

## DEVELOPMENT OF CORPORATE SOCIAL RESPONSIBILITY IN RUSSIA

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### ABSTRACT

In the modern world the reputation of the company is more and more influenced by its social position. As a result of a longstanding and sustained process of western government capitalist development, a complicated and balanced system of regulating mutual relations between private enterprise, authority, society in the sphere of socioeconomic development of countries and separate territories was formed.

Nowadays in different countries business participation in solving social problems is either regulated hard by the commercial, taxation, labour, environmental legislation or independently under the influence of determined motivations and benefits. In Russia this process is under way in the conditions of dominating governmental positions, weak civil society institutions and oligarchic business development.

Social changes in the society are successful only when most important powers are involved. The cooperation of political, social and economic subjects, based on the principles of social partnership, contributes to the steady development of the country. The increasing significance of non-financial development factors (social stability, environmental safety) actualize practical and theoretical aspects of social responsibility.

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## RESUMÉ

Dans le monde moderne la réputation de l'entreprise est de plus en plus sous l'influence de sa position sociale. Comme conséquence d'un processus de beaucoup d'années et soutenu d'un développement occidental capitaliste de gouvernement, un système compliqué et équilibré, de régler des relations mutuelles entre l'entreprise privée, l'autorité, la société dans la sphère de développement socio-économique de pays et de territoires séparés a été formée.

De nos jours dans la participation de différente affaire de pays dans la solution de problèmes sociaux il est ou réglé tout près le commercial, des impôts, la législation de travail, environnementale ou par séparé sous l'influence de motivations décidées et d'avantages. En Russie ce processus est dans une marche dans les conditions de dominer des positions gouvernementales, de faibles institutions civiles de société et le développement commercial oligarchique.

Des changements sociaux de la société sont seulement atteints quand les pouvoirs les plus importants sont impliqués. La coopération des hommes politiques, sociale et économique il fixe, basé sur les principes de société sociale, contribue au développement stable du pays. L'importance croissante de facteurs non financiers de développement (la stabilité sociale, la sécurité environnementale) actualise les aspects pratiques et théoriques de responsabilité sociale.



**KEY WORDS:** Government, development, authority, system, relations.

**MOST-CLÈS:** Un gouvernement, un développement, une autorité, système, des relations

## DEVELOPMENT

The principal difference of modern social policy is that business has access to the sphere traditionally belonged to the government. However, the evolution of corporate social responsibility of economically successful countries showed that business can work efficiently in this sphere of responsibility only in cooperation with society and government. Such a “cooperation” can be possible only when all three participants are focused on mutual work, divide their functions and set up techniques for working in marketing conditions on the basis of mutual benefit for the population of the country.

The importance of corporate management protecting the achievement of social, economical and environmental company targets is growing in the process of socially responsible policy realization. Science-based solution to governmental challenges enables to secure favourable social psychological environment in the company, to influence the development of relations with stakeholders, to prevent the social strain in time, in line with principles of economic efficiency.

Also social responsibility appears in meeting obligations, undertaken on the level of functional units of the company, especially corporate management. Working out the social policy, social programs, measures of efficiency should meet the norms and principles of the legislation. One of the methods to form objective information about the social efficiency of the company is assessing the management of non-financial risks, i.e. social risks. Also it is up-to-date to develop special approaches to assess management in the conditions of socially responsible policy. Efficiency assessment of management affects the position of the company on financial markets, non-confrontational existence of society, steady growth.

More and more companies in the world are introducing the term “social responsibility”. Different aspects of the modern business world affect this process: demands concerning the protection of environment that are getting more and more stringent, running rush for new technologies, increasing competition in the world and the internal market, public opinion that is gaining momentum and so on and so forth.

In general, corporate social responsibility can be determined as an achievement of corporate commercial success including observation of ethical values, respect for people and environment, attention to social expectations. In addition, one of the most important terms is the practice of making the balanced decisions following the optimized securing interests of all parties.

Social responsibility differs from legal responsibility and it is considered as a voluntary corporation response to the social problems of its employees, inhabitants of the city, of the region, of the country, of the world.

Social responsibility is a comprehensive term including such problems as environment, social equity, equality. It is introduced, that corporations are obliged to show the responsibility in three spheres – finance, the influence of their activities on society and environment, environmental impact.

Also nowadays the term “corporate responsibility to the society” is widely used. It is defined as the behavior philosophy and the theory of forming of their activity by commercial companies, separate corporations. This term involves the next directions of activity:

- Manufacturing well-qualified goods and service for consumers;
- Forming interesting positions, paying officially shown salary, investment expenditures in developing of human potential;



- Compliance with the requirements: tax compliance, environmental legislation, labour legislation and etc.
- Doing business efficiently and focusing on the forming of economic value added and on the growing of shareholders welfare;
- Taking into account expectations and generally accepted code of ethics in doing business;
- Taking part in the formation of civil society using collaboration programs and projects for local community development.

In this comprehensive term it can be possible to see the fact that the most determined spheres of business activity contain the economy of entrepreneurial business, ethical norms and rules of doing business. In this definition the social component is shown in investment expenditures in developing the human potential, taking part in the formation of civil society is shown in collaboration programs and projects for local community development.

Evaluating the company activity, the society considers not only its operating and financial statements but the manner of the company doing business, if it takes care of the employees, how much its activity follows the interests of other participants on the market, of the inhabitants of the area where the company is working and also of the society as a whole. The society prefers the companies that can warrant the quality and transparency of business, when the companies take care of the society.

Therefore the most social expenditures are considered as investment in fictitious assets and tend to correspond to the highest standards in the spheres that are valued strictly by community. That's why the business will tend to invest more and more in the spheres that can improve its basic activity expressly or implicitly.

Socially-ethical policy of business is, first of all, best value for money and the purpose of its value

is to get profit, whether they are the safety of the business, competent personnel, support of electorate.

In practice, social programs influence directly the capitalization of companies. Socially-ethical business doing leads to increasing of investment prospects of businesses and as a result it makes free of the capital and also it is getting the most important competitive advantage. There is a fact to prove that from one year to the next companies are not only racking up the social investments, but giving more and more attention to information disclosure about this side of business doing.

In annual reports of leading corporations the section about corporate responsibility is not less important than the section about working activity. Russian companies leading in making decisions of social problems have the quota of expenses for these aims which is fixed in the annual budget. On the average it is about 1-1.5% of profit. Such companies as Shell or British Petroleum allocate to social programs about 10% of their profit. The readiness to carry out large-scale social projects was demonstrated by such companies as "Lukoil" (this company spent 170 million dollars to solve environmental problems), Wimm-Bill-Dann (this company invested 2 million dollars in working out of the medical product against AIDS). These costs are warranted, they have economical (the profit of the company and improvement of the quality of society life) and political advantages.

In the world practice the term socially-ethical business is identified with efficient business. The influence of business ethics on the efficiency of company activity and society in whole is certain and evident. However the rating of this influence has substantial difficulties. Very often the development of socially responsible business is impossible because entrepreneurs do not realize what particular things it can bring to their business and in what period of time. It is hard to see the result of socially responsible activities immediately, because it can take years, then there



can be some kind of breakthrough when the attitude to the company can be changed – it is getting to be recognized as the structure that can solve the problems of society.

How efficiently to invest in such projects is a relevant question for many heads of businesses nowadays. Making decisions within the framework of socially responsible policy, companies have to weigh up a great number of investment types.

In Russia nowadays charities are largely targeted to solution of minor problems, without resulting in a multiplication effect for society's development.

For companies concerned, above all, about their image, this does not have much significance. On the contrary, in the USA and Western European countries corporate social ethics has long been regarded as part of business. Companies fund the activities of not-profit-making organizations that use this money to implement social programs most effectively for the society. However, in Russia charity tends to be limited to occasional targeted help provided to those in need. Most business structures have no strategy in this type of activity.

Nevertheless, certain development in this sphere can be observed even now. Globalization process imparts new meaning to the issue of social ethics of Russian business. Major Russian companies aspiring to enter international markets have to adopt Western model of the interaction with public involving ethic business and voluntary social activity. Being a company with a fine ethic and social reputation tends not only to be fashionable, but is also the necessary prerequisite for its further existence and development, especially in case of major corporations.

It should be noted that the encounter with the experience of western companies in the sphere of corporate social responsibility provides information of both positive and negative character. For example, violation of business ethics norms by Boeing and Lockheed Martin [8] (Appendix 1)

Up to the mid 1970s it was the international practice to consider a company as having fine social and ethic reputation if it did not try to avoid tax-paying, had reasonable salary rates and fulfilled basic requirements concerning labor safety and ecology, with solution of major social problems being largely the state's responsibility. According to some sources Russia still seems to stick to such approach.

In the late 1990s the attitude of business to social problems started to transform. Then social business ethics was regarded as a kind of philosophy of a commercial structure, its conscious and voluntary contribution to the society's development that complemented the legally prescribed minimum. This was a wide range of activities including various social programs aimed at staff's professional development, social security packages, better conditions for recreation and leisure, charity activity, sponsorship and many other.

What nowadays is globally meant under business social ethics includes not only programs intended for the company's staff, but also activities concerning environmental protection, support of socially insecure groups of population, development of residential and utility system, preservation of cultural monuments, funding educational and sports organizations as well as various charity activities.

Russian business is gradually approaching these standards. Yet, actually, for Russian companies' involvement in the solution to social problems has not been entirely new: under conditions of state property dominance enterprises were direct tools of the implementation of state policy in social security sphere.

The existing Russian laws do not require business to fund social programs. As early as in the initial period of Russia's transfer to the market economy, the state relieved enterprises from excessive social functions, and in 1993 the President of



the Russian Federation issued the regulation on transfer of social infrastructure facilities under the jurisdiction of municipal authorities.

According to the results of the survey carried out by the Analytical Centre of Social Partnership Development, at present 62% of industrial enterprises are involved in the implementation of various social programs. Russian companies carry extra social load realizing that without assistance of business no positive changes are to be expected and understand it as a part of their mission, their development strategy.

Thus, popularity of such programs is explained both by insufficient funding of regional social programs by the Federation subjects and the intention to improve the company's image, which is another proof of its reliability.

The former neglect of the social sphere on behalf of Russian business is quite explicable. It is formed by means of property take-over and conquering free market niches, maximum exploitation of technologies and infrastructures inherited from the Soviet times. Initial capital accumulation took place in crisis conditions, the country's collapse, simultaneous attempts to build a new state and to reform it according to the laws of market economy.

These processes were accompanied by widespread corruption, criminal ways of management of economic relationships and solutions of current problems. Russian business acquired the aura was of negative associations and stereotypes. However, violent wars for property are now bygone, together with a wave of "unfriendly takeovers", with all unoccupied market niches having acquired their owners. Civilized competition requires balanced behavior strategy including assets re-estimation, investment planning and considerable expenses on marketing and PR policy.

The state on its side, only recently started to part with the principle of confrontation with business

and recognized the possibility of cooperation with it.

The cases of "compulsory charity" when local authorities would come to a company and urged it to allocate money for various purposes are now the facts of the past. Nowadays charity activity is the result of their voluntary decision.

In the USA "compulsory charity" is still widely practiced. By the late 70s after the first wave of the enthusiasts of social ethic behavior American business started to treat charity more pragmatically. The government feared that corporations would stop to care about the society needs. In 1977 the Congress passed the document Community Reinvestment Act, which prescribed American banks to invest capitals in the areas where they operate. Up to now this document is the basic tool for encouragement of social involvement of banks at the local level. The text of this document covers one paragraph and in fact boils down to one sentence: "Banks are to invest in the local community. Despite the lack of punitive sanctions, banks spend millions of dollars on these purposes. Sometimes such investments amount to 40% of their revenue.

At the end of the year each bank reports about the work performed. A list of banks' activity in the sphere of social investments based on this report was published in major periodicals accompanied by the commentary in small print that it concerns only the indices of social involvement. Seeing that familiar names of the banks are not at the top of the list American readers considered it a sign of their financial unreliability. The customers' transfer of their money to more solid banks stimulated the banks' desire to work for the local community. Designing incentive for competition in doing good does not deserve criticism. The government policy can't be not be called unreasonable.

Despite the fact that government's "social racket" is not widely practiced in Russia, the state's attitude





to social ethic policy of business is rather that of a consumer. This is expressed by the government's unwillingness to stimulate business for good-doing by its partial exemption from tax-paying. Imperfection of taxation legislation creates considerable obstacles for the development of business social ethics. A large part of charity money falls into the category of unified social tax. The introduction of a new revenue tax will eliminate the only 3% benefit acting on the Federal level for the beneficent companies. Besides, another obstacle to the efficiency of social ethic running of business in Russia is the fact that both society and the state take it for granted rather than understand difficulties involved.

It's notable that 34% of the population regard Russian business as socially irresponsible despite the fact that according to Russian laws its social responsibility is limited to compulsory payment of unified social tax.

50% of the surveyed employees and over 46% of the municipal officials are unhappy with the fact that enterprises have considerably reduced the amount of social benefits and programs compared with Soviet times. Only 10-15% think that retention of social funding at the existing level is the credit and great achievement of companies' management.

In this regard, expenses on staff's social security, assistance to the local community do not always pay off in the form of labor efficiency and consolidation of the company's reputation.

Besides, in the mass media there is practically no positive information about the cases when companies demonstrated the examples of social ethics. As a rule only a negative side of entrepreneur activities is covered while positive information comes to press only through advertising departments where every citation of the sponsor's name is paid for. Quite often the attempts to speak about social projects are

opposed by the editors. Journalists are not excited about the noble aims of the charity projects initiators. As a result information that does appear in the press has advertising character. Eventually, business reputation is damaged, as incorrectly covered information may produce absolutely opposite effect.

Today, corporate social ethics is viewed as an indicator for business development as it implies that the company has built a solid business philosophy. Meeting spiritual requirements of people and sustaining the environment have become essential social goals in the modern society. We have come to understand that the socioeconomic model resting exclusively on pure materialism and utilitarianism is infeasible. Thus, finding a balance between material and spiritual needs of people, both as individuals and social beings, is now seen as a critical task. Corporate social responsibility (CSR) makes such a balance achievable while contributing to the welfare of business and society as a whole.

To date, there has been an explicit corporate demand for academic research on CSR issues. In 2008, IBM conducted a global study that identified social responsibility as one of the five core traits for the enterprise of the future (IBM Global CEO Study - 2008). The world's leading companies actively support specialized research facilities and professional associations that carry out relevant research, raise their concerns at business and intergovernmental forums, which bring together professionals from entrepreneurial and academic fields, government agencies and non-profit organizations. Such forums are held by the Coalition for Environmentally Responsible Economies, the World Economic Forum, the World Business Council for Sustainable Development, the Organization for Economic Co-operation and Development, the United Nations Committee on Conferences. Their Russian counterparts are the Civic Chamber of the Russian Federation, the Russian Managers Association, the Russian Union of Industrialists and Entrepreneurs, the



Russian Donors Forum together with the Vedomosti business newspaper and PricewaterhouseCoopers, the National CSR Forum, the Business and Society Consortium.

A number of CSR models and theories, none of them without certain strengths and weaknesses, have been brought forward over the last few decades. Perhaps the best known of them are Archie Carroll's Pyramid of Corporate Social Responsibility (1979) and the Three-Domain Model of CSR (2003), the Stakeholder/Responsibility Matrix (1991); S. Wartick and P.L. Cochran's Model of Corporate Social Performance (1985); R.E. Freeman's Stakeholder Theory (1984), etc.

There is an abundance of studies on social responsibility of business that shed light on different CSR theories. The most popular of those are corporate social responsibility, corporate social responsiveness, corporate social performance, business ethics, corporate philanthropy, social issues, corporate social conscience, corporate social policy, stakeholder management, corporate citizenship, sustainable development, corporate sustainability, corporate reputation, socially responsible investing, triple bottom line, corporate social accountability, etc. These theories are place- and time-dependant, they complement and develop each other.

Thanks to an increase of interest in CSR, a whole range of definitions of the concept have emerged. 'We define social responsibility is a business approach that exercises information transparency, ethical conduct, respect to all the parties involved and commitment to bring economic, social and environmental benefits' (The UN Global Compact).

'If there is a theory that comprises a wide variety of issues relevant for today and tomorrow – a theory worth considering, – this is social responsibility' (Kofi Annan, Ex-Secretary-General of the United Nations).

'Corporate social responsibility is concerned with treating the stakeholders of a company or institution ethically or in a responsible manner. Stakeholders

exist both within a firm and outside' (Michael Hopkins, the author of 'The Planetary Bargain: Corporate Social Responsibility Matters').

'Corporate social responsibility is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' (European Commission).

'The first thing to do is to pay all your taxes, legally and above board, not though offshore companies. The second thing to do, after you've made sure you haven't got any tax debts, is to take on some charity work or engage in philanthropy. Thirdly, you should provide business support to those political forces that ensure the development of the country, including its transition to democracy' (Alexey Kudrin, Former Russian Minister of Finance, April 2004). 'A socially responsible business comprises:

1. Paying the full amount of taxes, acting completely above board;
2. Offering its employees economically justified salaries;
3. Volunteering for charity (social spending of industrial companies in 2002 was claimed to total 17% of their recognised gains, i.e., 97 bln roubles or 0.9% of the GDP, while the state spent 150 bln roubles or 1.2% of the GDP) (Evgeny Gontmakher, Vice-President of the Russian Union of Industrialists and Entrepreneurs, December 2003).

The concept of corporate social responsibility or CSR may have a relatively narrow definition: 'CSR is a voluntary contribution made by the private sector to facilitate social development through social investment' (Report on Social Investments in Russia – 2008, the Russian Managers Association). In this case, corporate social investment implicates physical, technological, managerial and other resources, alongside with corporate financial resources that the company's management allocates to social programmes designed to





accommodate the interest of all the parties involved, hoping for social and economic benefits that the organization will get in future. Although such benefits can be difficult to measure, they hold certain strategic importance to the company. Therefore, corporate social responsibility should be regarded as a management concept whereby companies integrate their social and environmental concerns in good faith. A business performance makes a substantial difference to the following groups of people:

- shareowners, who use the company's performance results to solve problems in their lives;
- employees, who provide for the company's performance, get salaries and fringe benefits for doing it, which lets them solve problems in their lives;
- consumers of the corporate product;
- corporate partners, both formal and informal, that render services to the company;
- local communities interacting with the company in respect to building social and ecological environment;
- state institutions interacting with the company in the political, economic, legal, institutional and other spheres of its macro- and micro context;
- society as a whole, as it receives a part of wealth that has been produced by the company and uses it to secure its own and the company's social and economic well-being.

All the aforementioned definitions refer to the concepts of ethical behavior, ecological responsibility and, most importantly, stakeholders, i.e., those who influence corporate decision-making and those who find themselves under the influence of the corporate operations (customers, employees, local residents whose health is affected by the corporate environmental impact, the authorities, etc.)

## CONCLUSIONES

According to some theoretical approaches, the concept of corporate social responsibility may be interpreted and assessed in very different ways. On one side of the theoretical divide, there are followers of M. Friedman, who argued that there can be only one social responsibility of business - to maximise its profits in order to increase the welfare of the company and its stakeholders. On the other side of it, where a lot of international, governmental and non-governmental organizations can be found, there are advocates for socially responsible business. They believe that profit enhancement shouldn't be the only concern for the company which should also strive to make a hefty contribution towards a social cause, improvement of the quality of life in local communities, environmentalism. Mostly, this is a recent trend probably spurred by the increase in the pace of globalization, the emergence and acceleration in growth of the anti-globalist movement and corporate responses, especially those of transnational companies, to these tendencies.

Corporate social responsibility is a consistently reexamined dynamic set of obligations corresponding to the corporate specific nature and development level. Such obligations are voluntarily worked out by the key counterparts taking into account the opinion of the personnel and stakeholders. The obligations are met at the expense of corporate investments targeted at important external and internal social programs, which will contribute to the development of the company (growth, production capacity, product and service quality improvement etc.); strengthening company's reputation and identity; expansion of effective partnership relationship with the government, business counterparts, local communities and civil organizations.

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