion about strong correlation between social investments and the type of industry.

Labor intensive industries focus on “internal” social investments (HR development and health and safety) whereas power and resource intensive industries are centered on “external” social investments (resource saving and environmental protection). This fact supports the intuitive assumption that the percentage and direction of social

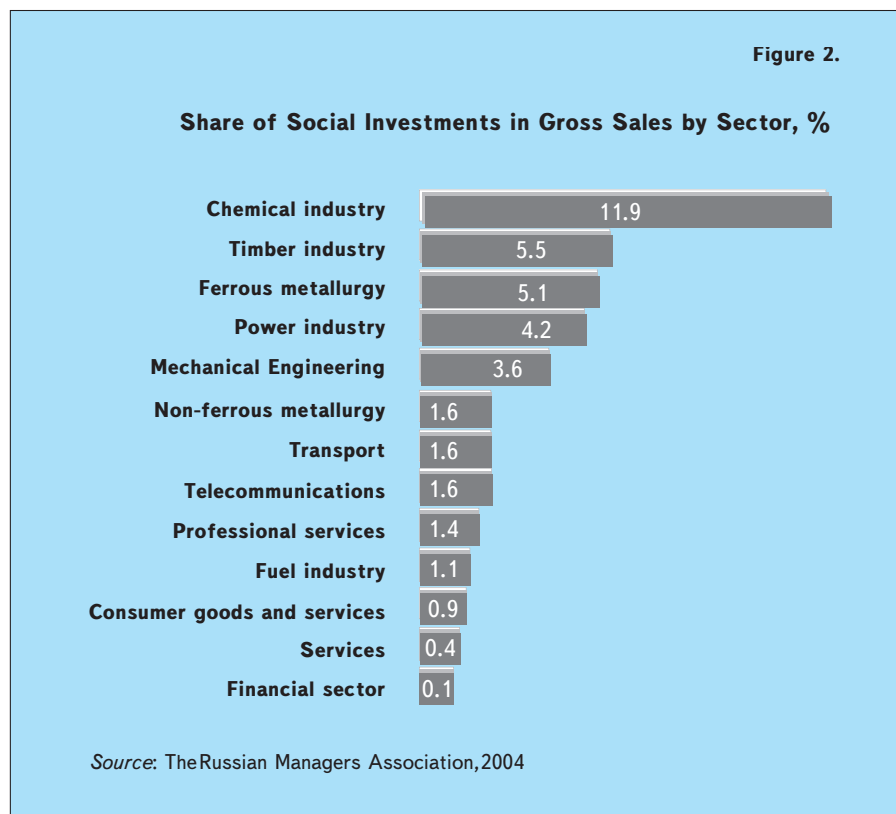
investments are dependent on the assets that an industrial sector values and relies on. Therefore, in industries that rely on human capital (professional services, transport, general service, and financial sectors), between 75 – 94 percent of social investments go to HR development and health and safety while investments into the environment and resource saving are at a minimum.

The situation for resource intensive industries is quite the opposite where more than one-third of the social investments go towards environmental protection and resource saving. The percentages by industry are as follows: 32% **in the non-ferrous metallurgy**, 37.7% **in the ferrous metallurgy**, 35% **in the chemical industry**, 42% **in the power industry** and 35.5% **in the fuel industry**.

There were some unexpected findings with respect to ethical business conduct, which was only favoured by the mechanical

Social investments are unevenly distributed over different industrial sectors. The heaviest burden is borne by production industries

The amount and the structure of companies’ social investments depend on the mix of labor and capital output ratios, which confirms truly investment nature of social investments



The so-called borderline industries - high tech and consumer sectors - pay close attention to investments into ethical business conduct

engineering sector and services sector that invested 15.5% and 9.9% respectively. All of the other industrial sectors hold this CSR component aside (Table 6). Interestingly, the highest investments into ethical business conduct were in sectors that can be considered “borderline” – high-tech productions (mechanical engineering) and those types of business activities which are directly involved in client service.

Development of local communities is a part of social marketing

Another interesting feature of Russia’s social investment profile is that only consumer goods and services, the finance sector and the timber industry are oriented to the

development of local communities – they allocate 20.2%, 17% and 16.9% of their total investments correspondingly (Table 6). The reason behind this is that these companies use different methods and techniques to promote their products to the public, often having to actively market themselves to create a favorable sociable environment for their businesses. A similar phenomenon can be seen in the policies of the multi-branch holdings, which all have active local community support initiatives. This is, as a rule, because these entities need to go beyond their sectoral identity and develop a brand-image and niche market.

Table 6

Breakdown of Social Investments by Industries (% of the Total Volume of Social Investments)

Sector of Economy	HR Development	Health & Safety	Resource Saving	Ethical Business Conduct	Local Community Development	Other
Fuel industry	37,0	6,1	35,5	5,5	10,9	4,9
Non-ferrous metallurgy	36,4	15,5	37,7	2,2	7,0	1,0
Ferrous metallurgy	47,8	7,0	32,0	1,3	10,5	1,6
Power industry	40,7	9,1	42,0	1,3	4,9	1,8
Timber industry	48,4	9,7	15,9	1,7	16,9	7,2
Mechanical engineering	61,8	6,8	5,5	15,5	9,0	1,2
Consumer goods and services	47,1	10,1	11,7	1,2	20,2	9,4
Chemical industry	42,9	11,2	35,1	1,2	5,5	3,8
Professional services	49,1	45,1	0,6	5,2	0,0	0,0
Services	79,1	0,4	0,0	9,9	10,5	0,0
Telecommunications	70,0	10,8	0,4	1,9	3,1	13,5
Transport	58,4	33,0	2,9	1,5	2,8	1,1
Financial sector	75,9	0,0	0,0	6,9	17,0	0,0
Trade	59,0	10,6	17,7	0,0	12,7	0,0
Inter-industry holdings	31,7	13,8	18,6	0,9	20,9	14,0
Average	52,3	12,6	17,0	3,7	10,1	4,0

Source: The Russian Managers Association, 2004

By averaging out social investments by type, it is obvious that most industrial sectors direct their social investments to **HR development** – with an average of 44.4%. The second is **resource saving and environmental protection** – 21%. A noticeable investment share goes to **health and safety (9.3%) and local community development (9.1%)**. The lowest share of social investments goes towards **ethical business conduct** – 5.1%.

Raw Materials and Power Sectors

If we look at social investments on an industry by industry basis, it is evident that a large proportion in **the fuel industry** is allocated to HR development (37%) and resource saving (36%). Considerable “internal” and “external” investments coexist here and this is due to specific characteristics of the fuel industry (remoteness of deposits and areas of operation etc.).

A similar structure of social investments can be observed in the **non-ferrous metallurgy**. At the same time, more attention is paid to safety and health due to the potentially hazardous working conditions.

In the **ferrous metallurgy**, the structure of social investment distribution is similar to the fuel industry’s profile, but with a greater share of investments in HR development (48%) which can be attributed to the severe working conditions. Steel enterprises as well as fuel enterprises pay noticeable attention (about 11%) to the development of the local community as it is a common practice for communities to be founded around enterprises which also serve as the principal source of tax revenues to local budgets.

Forty one percent of social investments in **the power industry** are spent on HR development, 42% - on resource saving.

Another 9% goes to employees’ health protection. Slightly less than 5% of investments are spent on the development of the local community, as most power enterprises are found outside inhabited localities.

Manufacturing Sector

Almost half of the social investments (48%) in **the timber industry** are spent on HR development since this is a labor intensive sector. Notable investments are made for local community development initiatives. These companies produce consumer goods and use a diversity of tools for promoting their products on the market to create a favorable social environment for their businesses.

In the **mechanical engineering sector** HR development investments are among the highest – 62%. This can be explained by high-tech production processes and the pursuit to keep qualified staff at the enterprises. The expenses allocated for ethical business conduct (16%) are higher than for the rest of the industries since these companies enter open financial markets in order to attract resources and require a high level of corporate governance.

The two main social expenses of **enterprises which produce consumer goods and services** are HR development (47%) and local community investments (20%). The highest share of social investments into the local community development is because of the companies’ needs to favorably position themselves in local consumer markets and go beyond their sectoral identity to develop a niche market.

Chemical industry enterprises allocate most of their social investments internally (54%) and for resource saving (35%). Forty-three percent of “internal” investments are for HR development

and 11% for health and safety. It is unusual that this industry has rather low investments in health and safety, despite production hazards.

Service Sector

Ninety-four percent of investments in enterprises that provide *professional services* are “internal”. Forty-nine percent are directed to HR development, and 45% - to health and safety. The professional services sector does not have heavy resource or power needs and relies primarily on dedicated and competent staff. As such, there is little need for companies in this sector to invest in local communities.

A similar situation is observed in the *service* sector. While most of the internal investments are concentrated on “HR development” (79%, the highest of all sectors), a noticeable investment (11%) is made into the local community. This is mostly due to the need for the companies to develop their brand-images and to position themselves in local and regional markets, similar to the timber, consumer goods and services industries.

The *telecommunications industry* sees 81% of its social investments go to HR development and health and safety. This industry deals with scientific and technological advances and requires specialized and qualified staff. Noticeably, fourteen percent of social investments in this industry are allocated in unconventional areas categorized as “*other*” investments.

Staff plays a key role in the *transport* sector as well. However, skill sets and qualifications are not as important here as physical health and steadiness. Accordingly, 58% of social investments in the transport industry go to the development of human resources, and 33% to health and safety.

The *finance sector* has a distinctive way of distributing social investments, which is connected to the specific features of accounting in the Russian banking system. The complexity in the breakdown of expenses by category has led to the consolidation of health and safety and personnel development into one expense item which reflects a significant 76% of total investment volumes.

The finance sector lacks social investments into resource saving and other areas. However, a lot of attention is paid to ethical business conduct (7%, which is almost double the average). This is to be expected as the finance sector needs to ensure informational transparency and membership in professional organizations for financial corporations. Another substantial expense item, which is different from the average for various industries, is philanthropy and sponsorships, which accounts for 17% of their total social expenses.

When analyzing the structure of social expenses made by the *trade sector*, it is discouraging to find the zero percent allocation level for ethical business conduct. However, as new Western trade systems are commissioned, an impressive proportion of investments have gone towards HR development (59%) and resource saving (18%).

One of the most well-balanced profiles for distributing social investments can be found in *inter-industry holdings*. This is due to their wide range of activities and also due to the averaging of expenses when summed up for the entire portfolio of the holding.

As for future trends, based on the detailed study of social investments by industry and the survey results from the managers of the major companies, the breakdown of social investments will shift externally as the internal social expenses have in many industries been firmly established.

The main capital in consumer industries is 'human'. That's why a lot of emphasis is put on internal corporate social investments.

Major social investments in the finance sector are directed to HR development, followed by investments into ethical business conduct and philanthropy. This is to be expected since financial institutions place a high premium on their reputation and on the level of trust clients have in them.

The Scope and Consistency of Social Investment Process: Findings of the Qualitative Social Investment Index

It should be kept in mind that the Social Investment Index is meant to provide an objective appraisal of social investments in Russia using relevant economic indicators. Quantitative indicators provide the tools to ask the question “**how much** is invested?” and the results can be used to draw correlations between industry characteristics and the various categories of social investment. At the same time, it is important to ask whether what is being invested is of value and if it is being done so in an effective manner. Thus the qualitative index considers “**how** social investments are made?”

To illustrate the relevance of these two questions, consider that a sizable company is providing large scale social investments as a part of its CSR strategy. However, these investments are plagued by poor statistical monitoring of allocated amounts, a lack of centralized controls and procedures to manage them, unjustified allocations of resources on one or two activities, and sporadic and uneven distributions of finances to various social events that fall within those categories. Taking these factors into consideration, the impact of the social investments as a whole would come into question.

Therefore, it is expected that discrepancies will arise between the quantitative and the qualitative data. These inconsistencies will need to be detected and removed, but this will require additional analytical and statistical tools. For the purposes of this Report, the qualitative social investment index is used to assess how balanced the investment process is.

At present there are no standardized methodologies to assess the scope and con-

sistency of social investment programs. The research methodology used in this Report included three groups of qualitative social investment assessment criteria based on 12 indicators. The indicators chosen were selected on how accurately they capture the current level of Russian companies’ CSR development.

Group 1 – Institutional Set-up of Social Policy. This group considers:

- Existence of a company’s social policy guidelines as the normative core of social policy;
- Existence of dedicated units within a company responsible for implementing a company’s social programs as the organizational core of social policy;
- Existence of collective agreement as the normative basis of social policy.

Group 2 – Reporting System for Social Activities. The present group requires consideration of the following four items:

- Existence of annual financial reports in compliance with international standards (unification and standardization of financial information);
- Implementation of international social reporting standards;
- Evaluations and assessments on the impact and efficiency of social investments as a feedback mechanism;
- Public relations and communication strategy to provide the public with information on social programs in order to disseminate positive experiences and to enhance a company’s brand image and reputation.

The following trend has been observed recently: the increase of social investments made by the private sector is followed by improvements in how the social investment process is organized

Group 3 – Scope and Consistency of Social Investments. This group considers the following investment areas:

- HR development;
- Employees’ health and safety;
- Environmental protection and resource saving activities;
- Incorporating ethical values into business conduct;
- Local community development.

Based on the proportion of social investment flows into the areas outlined in the third group, a criterion of maximum diversity of social policy is formed to distinguish between balanced or comprehensive social policies and overly concentrated ones which emphasize one or two areas only and thus lead to distortions in the development of the overall socio-economic system.

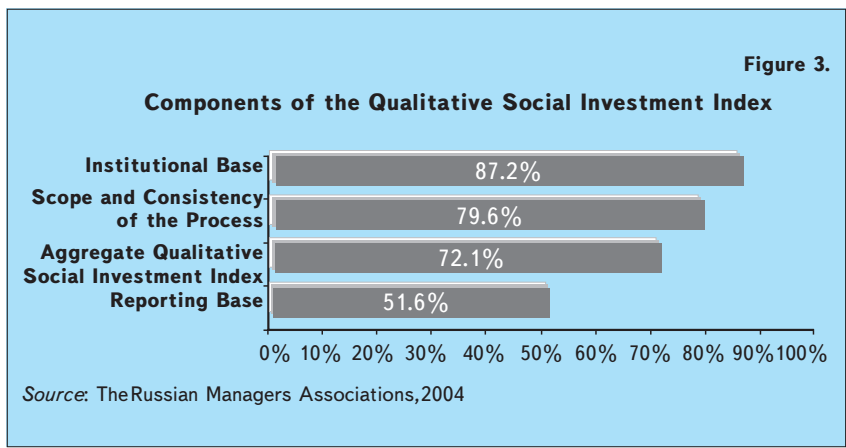
Information on the presence or absence of each of the 12 indicators is encapsulated into one single integrating indicator, a qualitative social investment index (IK) (See Appendix 1). Its value has been calculated at 72.1%. Keeping in mind that the maximum value possible for IK is 100%,

the derived figure of 72.1% implies that most Russian companies are running their social programs based on a comprehensive strategy with due attention to the operating principles of the social investment process.

Based on the quantitative indicators, it seemed there was a larger emphasis on internal social investments and that overall there was a skewed distribution in terms of allocations for various types of social investments. However, in consideration of the qualitative data, it seems that most of the companies employ comprehensive approaches towards their investments. This is important as it illustrates that the gap between the qualitative and quantitative social investment parameters for Russian companies which was initially distinctive has now been narrowed.

In order to identify which of the indicators in the initial three groups serve as the impediments towards comprehensive social investments, an aggregate qualitative social investment index has been calculated (IK(j)) (Figure 3).

This aggregate index shows a positive trend for institutional factors meaning that most companies have developed and released the principles and objectives for their social policy guidelines. It should come as no surprise that getting companies to publicly declare their social principles is the first step in building a valuable social investment system. Below the institutional indicators is the grouping that assesses how comprehensive the social investment programs are. Based on the calculations, it ranked second and instinctively, it is more difficult to ensure the comprehensiveness of a social policy, than it is to declare one. Coming in third are the indicators revealing the concluding and the most difficult part of the process, namely the companies’ capacity for accountability and reporting on their social investments.



Based on the comparison for the qualitative social investment indices (IK(j)), it can be observed that there is currently an imbalance between the declared and implemented aspects of Russian companies' social investment processes. With the private sector being institutionally prepared for social programs, their practical implementation is relatively low.

Weaknesses in the Social Investment Process

A more detailed look at each qualitative parameter reveals vulnerable points in the companies' social investment activities. The primary concern is that many companies do not maintain records or databases as to best practices in the social investment process. The low value that is arrived at for this qualitative indicator underscores a weak informational support system behind the social investment process and the lack of achievements and contributions to record.

The analysis of existing social investment practices have led to the following recommendations:

- Firstly, companies should strengthen the auditing and control mechanisms for financial funds allocated to social programs. Creating an independent data base will be useful not only to the companies, but also for the public which can then observe and follow the positive transitions that Russian companies are making in regard to social policy.
- Secondly, efforts should be made to find specific areas and mechanisms for social investments which produce the greatest social and economic impacts.
- Thirdly, it is inadvisable to diversify financial flows and commit to numerous social programs and activities. The calculations indicate that for many of the

companies, the IK(i) index component which indicates the level of comprehensiveness of social investments has a lot of weight and thus social investments are dispersed. A more rational strategy would be a concentration of resources directed to successful areas.

As a result, it can be assumed that in the next few years the value of the qualitative social investment index (IK) will increase as companies improve their statistical data and reporting mechanisms. In fact, a greater informational transparency is not out of reach for the most companies' internal tools and mechanisms, while leading Russian companies have already developed or are in the process of creating social investment management systems to facilitate the collection, analysis and disclosure of information about their accomplishments.

This research has shown that companies' social investments (internal and external social programs) have been integrated in their corporate strategies and included in daily managerial practices. Internal social programs for HR development remain the priority social investment.

At the same time, the lack of pressures, demands and clear-cut benefits for Russian companies from civil society does not provide incentives for companies' to become more transparent. The lack of formalized mechanisms of public-private sector interaction creates more difficulties on this path.

Social programs contribute to the creation of image and improvement of business reputation and, as such, are a long-term investment into a company's intangible assets. The main challenges for leading Russian companies are to find an optimal mechanism for disclosing information (e.g., social reporting in compliance with international standards) to formulate the principle objectives for their social policies and, finally, to

Social investments have now become an integral part of the corporate strategy. However, the lack of clear public demand for information on social investments prevents companies from its disclosure.

assess all risks and benefits the chosen level of transparency brings for the company, the State and the society.

Forecast of Social Investment Dynamics

Determining the priorities for social investments is dependent on numerous factors. So how do companies envisage their social investment strategies?

The Russian Managers Association also focused its research on domestic companies' anticipated scope and structure of their social investments for the following year, and revealed only 8 companies out of the 100 surveyed to expect reductions in their social investments. So, overall there was a consensus in Russian business with respect to social outreach. Furthermore, the statistical data obtained for 2003-2004 has been extrapolated and it is estimated that social investments will increase by 10%.

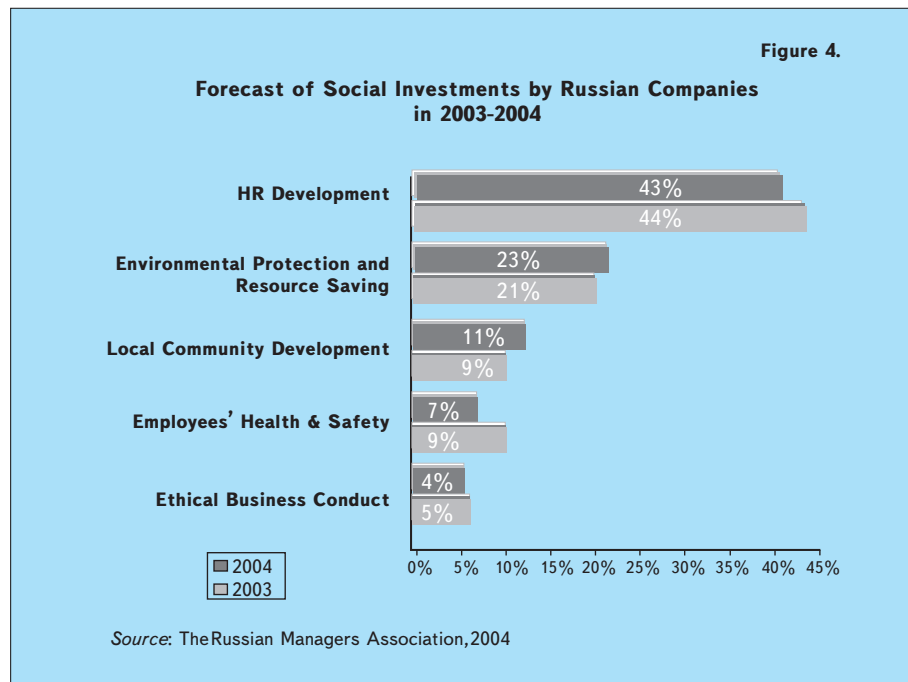
However, inflation trends need to be included in these estimated increases. If the

2004 level of inflation remains on par with 2003 rates (around 12%), it will set off the entire expected increases in financial resources allocated to social programs. According to the estimations of the Government of the Russian Federation, it will try to keep the inflation rate within 10% up to the end of the year 2004.

This means that the assumed social investment growth in 2004 is mostly directed at inflation compensation and does not lead to higher social investments. There is no reason yet to talk about anticipatory or proactive growth of social investments. However, as the Russian ruble continues to get stronger to the US dollar, the situation can lead to considerable increases within the social investment index (IL), reduced to the dollar standard. If no economic crises occur, Russian companies will probably use current social investment strategies in the future.

Another important issue is a possible change in the qualitative content of social investments (Figure 4).

While the disparity of the “internal” interests over the “external” ones is being very slightly leveled out, a shift towards the local community in the social investments is already visible



As things currently stand, “internal” interests take precedence over “external” interests and will continue to do so despite some increases in favor of “external” interests. The private sector considers HR development, health and safety as “internal” social programs, and environmental activities, ethical business conduct and local community development as “external” expenses. The 2003 ratio of internal-external factors as a percentage of total social investments was 54.2/42.7. In 2004 the expected change in the ratio value will be in favor of “external factors”: 50.7/45.2.

There are major differences in the values underpinning the private sector and society. Ethical business conduct serves for the public as a benchmark on corporate social responsibility.⁴ However, investments by companies into ethical business conduct are ranked last at 5%. Furthermore, many of the companies are anticipating decreased expenditures in this area.

There has been an increase in social investments for local community development. This means that the interest of businesses is switching from company’s staff towards the external social environment. In fact, we can now witness “centrifugal forces” behind this shift in Russian business’s social interests extending beyond the internal production activities. This is likely to become a long term trend of social investment development in Russia.

¹Russia’s Finances// Statistical collection, 2002, pp. 150-151.

²Corporate Social Responsibility// Profile, № 20, 2004, p. 93.

³The Analysis of the Institutional Activity of the Russian Companies in 2003. Center of Economic Analysis and Monitoring of the Government of the RF, www.cea.gov.ru.

⁴Corporate Social Responsibility: Public Expectations. Moscow: The Russian Managers Association, 2003, pp. 37-41.

Appendices

Appendix 1

Measurement Method of the Social Investment Index of Russian Business

Assessment Method of Quantitative Social Investment Index

The specific features of information gathering and management in the context of Russia's corporate social responsibility monitoring process requires adjustments to existing standard methods for quantitative measurements.

The research presented here uses 3 types of quantitative social investment indices:

- Specific Social Investment Index - IL, which is the value of social investments per one employee (shown in Russian Rubles). This index has the following calculation formula:

$$IL = \frac{\sum_{i=1}^n C_i}{\sum_{i=1}^n L_i}$$

where C_i stands for volume of social investments of company i (including voluntary and mandatory expenses on social programs); L_i stands for average number of employees of company i ; and n is the sample number.

If different periods need to be compared, a relevant price deflator applies to adjust IL indices; and if different countries need to be compared, exchange rates or purchasing power parity ratios apply.

- Social Investments to Gross Sales ratio - IS (shown as percentage). The calculation formula for this index is presented below:

$$IS = \left(\frac{\sum_{i=1}^n C_i}{\sum_{i=1}^n S_i} \right) 100\%$$

where S_i stands for gross sales volume of company i ;

- Social Investments to Pre-tax Income ratio - IP (shown as percentage). This index is calculated similarly to IS index.

Standard values for the three types of social investment indices do not exist, and they can take on any positive values. The higher the index value, the higher the social activity of a company.

Since a survey cannot normally rely on accuracy of financial performance indicators (volumes of social investments, income and sales volumes) of Russian companies, the assessment method is adjusted to rely on interval values, supplied by the companies as the lower and the upper limits thereof. To switch from interval values to punctual values, the method averages out the above limits. The formula of a sales volume indicator will look like this:

$$S_i = (S_i^{\min} + S_i^{\max}) / 2$$

where S_i^{\min} and S_i^{\max} is the upper and the lower limits of sales volumes of company i . Ideally, companies' actual indicators should not exceed the limits of S_i^{\min} and S_i^{\max} .

Application of this formula leads to certain inaccuracies in calculation of the social investment index. Nevertheless, at the present stage, more precise measure-

ments of this phenomenon are impossible in Russia. As companies become more transparent, the averaging procedure will become redundant and the Russian assessment method will be more in line with international disclosure and accountability standards.

Assessment Method of Qualitative Social Investment Index

As opposed to the quantitative index, that outlines the magnitude of social investments, the qualitative index considers the scope and consistency of CSR. The purpose of this index is to track the existence (or lack) of positive parameters in a company under review. There are special and general qualitative indices:

- Qualitative Social Investment Index for a single company $IK(i)$ shows the level of comprehensiveness of a company's social activity (as percentage) and is calculated the following way:

$$IK(i) = \left(\frac{1}{m} \sum_{j=1}^m X_{ij} \right) 100\%$$

where X_{ij} is a Boolean variable, which takes the value of 1, if company i has attribute j , and 0, if it does not; and m stands for the number of attributes to measure companies' social ac-

tivity. Ideally, attributes should be selected in such a way that each one of them is relevant to each company in the sample.

- Qualitative Social Investment Index for a single attribute $IK(j)$ shows to what degree this qualitative attribute inheres to the sampling of companies (as percentage), and is calculated in the following way:

$$IK(j) = \left(\frac{1}{n} \sum_{i=1}^n X_{ij} \right) 100\%$$

- Overall Qualitative Social Investment Index IK indicates the level of comprehensiveness of social activity of the sample companies (as percentage) and is calculated in the following way:

$$IK = \left(\frac{1}{nm} \sum_{i=1}^n \sum_{j=1}^m X_{ij} \right) 100\%$$

All the three types of qualitative social investment indices are normalized and their values can range from 0 to 100%. The higher the value the index has, the more comprehensive the companies' social policy is. The $IK(i)$ indices help rank companies in terms of comprehensive social investment process, while the $IK(j)$ indices, if compared, help detect the most lacking or problem attributes.

Appendix 2

List of Companies Participated in the Social Investment Index of Russian Business

N	Company	Industry	Respondent's Position	Respondent's Name	Region
1	Utair Airline	Transport	General Director	Martirosov Andrey Zarmenovich	Tyumen Region
2	AvtoVAZ	Mechanical Engineering	President, General Director	Vilchik Vitaliy Andreevich	Samara Region
3	Agro-Industrial Concern Velikiy Novgorod	Consumer Goods and Services	President	Belomestnov Vladimir Petrovich	Novgorod Region
4	Azot	Chemical Industry	General Director	Sukhanov Alexander Ivanovich	Perm Region
5	Joint Stock Financial Corporation Sistema	Inter-industry Holdings	President	Novitskiy Evgeniy Grigoryevich	Moscow
6	ALROSA	Non-ferrous Metallurgy	President	Kalitin Vladimir Tikhonovich	Yakutia
7	Altai-Koks	Ferrous Metallurgy	General Director	Mochalnikov Sergey Viktorovich	Altai Territory
8	Arkhangelsk Pulp and Paper Mill	Timber Industry	General Director	Beloglazov Vladimir Ivanovich	Arkhangelsk Region
9	Audit-Delo	Professional Services	General Director	Akulova Anna Petrovna	Irkutsk Region
10	Aeroflot – Russian Airlines	Transport	General Director	Okulov Valeriy Mikhailovich	Moscow
11	Biyskenergo	Power Industry	General Director	Mosievskiy Anatoliy Victorovich	Altai Territory
12	Bumsnab	Timber Industry	General Director	Dmitriev Alexandr Ivanovich	Nizhni Novgorod Region
13	Verkhnesaldinsk Metal Manufacturing Association	Non-ferrous Metallurgy	General Director	Tetyukhin Vladimir Valentinovich	Perm Region
14	Wimm-Bill-Dann Foods	Consumer Goods and Services	Chairman of the Board	Yakobashvili David Mikhailovich	Moscow
15	Vladivostok Commercial Sea Port	Transport	President	Robkanov Mikhail Fedorovich	Primorskiy Territory
16	Volzhszkrezingo-tekhnika	Chemical Industry	General Managing Director	Vikulov Sergey Borisovich	Vologda Region

N	Company	Industry	Respondent's Position	Respondent's Name		Region
17	Vyksunsk Metallurgical Works	Ferrous Metallurgy	Executive Director	Isaykin	Alexandr Nikolaevich	Nizhni Novgorod Region
18	VympelCom	Telecommunications	General Director	Izosimov	Alexandr Vadimovich	Moscow
19	Gavrilov – Yam Engineering Plant Agat	Mechanical Engineering	General Director	Korytov	Vladimir Nikolaevich	Yaroslavl Region
20	Gazprom	Fuel Industry	Chairman of the Managing Board	Miller	Alexey Borisovich	Moscow
21	Geoilbent	Fuel Industry	General Director	Grebenshchikov	Evgeniy Victorovich	Yamalo-Nenetskiy Autonomous District
22	MMC Norilsk Nickel	Non-ferrous Metallurgy	General Director – Chairman of the Board	Prokhorov	Mikhail Dmitrievich	Moscow
23	Hotel Ukraina	Services	General Director	Vinnichenko	Boris Zinovyevich	Moscow
24	Recruiting Group Triza Exclusive	Professional Services	President	Sedlenek	Vladislav Arturovich	Moscow
25	Zhivaya Voda	Consumer Goods and Services	General Director	Berlin	Eduard Mikhailovich	Orenburg Region
26	Electronics and Mechanics Plant “ZEiM”	Consumer Goods and Services	General Director	Lyapunov	Dmitriy Stanislavovich	Chuvashia Republic
27	Zavolzhs Motor Plant	Mechanical Engineering	General Director	Klochai	Viktor Vladimirovich	Nizhni Novgorod Region
28	Western Siberia Metallurgical Works	Ferrous Metallurgy	Managing Director	Mokrinskiy	Andrey Viktorovich	Kemerovo Region
29	Zeya Hydroelectric Power Station	Power Industry	General Director	Yemelyanenko	Boris Maximovich	Amur Region
30	Izoplit	Timber Industry	General Director	Kudinov	Evgeniy Dmitrievich	Kursk Region
31	Ilim Pulp Enterprise	Timber Industry	General Director	Kostylev	Sergey Sergeevich	St. Petersburg
32	Ingosstrakh	Financial Sector	General Director	Dubrovskaya	Tatyana Borisovna	Moscow
33	Irkutskenergo	Power Industry	General Director	Kolmogorov	Vladimir Vasilyevich	Irkutsk Region
34	KAMAZ	Mechanical Engineering	General Director	Kogogin	Sergey Anatolievich	Tatarstan
35	Kauchuk	Chemical Industry	General Director	Abdullin	Anas Nazipovich	Bashkiria
36	Kirovo-Chepetsk Chemical Plant named after B.P. Konstantinov	Chemical Industry	General Director	Machekhin	Georgiy Nikolaevich	Kirov Region

N	Company	Industry	Respondent's Position	Respondent's Name	Region	
37	Kirov Non-ferrous Metals Processing Plant	Non-ferrous Metallurgy	General Director	Darenskiy	Alexandr Ivanovich	Kirov Region
38	Magnezit Industrial Complex	Mechanical Engineering	General Director	Slobodin	Anatoliy Olegovich	Chelyabinsk Region
39	Komienergo	Power Industry	General Director	Smekalov	Mikhail Anatolievich	Komi Republic
40	Komstar	Telecommunications	General Director	Rabovskiy	Semyon Vladimirovich	Moscow
41	Udarnitsa Confectionary Plant	Consumer Goods and Services	Executive Director	Ananyeva	Tatyana Vasilyevna	Moscow
42	Krasnoyarsk Non-ferrous Metals Plant named after V.N. Gulidov	Non-ferrous Metallurgy	General Director	Tikhov	Igor Vladimirovich	Krasnoyarsk Territory
43	Kuybyshevazot	Chemical Industry	General Director	Gerasimenko	Viktor Ivanovich	Samara Region
44	LOMO	Mechanical Engineering	General Director	Kobitskiy	Arkadiy Semyonovich	St. Petersburg
45	LUKOIL	Fuel Industry	President	Alekperov	Vagit Yusupovich	Moscow
46	Magnitogorsk Metallurgical Works	Ferrous Metallurgy	General Director	Rashnikov	Victor Filippovich	Chelyabinsk Region
47	Mozhga Woodworking Enterprise Krasnaya Zvezda	Timber Industry	General Director	Abashev	Rashit Nailiyevich	Udmurtia Republic
48	Mc Donalds, Moscow	Services	General Director	Khasbulatov	Khamzat Khamidovich	Moscow
49	Saturn Research-and-Production Association	Mechanical Engineering	General Director	Lastochkin	Yuriy Vasilyevich	Yaroslavl Region
50	Nizhfarm	Chemical Industry	General Director	Mladentsev	Andrey Leonidovich	Nizhni Novgorod Region
51	Novosibirskhimfarm	Chemical Industry	General Director	Yegorov	Maxim Valeryevich	Novosibirsk Region
52	Odintsovo Confectionary Plant	Consumer Goods and Services	General Director	Fomichev	Vadim Nikolaevich	Moscow
53	Oryol Bread-Baking Plant	Consumer Goods and Services	Production Co-operative Chairman	Dmitrenko	Vasilii Ivanovich	Oryol Region
54	Pekar	Consumer Goods and Services	General Director	Seleznev	Yuriy Viktorovich	St. Petersburg

N	Company	Industry	Respondent's Position	Respondent's Name		Region
55	Pepelyaev, Goltsblat and Partners	Professional Services	General Director	Kleimenicheva	Svetlana Sergeevna	Moscow
56	Pervouralsk Pipeline Production Plant Uraltrubostal	Ferrous Metallurgy	General Director	Mori	Melik Pashaevich	Sverdlovsk Region
57	First National Pension Fund	Financial Sector	President	Plotnikov	Vitaliy Alexandrovich	Moscow
58	St. Petersburg Grinding and Milling Complex	Consumer Goods and Services	General Director	Menshikov	Andrey Anatolyevich	St. Petersburg
59	PioGlobal Asset Management	Financial Sector	General Director	Uspenskiy	Andrey Markovich	Moscow
60	Lenoblagrostroy Design and Construction Association	Construction	Chairman of the Board	Asaul	Anatoliy Nikolaevich	St. Petersburg
61	Shatura Furniture Production Association	Timber Industry	General Director	Zverev	Valentin Ivanovich	Moscow Region
62	Ramenskoe Instrument-Making Design Bureau	Mechanical Engineering	General Director	Dzhandzhgava	Givi Ivlianovich	Moscow Region
63	Rosbank	Financial Sector	Chairman of the Managing Board, Member of the Board of Directors	Popov	Alexandr Vladimirovich	Moscow
64	RosBusiness-Consulting Information Systems	Professional Services	General Director	Rovenskiy	Yuriy Alexandrovich	Moscow
65	Russian Public Systems	Services	Chairman of the Managing Board	Yashechkin	Sergey Viktorovich	Moscow
66	Russian Aluminium Management	Non-ferrous Metallurgy	General Director	Bulygin	Alexandr Stanislavovich	Moscow
67	Rufaudit	Professional Services	General Director	Ruf	Alexey Leopoldovich	Moscow
68	Saratov-oblzhlstroy	Construction	General Director	Pisnoy	Leonid Alexandrovich	Saratov Region
69	Sayanskhimplast	Chemical Industry	General Director	Kruglov	Viktor Kuzmich	Irkutsk Region
70	North Onezhsk Bauxite Mine	Non-ferrous Metallurgy	General Director	Chernov	Vladimir Valentinovich	Arkhangelsk Region
71	Seversk Pipe Production Plant	Mechanical Engineering	Managing Director	Degai	Alexey Sergeevich	Sverdlovsk Region
72	Segezha Pulp and Paper Mill	Timber Industry	General Director	Preminin	Vasilii Fyodorovich	Karelia Republic

N	Company	Industry	Respondent's Position	Respondent's Name		Region
73	Siberian Oil Company	Fuel Industry	President	Shvidler	Evgeniy Markovich	Moscow
74	Sibnefteavtomatika	Mechanical Engineering	General Director	Abramov	Genrikh Saakovich	Tyumen Region
75	Siburkhimprom	Chemical Industry	General Director	Merzlyakov	Sergey Vladimirovich	Perm Region
76	Power Machines – ZTL, LMZ, Elektrosily, Energomashexport	Mechanical Engineering	General Director	Yakovlev	Evgeniy Kirillovich	Moscow
77	Sitall	Chemical Industry	General Director	Prokopovich	Leonid Valerianovich	Smolensk Region
78	Solombalsk Pulp and Paper Mill	Timber Industry	General Director	Lvov	Nikolay Pitirimovich	Arkhangelsk Region
79	Sochi Commercial Sea Port	Transport	General Director	Stupelman	David Moiseevich	Krasnodar Territory
80	Middle Volga Interregional Association of Radiotelecommunication Systems	Telecommunications	General Director	Kiryushin	Gennadiy Vasilyevich	Samara Region
81	SUAL-Holding	Non-ferrous Metallurgy	Chairman of the Board	Vekselberg	Viktor Felixovich	Moscow
82	Tambov Plant Komsomolets named after N.S. Artyomov	Mechanical Engineering	General Director	Artyomov	Vladimir Nikolaevich	Tambov Region
83	Tatneft named after V.D. Shashin	Fuel Industry	General Director	Takhautdinov	Shafagat Fakhrazovich	Tatarstan
84	Tver Melkombinat	Consumer Goods and Services	General Director	Potapov	Sergey Stepanovich	Tver Region
85	Tver Printing Complex	Timber Industry	General Director	Yakimova	Valentina Nikolaevna	Tver Region
86	Aviatt Trade Association	Trade	General Director	Kadyrzanov	Ildar Fakhislamovich	Moscow Region
87	Tyazhmash	Mechanical Engineering	General Director	Panteleev	Vladimir Alexandrovich	Samara Region
88	VolgaTelecom, Ulyanovsk Telecommunications Subsidiary	Telecommunications	Deputy General Director – Subsidiary Director	Karyukanov	Anatoliy Sergeevich	Ulyanovsk Region
89	Avtoline-Translight Managing Company	Transport	President	Muzyrya	Nikita Igorevich	Moscow
90	ECONICA Corporation Managing Company	Trade	President	Iliopulo	Andrey Andreevich	Moscow

N	Company	Industry	Respondent's Position	Respondent's Name		Region
91	Uralmashzavod	Mechanical Engineering	General Director	Voropaev	Fyodor Anatolyevich	Sverdlovsk Region
92	Uralsvyazinform	Telecommunications	General Director	Rybakin	Vladimir Ilyich	Perm Region
93	FIA-BANK	Financial Sector	Chairman of the Managing Board	Voloshin	Alexandr Porfirievich	Samara Region
94	Centre of Business and Career Development	Professional Services	General Director	Sukhotina	Ksenia Anatolyevna	Moscow
95	Centre of Business Skills Development (CBSD)	Professional Services	President	Hopple	Dennis	Moscow
96	Central Moscow Depository	Professional Services	Chairman of the Managing Board	Agafonova	Natalia Viktorovna	Moscow
97	Teplopribor Chelyabinsk Plant	Mechanical Engineering	General Director	Zakharov	Konstantin Yuryevich	Chelyabinsk Region
98	Chitaenergo	Power Industry	General Director	Tikhonov	Sergey Borisovich	Chita Region
99	ECOLab	Chemical Industry	President	Mardanly	Seifaddin Gashimovich	Moscow Region
100	Electro-gorskmebel	Timber Industry	Chairman	Syroyezhkin	Vladimir Nikolaevich	Moscow Region

Appendix 3

Social Investments of Russian Business: Set of Showcases

A lot of work has been carried out to identify a set of Russian cases on social investments. Out of 300 submissions, 21 were selected to showcase best practices on social investments. These examples are considered by the authors as the most interesting approaches used for social investments.

These cases are provided as illustrations only and do not represent an endorsement or recommendation for either the company or the approach used. In all cases, the information was confirmed and properly verified.

The selected cases have been broken down by the kind of social investment:

- **Investments in Human Resources;**
- **Health & Safety;**
- **Resource Saving;**
- **Ethical Business Conduct;**
- **Local Community Development.**

The present materials have been collected by the Russian Managers Association (www.amr.ru), the Institute for Urban Economics (www.urbanecomomics.ru), the Agency for Social Information (www.soc-otvet.ru) and the British Charities Aid Foundation (www.cafussia.ru) and are a result of numerous studies, public events and consultations with the business community on CSR-related topics.

INVESTMENTS IN HUMAN RESOURCES

Case 1. Human Resources Development as Part of Management System (Corporate University of the Severstal Group)

The Corporate University of the Severstal Group was established in 2002. Noticeably, it is located in Cherepovets City, Vologda Region, not in Moscow.

The top-management of the Severstal Group envisions the university to promote strategic development and integrated corporate culture within the group. The university would also serve as a human resource management center, a decision-support reference for top-management and a research, informational, educational, methodical, and consulting centre for the Severstal Group. The university structure includes:

- **Corporate standards centre;**
- **“Consulting” centre;**
- **HR centre;**
- **Management development group;**
- **E-Learning centre;**
- **Knowledge management centre;**
- **Corporate and regional sociological research centre;**
- **Public relations centre;**
- **IT centre.**

Human resources development as part of management system

Supplementary retirement benefits

The university is set up as a network organization. Its operations are based on agreements with Russian and foreign academic institutes and educational organizations.

By April 2002, the concept for a corporate university had been elaborated. Currently, its potential is being proven with a number of pilot projects focusing on potential leaders identification, management development and self-development systems, seminars for top-managers, conferences for different specialists, researches and formulating PR-programs inside the Group.

For example, young talented professionals who feel capable of managing changes in the corporation are pooled to study at the corporate university subject to a pre-selection and aptitude tests. If they pass a seven-week study course, they become project managers outside their “parent” companies. Then, the young professionals get a promotion either back in their business units, or in another company of the Group. Thus, education and career are closely connected.

Case 2. Supplementary Retirement Benefits (MMC Norilsk Nickel)

Retirement programs of MMC Norilsk Nickel promote staff rotation and stimulate employees of retirement age to move for permanent residence to regions with a better climate.

At present, the Zapolyarny (Arctic) subsidiary of the company offers several retirement packages for different groups of employees with lifelong, term or lump sum retirement benefit payoffs.

Since March 1999, the Sixfold Pension program provides for 2 year additional support equal to six state paid pensions to retired employees that are relocating. Throughout 1999-2003, this program helped

7251 retirement age employees to move to Russian regions with better climate for permanent residence and settle down there.

Having achieved a sustainable financial standing and following a successful production restructuring and optimization process, the company launched a new program “Lifelong Professional Pension” in 2001, which gives, subject to certain conditions, employees an opportunity to receive as the name suggests monthly pension payments for the rest of their lives. These payments are the equivalent of two normal work pensions for an employee. From April 2001 to the end of 2003, 1288 retired workers applied to this program, and have since relocated.

In the second half of 2002, a new seniority lump-sum retirement support program was elaborated for accessory units of the company. Within the first six months, 148 pensioners made use of it when retiring or when relocating to another residence outside the industrial region of Norilsk or Taymyr autonomous district.

As the company’s economic performance stabilizes, joint mechanisms for supplementary pension payments and employees’ savings are being promoted. A new program for private pensions “Joint corporate pension” was introduced at the end of 2002 to collect contributions from both the employee and the company. In 2003 approximately 1500 qualified workers and engineers became participants in the new program.

April 2003 saw a new social program “Supplementary corporate pension” for employees who finish their careers and are about to retire. They can choose between a 5-year monthly corporate pension and a lump sum that is paid upon retirement and relocation. Three hundred and thirty-two

employees have received the company's supplementary pension under this program.

The existing pension programs address such serious social and economic problems as retirement support and staff ageing. Thanks to pension programs, nearly 10,000 retired workers of Norilsk Nickel have been able to move to the mainland for permanent residence.

Case 3. Retraining Program for Outplaced Employees (Procter & Gamble)

In 1993, Procter & Gamble won the state privatization programme tender to become a strategic investor to Novomoskovskbytkhim (NBKh). Its reconstruction in 1997 made a large number of NBKh's employees redundant.

The urban employment centre was overloaded with retraining and job applications. Furthermore, NBKh's employees were traditionally the elite of the working population of the town, and thus tended to over-value themselves and expect too much of their company which they thought to be responsible for their well-being. The attitude towards the foreign firm that had bought their company was far from positive. Under these circumstances, the company made a decision to create an employment foundation based on an Austrian model. OSB Unternehmenberatung was chosen as the agent, and psychologists were invited from Moscow to adjust the method to the Russian environment. The program was properly funded.

The outplaced employees chose on their own whether to look for a job without assistance, to go to a state employment centre or to join the corporate program. Unlike the Austrian model, participation in the program, which was named *Start*, was fee-based (all outplaced employees got a

lay-off pay equal to 2-4.5 annual salaries). This improved participants' motivation as they were mainly the ones who had 10-20 year seniority and were only qualified to work at NBKh. The project was limited in time (24 months), which gave an additional incentive for efficiency.

Following an orientation session and participation in a psychological support group, each participant worked out his/her individual professional training plan with a consultant's assistance. Signed by the participant and the Fund manager, it served as a memorandum of understanding with mutual obligations. A participant could opt for one of the following modules:

- *Active job search.* This program targeted people qualified enough to find a job quickly. The module focused on how to evaluate job announcements, application and interview techniques, resume writing, job search strategies and practical job placement.
- *Career-guidance.* This program assessed and enhanced the level of professional qualification. The participants were tested and then attended courses, based in different locations (Tver and Moscow).
- *Start-up.* This course was oriented for those who sought to launch their own businesses. Consultants helped participants develop business concepts and advance in the set-up process. The entrepreneurs were trained at the Training and Business Centre of Morozov Project in Tula for two months.
- *Spin-off.* This programme was oriented to support the spin-off of NBKh's ancillary functions such as cleaning, catering, laundries, car maintenance centre etc.

Retraining program for outplaced employees

Most participants selected *Career-guidance*.

During the two years of operation, Procter & Gamble invested nearly one million dollars in the project. The expenditures included financing of the program itself and adaptation of the method to Russian realities. According to the Austrian model, a program is considered successful when it involves at least 50% of the outplaced employees, of whom 75% find jobs and 3% start their own businesses.

In Novomoskovsk, these ratios were excelled. During 1997-1999, 1058 former employees of NBKh joined the *Start* and 83% of them found new jobs, 103 former employees (about 10% of program participants) started their own businesses, and 8 spin-offs were launched (a taxi company, garages, trade and cleaning companies).

HEALTH & SAFETY

Case 4. Corporate System of Healthcare Service (RUSAL)

RUSAL has passed through several stages in the development of its healthcare service system – from cost streamlining to planning a comprehensive health care system for occupational diseases prevention. The latter is considered a part of the labor protection and industrial safety system.

All of RUSAL's enterprises have inherited equipped polyclinics with staff of 120-140 people from their Soviet predecessors. Several years ago service quality was low and costs "dissolved" in the overall budget. The switch to a voluntary medical insurance scheme stimulated economic recovery of the company's health and safety system.

This was only the basics of a health care system for occupational diseases and

industrial injuries prevention that would foster an increase in productivity while safeguarding employees against any injuries. Further steps toward such a system were early detection and screening for occupational diseases, regular checks of the premises for compliance with safety standards, equipment upgrading, and healthy life-styles promotion. This resulted in a 51% decrease in the number of industrial accidents and a 40% decrease in related sick leaves over the following 4 years.

RUSAL plans to create a corporate medical centre that will become a foundation for implementing a comprehensive approach to employees' health care. It is planned that the Centre will function as a separate entity and will be run by an independent contractor. The company is aware that the Centre won't become a profitable business, but considers its creation advantageous from the socio-economic points of view.

Case 5. Special Comprehensive Medical Program (Joint-Stock Company Severstal)

A special comprehensive program "Severstal Health" has been running at this metal and mining works since early 2002. It uses previous long-term experience of medical and engineering teams, and "Health" commissions. At the same time, it is developing a brand new initiative of transition from a health care system that focuses on the symptoms to a more proactive and preventive one that emphasizes healthy life-styles.

An in-depth analysis of causes for various ailments and diseases was carried out in all the departments and priorities were identified. Among them: measures to prevent influenza including inoculations, temporary disability examinations, and moral and material incentives to motivate healthy life-style choices by employees. The acti-

Corporate system of healthcare service

Special comprehensive medical program

vities carried out by different sections including the medical and sanitary units, department of industrial safety, managers and trade unions of the workshops, and physical education organizations were coordinated. It resulted in 11.5% decrease in temporary disabilities caused by health problems during the first 9 months, which saved more than 11 million rubles.

RESOURCE SAVING

Case 6. Industrial and Environmental Safety as a Business Development Priority (Saratov Oil Refinery)

Joint-stock company Saratov Oil Refinery is one of the oldest enterprises in the Saratov Region. It began operations in 1934 during the first five-year plan of the country's industrialization.

The plant is situated inside the city, which makes the issue of industrial safety more pertinent. Petroleum refinery processes can be hazardous due to high temperature and pressure, and the crude oil and production outputs are flammable. That is why one of the main priorities of the strategic development of Saratov Oil Refinery by 2017 is industrial and environmental safety.

Since 2000 an advanced safety system has been introduced at the refinery, based on the recommendations of DuPont and adapted to Russian realities. It is expected that this system will improve the health and safety issues to achieve zero level injuries and eliminate incidents in production. Managers at all levels had completed courses on the advanced techniques of safety control: behavioral audits, effective incident investigations and qualitative evaluation of risks, contractors' safety control.

Impacts did not take long to follow. In July 2004 a tar visbreaking section was

constructed. This construction clearly demonstrated the benefits of the new system of safety management – there were no accidents during all the 20.5 months of construction and equipment assembly performed by numerous contractors. Even expatriate managers, that supervised the construction, noted the efficiency of production safety procedures. The contractor's organizational rating grew considerably.

As a result of cooperative efforts of all the plant's staff, safety at the Saratov Oil Refinery is not a mandate that exists on paper, but a real company priority. People's attitudes have changed dramatically, working conditions have improved, and employee involvement in ensuring safe working conditions has grown. From 2001 to 2003 the number of injuries decreased 2.5 times, and the number of incidents became 3 times lower.

Saratov Oil Refinery has already implemented an environmental management system in compliance with ISO 14001. Now waste water is purified with ultraviolet, soils contaminated by hydrocarbons are re-conditioned using bio-cultivation techniques, oil sludge is processed and utilized, and an environmental 'emergency' service, unique to the Saratov region, is up and running.

The trend to reduce detrimental impacts on the environment is entrenched in the refinery's practices. As a result, no sanctions were taken against the plant in 2003 for infractions of environment protection laws.

Case 7. Environmental and Social Impact Assessments - Sakhalin Energy

This company, whose shareholders are Shell Sakhalin Holdings B.V., Mitsui Sakhalin Holdings B.V., and Diamond Gas Sakhalin, was founded in 1994. According

Industrial and environmental safety as a business development priority

Environmental and social impact assessments

to the Product Separation Agreement (PSA), the company is implementing a step-by-step project Sakhalin-2.

The initial steps in implementing Sakhalin-2 mainly involved sea extraction; thus the priority environmental issues were connected operations on the ocean shelf (prevention of oil spills, waste management, environmental monitoring and protection).

The second step (since 2006) is to prepare the oil and gas fields for year-round extraction. Sakhalin-2 licenses extend to two fields that together have reserves worth approximately 600 million tons of oil and more than 700 billion cubic meters of gas which is equivalent to the current volume of Russia's entire annual oil exports and to the five-year volume of Russian gas exports to Europe.

Following international practices, Sakhalin Energy evaluated its effect on the environment (EIE), taking in consideration the unique and diverse ecosystem supported both on the sea shelf and the coastal zone of Sakhalin Island. To do this, Sakhalin Energy contracted an independent British environmental consulting company. Local sociologists and economists were involved as well as a group of indigenous consultants.

The evaluation covered the environmental and social implications of oil-field development. The EIE preparation process involved 52 settlements, 22 of them located for the most part in rural areas where construction will begin and where the fixed frames are being or likely to be located. Five thousand inhabitants were interviewed, the basic data were collected and the main concerns of the population were revealed. As for environmental protection, the most important issues for Sakhalin Energy include the protection of migratory grey whales, prevention of incidental oil spills, and was-

te handling. Another important factor is selecting and working with contractors that will abide by environmental standards, and ensure protection of rivers, streams and soils during construction, and that will properly manage the quarries.

The results of the evaluation were discussed at public hearings, in accordance with the laws of the Russian Federation, and then updated and presented to the Government of Sakhalin Island. A document of the proceedings was prepared and forwarded to the Federal Government.

Sakhalin Energy's decision to evaluate the situation was made in order to facilitate the integration of social conditions and public health concerns into the business planning process. In the company's opinion, this allowed the specialists involved in public service and health care to establish working contacts with the major stakeholder of Sakhalin communities and also to accumulate information that would promote interests of the local communities as well as the company during the construction period.

ETHICAL BUSINESS CONDUCT

Case 8. Corporate Social Code (Oil Company LUKOIL)

LUKOIL was the first Russian company to draft and introduce a Social Code under which the company conducts its business. The code was voted by the board of directors on December 21, 2002, and has become the cornerstone for a favorable social and political climate for business operation and serves as a point of reference for decision-making on social liabilities. The Social Code supports the corporate image of the contemporary company, has provided a framework for optimization of social costs, has increased managerial effectiveness and guides social activities within the company.

First of all, the Social Code gives corporate social guarantees to the employees and pensioners of LUKOIL and its subsidiaries. It covers such areas as socially responsible restructuring, remuneration policy, industrial safety policy, health and safety, and environmental protection. It establishes principles on housing policies, recreation and sanitation commitments and guarantees a work-life balance. It defines the terms of corporate social provisions and insurance, including medical insurance and private pensions, and also measures of social support for pensioners and the disabled. The second part of the Social Code outlines the company's commitments in social issues. It covers responsibility for development of mono-production settlements, makes provisions for measures on environmental protection, science, education, technology and innovations development, support of cultural and sport events, and the preservation of the national and cultural integrity of populations influenced by company activities.

The Social Code goes beyond setting priorities for corporate policies and determines the economic foundation for fulfilling social liabilities. It establishes principles and control procedures for social costs (including pensions) and also medical services consumption in the corporate health care system. It determines forms of participation in running social institutions, increasing the effectiveness of social services production. The basic principle is co-financing (employees' contribution in corporate social insurance, cooperative payments of the employees, members of their families and local population for use of social infrastructure and so on).

The LUKOIL's Social Code makes provisions for ethical (socially responsible) investments and relations with contractors and suppliers, which are new in the Russian experience.

Case 9. Charter of Corporate and Business Ethics (RUME)

The Charter of Corporate and Business Ethics is an example of the document establishing the most general ethical principles for a business association. It was voted by the Russian Union of Manufacturers and Entrepreneurs (Employers) and accepted by the Executive Committee Bureau and the Executive Committee of RUME on October 25, 2002. Despite the declarative and political nature of the document, its adoption has made a positive effect on the business community in general.

“We, the representatives of the Russian Federation business community, members of the Russian Union of Manufacturers and Entrepreneurs (Employers):

- Assuming that a jural society and market economy could not be founded without establishing a sustainable system of corporate relations, based on equality of rights and fair competition;
- Being aware of our responsibility and role in Russian market reforms and supporting country-wide priorities and the interests of society;
- Accepting the generally acknowledged ethical rules and principles in our deeds and decisions;

Voluntarily undertake the obligation to commit to the following norms of corporate ethics in our business activities:

1. To conduct business on the principles of respect, fairness and honesty in relations with our partners and competitors;
2. To promote strengthening the institutional foundations of the property rights, and never take actions to undermine their principles;

Charter of Corporate and business ethics

Social and economic partnership agreements between a company and municipalities

3. To commit to the true purport of the law, avoid application of different interpretations inconsistent with the spirit of the law, and never take advantage of insight to achieve goals incompatible with the norms of corporate ethics;

4. To abstain from actions directed at increasing societal tensions;

5. Never interfere with or influence by illegal means the decisions of judicial bodies, law machinery or other official bodies in order to achieve our own corporate goals;

6. To treat our competitors with respect, never use illegal forms of competition but only remedies consistent with the corporate ethics;

7. To protect our business reputations and uphold the reputation of the Russian business community, avoid participation in distribution of knowingly false and unverified information directly or through third parties;

8. In case of a conflict of interests, to seek resolution through negotiations, and extrajudicial arbitration, as provided by the Commission of RUME for Corporate Ethics. To respect the decisions of the Commission of RUME for Corporate Ethics.”

LOCAL COMMUNITY DEVELOPMENT

Case 10. Social and Economic Partnership Agreements between a Company and Municipalities (SUAL Group)

A social partnership contract was signed on February 14, 2001 in the town of Kamensk-Uralskiy, Sverdlovsk Region. The partners are the Managing Company of the SUAL Group and the municipalities where SUAL enterprises are located. By

now, the contract covers 20 enterprises of SUAL Group and 13 municipalities across 9 Russian regions.

A Steering Committee and a taskforce were established to provide overall guidance and coordination to the implementation of the contract. They comprise of municipal heads, representatives from different divisions of the aluminum holding, and their deputies. The Steering Committee is co-chaired by the head of Kamensk-Uralskiy and the head of the SUAL Group.

The Steering Committee is responsible for implementing policy that preserves and promotes the positive development of both the enterprises of the SUAL Group and the communities where they operate. The Committee also designs and oversees implementation of social and economic development programs in those communities, including hiring locally, and development and utilization of the competitive advantages of the communities. Other programs include environmental protection and safety, addressing employees and citizens’ concerns, youth oriented health and recreation, and providing job opportunities and part-time employment for teenagers and students.

An earlier outcome of the contract was the decision to create a private pension fund. The Steering Committee has been discussing the reforms to be undertaken at the national level, thus giving the municipal governments ample information and time to prepare themselves in advance and to minimize the risks, particularly when it comes to the local government reform. Ad-hoc training seminars focused on municipal budgets restructuring are being held on a regular basis.

Case 11. Regional Entrepreneurial and Socio-economic Development Programs (Joint Stock Oil Company YUKOS, Eurasia Foundation)

A 15-month program was implemented in 2002-2003 in regions where YUKOS operates. These regions are: Tomsk Region (Strezhevoy), Krasnoyarsk Territory (Achinsk), Irkutsk Region (Angarsk), Khanty-Mansiysk Autonomous District (Nefteyugansk, Pyt'-Yakh and the Nefteyugansk District), and the Evenki Autonomous District. These regions have narrow economic configurations and there is little or no support provided to small businesses, such as staff training for small and medium enterprises (SMEs), provision of educational, consulting and information services and access to financial and lending resources.

The program was aimed at creating favorable conditions for entrepreneurship and to increase the number and effectiveness of small businesses. Its approach towards small business development integrated legislative, financial, organizational, informational and consulting support.

Under the program, two studies and a project were tendered: (i) Study of the current state and the prospects of small business development; (ii) Study of the current state and the prospects of the development of lending programs for small businesses, and (iii) Development of infrastructure for small business support and improvement of entrepreneurial skills in the target regions.

At the first stage, threats and opportunities for the development of small business were evaluated in the target municipalities, with a focus on micro-lending accessibility. Then, coaching and consulting groups for small businesses were set up and development strategies for SMEs support infrastructure and business skills of exist-

ing and potential entrepreneurs were elaborated. The process was crowned with awarding the grants for the creation of Business Development Centers and improvement of the business climate in the target regions.

Sixty-seven organizations took part in the program; 21 projects were awarded the grants. Two Business Development Centers and 2 Business-libraries were launched; more than 10 individual and 2 small enterprises were registered in the town of Strezhevoy. Five hundred entrepreneurs were trained. The number of jobs created in the small enterprises increased by 30-35 units. The program ensured an increase in efficiency of small business micro-lending, provided with contributions of YUKOS small business support funds in Tomsk and the Evenki Autonomous District. In Nefteyugansk, new micro-lending schemes for small businesses were introduced.

YUKOS allocated 1 million dollars for the program, and the Eurasia Foundation granted over 100 000 dollars to administer the program.

Case 12. Public Utilities and Public Service Reforms Facilitation (MMC Norilsk Nickel, United Municipality of the City of Norilsk, the Institute for Urban Economics)

JSC MMC Norilsk Nickel provided financing to a number of large scale social programs in Norilsk (education, health care and other social services, support to diverse population groups, public organizations, and other regional charity programs). In 2002-2003 MMC Norilsk Nickel assisted the local administration in increasing the effectiveness of local budget allocations on public utilities, education and health care, quite a challenge over the Polar Circle. Experts invited by the company and

Regional entrepreneurial and socio-economic development programs

Public utilities and public service reforms facilitation

Local government reform facilitation and formulation of a program of comprehensive regional social and economic development

the local administration analyzed the volume of services and allocations, and elaborated standards for the costs of educational and medical services in Norilsk, taking into consideration specific regional characteristics.

Proposals were put forward to improve transparency of, and control over, the financing of municipal housing maintenance. Proposals also included a system of economic incentives to increase the quality of public services and to root out inefficiencies in the public utility organizations. Certain remedies were also recommended as to organization of a management system for municipal housing, based on efficient function sharing among the owners (including the city administration), the managing company and housing organizations. Effective as well as financially sound strategies to support educational and health care institutions were elaborated, underpinned by the relevant normative and methodical materials.

This has created more favorable conditions for the company's social investments and contributed to sustainable social development in the region.

Case 13. Educational Programs for Efficient Budgetary Allocations (LUKOIL-PERM, Municipal Governments of the Perm Region)

The company identifies three areas for improvement in the budgeting process: insufficient budget design skills, e.g. planning and budgetary allocation mechanisms; ineffective budgetary allocation structure for the public service needs; insufficient standard budget provisions to cover the range of social issues in the region. LUKOIL strives to ensure that the money it pays in taxes contributes to social progress, thus benefiting both the business and the regional Government.

To achieve these objectives, the company has implemented a series of activities under the heading "Effective planning for financial allocations", aimed at the professional development of state and municipal employees in the Perm region. In 2002, a series of seminars were hosted. Two seminars were held for delegates of municipal Dumas and assemblies, a seminar for the heads of rural administrations and a seminar and a workshop for heads of cultural and public service departments. As a result, 392 representatives of state and municipal institutions from 37 districts of the Perm Region completed the training program. In 2003, this practice was extended.

LUKOIL-PERM's priority in funding initiatives targeted at local authorities is to foster innovative management approaches in the public service sector. The company helped organize and hold a seminar in the town of Cherdyn on the implementation mechanisms for social assistance. The suggestion was to develop a one-stop shop for social services. This principle has the benefit of decreasing administrative spending on public services for the population by streamlining the process, and at the same time providing easy access to public services. The company is interested in further promoting this project, as it is important to introduce new approaches and methods that make more effective use of budgetary funds that are continuously diminishing.

Case 14. Local Government Reform Facilitation and Formulation of a Program of Comprehensive Regional Social and Economic Development up to 2010 (SUAL Group, United States Agency for International Development)

The program "Local government reform facilitation and formulation of comprehensive regional social and economic development program up to 2010" is aimed at

identifying internal sources of growth and the current “market potential” of municipal economies, promoting effectiveness of budget services (in terms of costs to outcomes ratio), stimulating public initiatives, and establishing a feedback system between municipal governments and local communities (groups of small entrepreneurs, youth leaders and so on). New federal laws, effective from 2006, will largely change the regional and financial grounds of local governments, and there will be a large number of new municipal units. Accordingly, one of the program’s purposes is to help regions and municipal governments prepare for, and implement, reforms, develop the legislative base, and create a system of inter-budget relations.

The three-year program started in early 2004 with a study named *Citizens evaluates local government* (Institute for Urban Economics, CIRCON Group). This study examined the level of quality of municipal services and came up with an integral index of public satisfaction. At present this program is being implemented in three differing municipal governments (City of Kamensk-Uralskiy, Sverdlovsk Region, 250,000 citizens; City of Shelekhov, Irkutsk Region, 50,000 citizens; Nadvoitsy settlement, Republic of Karelia, 9,500 citizens). The experience of these municipalities will be translated to other communities where SUAL enterprises operate.

This is an international program, which is implemented on the basis of a memorandum of understanding between the SUAL Group and USAID. As such, it gives access to international best practices.

Case 15. Revival of Folk Crafts and Peasant Communities in the Regions of Company Operations (LUKOIL-PERM)

LUKOIL-PERM has been supporting the development of traditional handicrafts

in the Perm Region since 2002. Initially, this activity was considered by the company as a cultural program, but then the focus shifted to the production of hand-made items as a small business development. The company organized a contest and provided grants for renewing folk crafts. A crafts school for peasant children in the settlement of Belaya Pashnya was among the first projects to win. It was a rather slow process, but new jobs were created in the regions, and skills for cooperage, weaving and basketry were revived. The next step was to bring the handicrafts articles to market, and the company organized a craft stand at the fair “Tillage. Farm. Garden. Vegetable Garden.” Such fairs became known as “oil fairs” ever since; now 20 regions instead of 10 take part in them, and the turnover has tripled.

Today the key focus of the program is the development of peasant communities. Supplying Perm citizens’ with high quality traditional medications at moderate prices, they increase employment in the regions with depressed agriculture. The company monitors project implementation and provides support when needed. For example, in order to speed up certification of peasant communities’ products, LUKOIL-PERM’s PR department secured cooperation of applicable authorities (the Department of Agricultural Complex and Food, Federal Certification Centre, Centre of State Sanitary Inspection for the Perm Region and the State Trade Inspection). To stimulate sales, a round-table discussion was organized with representatives of the largest trade networks in the region: Semya, Pyatyorchka, Vivat, Luna.

LUKOIL-PERM small business development program mainly targets small independent enterprises and entrepreneurs that operate in the districts of the Perm Region outside the main city and therefore

Revival of folk crafts and peasant communities in the regions of company operations

have a poorer access to investments. They do not have enough legal knowledge and marketing skills to study the consumer market and promote their goods. That is why the company not only provides initial funding, but also helps to enhance skills and start sales.

The three-year experience of corporate tenders for crafts support projects has shown that any business should be equally committed to ensuring product quality, appropriate technologies, qualified managers and skilled staff.

Case 16. Individual Scholarship Program (Sistema Joint Stock Financial Corporation)

Sistema's individual scholarship program has been in place for five years. Its purpose is to create a pool of talents – outstanding young people who will start to prepare for work in the company while completing their studies. Besides the scholarship (1500 rubles per month), all program participants are secured with the employment opportunities. Usually students make their final papers and graduate thesis on a topic agreed with the future employer.

Program participants sign an agreement committing them for at least a three years working period for the company. However, according to the company representatives, it is understandable that the circumstances may change in the future, and they do not impose any sanctions. The selection criteria are either a recommendation by Sistema's enterprises where students are already employed as interns or part-timers or a recommendation from the college. The closest partner college is N.E. Bauman Moscow State Technical University.

Mr. Maxim Chernin can be considered a typical program graduate, who received the scholarship by recommendation of

ROSNO insurance company while completing his graduate degree. By that time Maxim had been an intern and then got to work in the marketing research department of the insurance company. Currently, he is a deputy director of ROSNO's strategic development department.

As of the 1 January 2004, 80 students and post-graduate students received company's scholarships, of which 58 have completed their degrees and are working in different enterprises of the corporation.

Case 17. Scholarship Programs (V. Potanin Charity Foundation)

The Vladimir Potanin Foundation started its operations in 1999 with the disbursement of 160 scholarships to the graduate high-school students in Norilsk. Today the Foundation has 4 scholarship programs: Federal, "Northern", for Winners of International Tournaments, and for Cadets.

The most comprehensive is the Federal Scholarship Program. It helps students with career orientation, and expands their career opportunities. Scholarships are awarded in accordance with the results of the multistage tournaments. To qualify for the tournament a student should demonstrate a straight 'A' performance over the last two semesters. The selection identifies managerial abilities, innovative capabilities, and creative thinking skills of the candidates.

The Foundation pursues to support candidates who have excellent team building and problem solving skills. That is why the selection process takes the form of a business game.

In the 2003/04 academic year, 67 Russian universities took part in the scholarship program, and 1330 students became Foundation scholars and received a month-

Individual scholarship program

Scholarship programs

ly scholarship of 1500 rubles for a year period. Over the five years, the Foundation has granted over 9,000 scholarships and grants to post-graduate students and young teachers.

Case 18. Support to the National Arts (Alfa Bank)

Alfa Bank has a clear philanthropic strategy and supports those activities which it believes are in line with its clients interests. The philanthropic strategy is renewed once in three years, but the general concept does not change much and remains to be sponsorship based provisions for cultural events including support to Russian and foreign performers.

The bank participates in large scale projects aimed at the development of Russian culture, preservation of artistic and historic values and memorials. Alfa Bank is a member of the Trustees Board of the Bolshoi Theatre. With financial support from the Bank, the Mariinsky Theatre and the Russian Imperial Ballet of Gediminas Taranda are able to go on tour in various Russian regions. Proceeds from these tours are donated to address social issues in the tour cities. Moreover, the head office initiatives are now being duplicated in other regions where Alfa Bank has a presence. The opening of its Omsk branch was celebrated by hosting a concert with the Mariinsky Theatre troupe. Today the Omsk branch is the general sponsor for the Omsk Drama Theatre and is a permanent partner of the Omsk Artists Union Section. Alfa Bank also supports foreign tours of Russian artists in London, Amsterdam and New York.

Case 19. Children Care Grants Program (ROSBANK, UNICEF, CAF-Russia)

The Program “New Day” is a pioneer corporate grant program and represents a

Russia-wide open grants contest for socially oriented programs. Its aim is to help children (disabled, orphans, “troubled” teenagers) through art and sports. The grant program is funded by ROSBANK and UNICEF. The overall budget for the program since its inception has amounted \$4,655,000 US.

Over four years, 172 projects have been supported. These projects introduced art as a part of rehabilitation programs for disabled children, troubled youth, and as therapy for children who have experienced stress, violence or family abuse. Programs for talented children, sports rehabilitation for disabled children and sport clubs for troubled teenagers have also been supported by the bank.

The project proposals are evaluated by the independent experts on a competitive basis. Decisions for awarding the grants are made by the expert council which consists of leading specialists in social pedagogy, psychology and rehabilitation for disabled persons, representatives of the bank, UNICEF and the mass media.

Case 20. Municipal Social Infrastructure Development Projects Tender (YUKOS Oil Company)

In 2003 YUKOS decided to raise the quality and effectiveness of social investments by distributing up to 80% of funds to be allocated to support social infrastructure in the regions of operation on a competitive basis. The call for proposals was launched in the Samara Region where a series of projects were developed and presented by districts’ administrations. One of the eligibility criteria was co-financing of the project, with at least 25% of the needed funds to be raised by the municipal budget, regional programs, small businesses, volunteers

Support to the national arts

Children care grants program

Municipal social infrastructure development projects tender

Non-Profit Projects Foundation

(traditional Saturday public service and so on) or other sources.

Twenty three local administrations were invited to submit proposals. A four-day seminar focusing on best practices of municipal economy management was organized and municipal employees were able to learn advanced techniques for the effective design and implementation of social infrastructure development projects. An individual consultant worked with each seminar participant to assess and discuss project ideas. Fifty-seven thoroughly completed applications from 21 administrations of the Samara Region were brought to the contest.

Projects were selected using special software to evaluate their effectiveness and applicability. The company took a decision based on the expert ranking of the applications.

Ten projects were chosen and awarded funding for construction, upgrading, renewal, maintenance, and equipment of social infrastructure units. These included municipal public services (education, health care, culture, sport, social support and so on), public utilities (power, heating, gas and water supply), public transport, municipal economy management, and social services in general. The maximum grant amount was 10 million rubles and the total fund of the contest amounted to 65 million. All projects were successfully completed.

The winner projects were: water supply systems renovation in three settlements of the Samara Region and the town of Novokuybyshevsk; construction of mini-boilers in more than 10 settlements as well as

refurbished heat supply systems for schools, clubs and kindergartens; renovation and equipment of two schools; a new bus route in the town of Zhigulyovsk. Moreover, 46 municipal employees from 23 municipal units have completed the studies of modern models of municipal management.

Case 21. Non-Profit Projects Foundation (Dynasty Foundation)

The Dynasty Foundation was set-up by Dmitriy Zimin, honorary president of the VypelCom joint-stock company, one of the leading operators of cellular communications in Russia.

The Foundation's priorities, as it is typical for private and family foundations, are defined mostly by its founder. The foundation primarily supports scientific research in theoretical physics. The foundation grants scholarships and supports post-graduate students. It facilitates new postings for talented young scientists with leading scientific research centers. The foundation also supports endeavors to make science more accessible and attractive to high-school students as well as to preserve and enhance the prestige of Russian scientific centers.

Thanks to the foundation, dozens of young scientists, post-graduate students and students who have won tournaments, received better opportunities to continue their research and education in Russia. The foundation has a number of different programs, including a project "Children of Russia", which supports public service for homeless and neglected children and families in three Moscow districts.

Appendix 4

International CSR-related Standards

Standards are intended to provide robustness and consistency to a particular area of performance based on emerging expectations and consensus among practitioners and society at large. In order to understand the effectiveness of the current corporate responsibility standards in helping companies measure, manage, and report their economic impact, it is necessary to review them in terms of their functionality.

It is crucial to understand how standards are applied in real practice and what functional areas they cover. The table “Geographic, Sector and Business Process Scope” provides a list of the most commonly used CSR standards according to their geographic coverage, the capability of being used by different companies, and their sectoral and business scope.

Standards also can be catalogued by their function, or the degree to which they:

- Achieve a link in tying business and sustainability performance (e.g., DJSGI, FTSE4Good);
- Are enablers for businesses to enhance their internal processes for corporate responsibility-related activities (e.g., BBC, AA1000S, EFQM);
- Provide an end point or disclosure frameworks (e.g., GRI);

- Create visibility signals that establish credibility with user groups through certification or verification (e.g., AA1000S, FSC, SA8000).

For example, the GRI is an “end point” solution. The end point in this case is the process of identifying areas of corporate responsibility and then accounting for sustainability performance.

Another way to use standards is to recognize which ones enable organizational learning. A few corporate responsibility standards seek to provide principles for establishing systems for organizational accountability. For example, AA1000S has stakeholder engagement as its fundamental basis; it argues that this is the essential platform for demonstrating all facets of corporate responsibility, including environment stewardship. Rather than establishing prescriptive rules, this standard empowers people in organizations to understand why businesses should be accountable and how an organization can maintain a corporate responsibility initiative.

Most CSR standards are aimed at measuring, managing and reporting at the corporate level. Despite a huge number and diversity of CSR-related standards, a balanced combination of applied standards creates important synergies for a company.

This list of CSR standards is by no means exhaustive. It is an illustration of the various types of standards which now exist.

Full name of standard	Abbreviation	Further information
AccountAbility 1000 Series	AA1000S	www.accountability.org.uk
APEC Code of Business Conduct	APEC	www.apec.org
Amnesty International's Human Rights Guidelines for Companies	Amnesty	www.amnesty.org.uk/business/pubs/hrgc.html
Agence de Rating Social et Environmental sur les Entreprises	ASPI	www.aresa-sa.com
Balanced Business Scorecard	BBS	www.balancedscorecard.org
Caux Principles for Business	Caux	www.cauxroundtable.org
Dow Jones Sustainability Group Index	DJSGI	www.sustainability-index.com
EFQM Business Excellence Model	EFQM	www.efqm.org
ECCR/ICCR Benchmarks for Global Corporate Responsibility	ECCR/ICCR	www.web.net/~tccr/benchmarks/
Eco-Management and Audit Scheme	EMAS	www.europa.eu.int/comm/environment/emas
Ethical Trading Initiative Base Code	ETI	www.ethicaltrade.org
EU Eco-label criteria	Eco-label	www.europa.eu.int/comm/environment/ecolabel
Forest Stewardship Council's Principles and Criteria for Forest Management	FSC	www.fscoax.org
FTSE4Good Selection Criteria	FTSE4Good	www.ftse4good.com
Global Reporting Initiative Guidelines	GRI	www.globalreporting.org
IFOAM Basic Standards	IFOAM	www.ifoam.org

Full name of standard	Abbreviation	Further information
International Organization for ISO9000/14001 Standardization	ISO9000 & 14001	www.iso.ch
Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises	OECD	www.oecd.org/daf/investment/guidelines/
Social Accountability 8000	SA8000	www.sai.org
SIGMA Guidelines	SIGMA	www.projectsigma.com
Global Sullivan Principles	Sullivan	www.revleonsullivan.com
The Natural Step	TNS	www.thenaturalstep.org
UN Global Compact	UN GC	www.unglobalcompact.org
WHO/UNICEF International Code on Marketing of Breastmilk Substitutes	WHO / UNICEF	www.who.int/nut/documents/code_english.PDF

Geographic, Sector and Business Process Scope

Standard	Companies Eligible		Scope			
	Companies covered	Sectors covered	Stakeholder focus	Business function	Operations coverage	Main areas take up so far
GUIDELINES AND CODES OF CONDUCT						
Amnesty International's Human Rights Guidelines for Companies	Global	All	Local communities, staff	Personnel, security	Global	NI
APEC Code of Business Conduct	Global	All	Broad	All	Global	Asia-Pacific
Balanced Business Scorecard	Global	All	Shareholders, customers, and employees	All	Global	UK and USA
Caux Principles for Business	Global	All	Broad	All	Global	n/a

Standard	Companies Eligible		Scope			
	Companies covered	Sectors covered	Stakeholder focus	Business function	Operations coverage	Main areas take up so far
ECCR/ICCR	Global	All	Communities, employees, customers, suppliers and contractors, governance and the environment	All	Global	n/a
ETI	Companies selling to UK markets	Manufacturing	Staff in supply chains	Sourcing	Global supply chains	UK clothing for retailers
Global Sullivan Principles	Global (includes nonprofits and public bodies)	All	Staff, local communities	Employment, community investment	Global	US organisations
OECD Guidelines for Multinational Enterprises	OECD based multinationals companies	All	Broad	All	Global	n/a
The Natural Step	Global	All	Broad	All	Global	NI

Standard	Companies Eligible		Scope			
	Companies covered	Sectors covered	Stakeholder focus	Business function	Operations coverage	Main areas take up so far
UN Global Compact	Global	All	Broad	All	Global	NI
WHO/UNICEF International Code on marketing of Breastmilk Substitutes	Global	Food, Healthcare	Consumers	Marketing	Global	n/a
MANAGEMENT SYSTEMS AND CERTIFICATION SCHEMES						
EFQM	European (includes nonprofits and public bodies)	All	Employees, customers, shareholders	All	Global	Europe
EMAS	European (includes nonprofits and public bodies)	Industrial focus	n/a	Manufacturing	Global	NI
EU Eco-label criteria	Companies selling to European markets	Limited range of consumer products	n/a	Product, design, manufacture and disposal	Product-based	NI

Standard	Companies Eligible		Scope			
	Companies covered	Sectors covered	Stakeholder focus	Business function	Operations coverage	Main areas take up so far
Forest Stewardship Council's Principles and Criteria for Forest Management	Global	Forestry and wood products	Local communities, staff and the environment	Forest management	Product-based	NI
ISO 9000	Global (includes nonprofits and public bodies)	All	Suppliers	Environmental management	Global	UK, South-East Asia, Australia
ISO 14001	Global (includes nonprofits and public bodies)	All	Customers, staff and suppliers	Quality	Global	UK, South-East Asia, Australia
SA 8000	Global	Manufacturing	Staff	Employment	Site based	Clothing and toy manufacturing in China
SIGMA	UK	All	Broad	Employment	Site based	n/a (piloting)

Standard	Companies Eligible		Scope			
	Companies covered	Sectors covered	Stakeholder focus	Business function	Operations coverage	Main areas take up so far
RATING INDICES						
Agency de Rating Social et Environnemental sur les Entreprises (ASPI)	European quoted companies	All	Community, customers, suppliers and employees	All	Global	n/a
Dow Jones Sustainability Group Index (DJSGI)	Dow Jones quoted companies	All – with some exclusions	Staff in supply chain, local communities	All	Global	n/a
FTSE4Good	FTSE rated companies	All – with some exclusions	Staff in supply chain, local communities	All	Global	n/a
Domini 400 Social Index	World leading stock markets quoted companies	All – with some exclusions	Staff in supply chain, local communities	All	Global	n/a

Standard	Companies Eligible		Scope			
	Companies covered	Sectors covered	Stakeholder focus	Business function	Operations coverage	Main areas take up so far
REPORTING SYSTEMS						
AA 1000S	Global (includes nonprofits and public bodies)	All	Broad	Stakeholder engagement, risk and governance assurance	Global	n/a
Global Reporting Initiative Guidelines (GRI)	Global	All	Broad	Reporting	Global	n/a

Source. Accountability and Business for Social Responsibility with Brody Weiser Burns. Business and Economic Development – The Impact of Corporate Responsibility Standards and Practices, Report, June, 2003.

REPORT ON SOCIAL INVESTMENTS IN RUSSIA

Role of Business in Social Development



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