Evaluation of Corporate Social Responsibility of Russian Companies Based on Nonfinancial Reporting

Irina Glebova, Dmitry Rodnyansky, Ruslan Sadyrtinov, Rezeda Khabibrakhmanova and Yana Yasnitskaya

Kazan (Volga Region) Federal University, Kazan, Russia

Abstract: Over the recent several decades, contemporary literature is devoted to discussions on the role of corporate social responsibility in the development of regional and local communities. There are different approaches to explain the nature and the extent of corporate social responsibility influence on the internal and external processes of the organization. This paper covers the issues related to the Russian practice of socially responsible corporate behavior of the companies representing various strategically important sectors of the Russian economy. Authors have developed technique to evaluate corporate social responsibility based on nonfinancial reporting, that allowed them to reveal a number of problems and contradictions in this area and to formulate requirements for regulatory, organizational and methodological support efforts to promote further the image of Russian companies as socially responsible economic entities on the basis of mutual concurrence of interest between government and business.

Key words: Corporate social responsibility • Nonfinancial corporate reporting • Association between business and government • Content analysis of web-sites • Socially oriented behavior of Russian companies

INTRODUCTION

Formation of the Russian national model of corporate social responsibility (CSR) to meet contemporary conditions, principles and requirements in doing business, is just at the initial stage. In native publications, due attention to this issue has been paid only in the last few years, therefore in Russia there is insufficient number of analytical and statistical studies, compared with those that are regularly held in the West. The lack of detailed studies on the mentioned problems is also stipulated by historical features of association between government and business. During Soviet times, the entire burden of social responsibility laid on enterprises: they exercised socially significant projects in the regions, where they directly operated. With the transition to a market economy, these responsibilities were delegated to the municipal and regional authorities and most of the social programs were virtually stopped. At the beginning of XXI century, with the growth of budget revenues and people welfare, the issue concerning business role in the implementation of socially important projects regained its relevance.

State-of-the-art: The concept of "Welfare State" implies greater responsibility of all entities of the market economy. This has been noted again and again in the transactions of national and international academic economists. Thus, for example, N. Bagautdinova and L.Safiullin et al. [1] show the relationship between the welfare and quality of manufactured products, whereas quality, in turn, is an integral part of CSR in today's economic environment.

It can be stated that in Russia not just theory, but the practice of corporate social responsibility is in the making. Just several years ago, the Russian business community did not recognize the value of corporate responsibility and the practice of companies in this area was limited to occasional claims on adherence to the principles of ethics and to one-time charity. Today, however, the idea of social responsibility
is known to Russian business to some extent and in some companies it is understood not only in words but in deeds.

The following factors contributed to the proliferation of social responsibility in Russia:

- Coming to the Russian market of foreign companies, whose management directed at sustainable development and including corporate social responsibility as an integral part of the management, is more widespread and well-established practice;
- The growing pace of globalization, the desire of national enterprises to get foreign investments and the need to increase the investment attractiveness of companies, that requires restructuring of company activities in accordance with the international standards;
- Development of powerful corporate entities with the resources and comparative potential necessary for social investments;
- Expansion of the scope of the Russian business presence in different regions, the subordinate entities of the Federation, inevitably associated with the need to establish positive relations with the local community and the development of social infrastructure, that is needed for effective business management.

Indicating the feature of the Russian social responsibility model, we can note a rather high role of the state, which is often reduced to involuntary business participation in the implementation of various social and cultural programs, which in part are the source of some corruption. However, Russian business needs to a certain extent gaining public recognition and consolidation in the domestic and international markets that is one of the main incentives for changes in the company's approach to association with the society.

To understand corporate social responsibility development direction of Russian companies, it is useful to refer to the experience of foreign countries. However, the study of this problem is complicated by different understandings of CSR abroad and in Russia. In Russia, business structures are implementing CSR programs within the minimum scope, which is required by federal and regional legislation, while in the west there are other approaches.

**Review of the Literature:** The formation of the corporate social responsibility concept abroad in the middle of XX century is associated with the writings of American researchers and economists such as A. Berle and G. Means, G. Bowen, C. Davies and S. Sethy [2, 3, 4]. However, the development of a unified CSR system concept has been difficult because of the different approaches of researchers to this issue. The attempt to systematize the CSR concept using simulation was performed in the research of A. Carroll [5].

M. Friedman [6], in his economic model, is consistently advocated the liberal view of CSR, the essence of which is that the only responsibility of business is to maximize profits, subject to the existing rules. At that, CSR should be of strategic importance to a corporation, facilitating the emergence of a competitive advantage through the creation of shared values (CSV - shared value) [7, 8].

Representatives of another approach, considering the normative model, underpin the thesis that the value creation process in business initially has a moral dimension [9, 10] including the values of morality and generosity for the benefit of all parties concerned, not only focusing on the economic benefit of those to whom eventually this business is intended [11, 12].

The contradictions in the theoretical concepts of CSR have driven the need to explore the practical experience of the leading corporations in the field of CSR. Among the contemporary works of foreign authors on this subject, the emphasis should be made on study carried out by F. Kotler and N. Lee [13], who considered the issues on increasing the effectiveness of social and charitable projects of the company and the problems of dialogue with parties concerned. They came up to the conclusion that the "corporate social responsibility" concept combines in equal shares both public and business interests.

Specific attention should be given also to the works of S. Zadek [14], who analyzes the strengths and weaknesses of corporate citizenship and social responsibility models.

The spread of CSR practices throughout the world has led to the fact that it has faced with different social expectations [15] and cultural traditions [16]. Thus, there are differences in the disclosure degree of corporate social responsibility activities due to national peculiarities of the business environment. For example, U.S. companies avow about their investments in public health, education and
Table 1: The expenditures for activities under CSR

<table>
<thead>
<tr>
<th></th>
<th>OJSC &quot;Tatneft&quot;</th>
<th>JSC &quot;Nizhnekamsk-neftekhim&quot;</th>
<th>OJSC &quot;MMC&quot; Norilsk Nickel</th>
<th>FC &quot;Uralsib&quot;</th>
<th>JSC &quot;MTS&quot;</th>
<th>JSC &quot;MMK&quot;</th>
<th>JSC &quot;RusHydro&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average monthly salary, rubles</td>
<td>32106</td>
<td>27100</td>
<td>55900</td>
<td>-</td>
<td>44200</td>
<td>34253</td>
<td>34600</td>
</tr>
<tr>
<td>The expenditures for activities under Corporate Social Responsibility, mln. rubles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal social policy (staff costs)</td>
<td>1124,6</td>
<td>-</td>
<td>-</td>
<td>257</td>
<td>-</td>
<td>900</td>
<td>-</td>
</tr>
<tr>
<td>Environmental protection measures and environmental programs</td>
<td>4503</td>
<td>3605</td>
<td>15000</td>
<td>0,8</td>
<td>-</td>
<td>2239,6</td>
<td>156,5</td>
</tr>
<tr>
<td>External social programs (contribution to the development in social sphere)</td>
<td>-</td>
<td>1663,9</td>
<td>9080</td>
<td>579,8</td>
<td>162,8</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The impact of government [19] and international organizations impose certain effect on the CSR practices in different countries. To this extent, examination of the CSR practices in today's Russia is of particular interest.

The Research Methodology: For the study of socially responsible practices in Russia, a detailed analysis of non-financial reporting was carried out for seven Russian companies operating in various economy sectors and being a typical representatives of their industries: OJSC "Tatneft" - in oil and gas industry, JSC "Nizhnekamskneftekhim" – in chemical and petrochemical industry, OJSC "MMC" Norilsk Nickel and OJSC "Magnitogorsk Iron and Steel Works"(OJSC "MMK") - in Metals and Mining, FC "Uralsib" - in the financial field, JSC "MTS"- in communications and JSC "RusHydro" - in the energy sector. All companies are experienced in providing nonfinancial reporting for more than five years. For conducting non-financial reporting analysis, a content analysis of company web-sites was performed.

The nonfinancial reports of these companies provide data on the expenditures for activities under Corporate Social Responsibility projects (Table 1).

Due to incomplete data of the companies selected for the analysis, very large differences in the formulation of social expenditure items, as well as significant variations in the scale and scope of company performance, it is quite difficult to compare their specific costs in terms of activities within the social responsibility projects.

In this regard, the authors have developed a methodology to assess nonfinancial reports of different companies on various criteria in order to compare them. Criteria proposed by the authors reflect the most important aspects of social responsibility of the companies and are measured at the point scale (1, 0.75, 0.5, 0) depending on the relevance and completeness in terms of reflecting certain field of social responsibility in the company’s nonfinancial report.

Zero score indicates a lack of information concerning company’s nonfinancial report; 0.5 points mean that the available information only indirectly indicates that the nonfinancial report is relevant to concerned criterion and that an additional information is needed; 0.75 points mean the availability of information in company’s nonfinancial report relevant to the given criterion, though not complete. Unit score means the presence of complete information on the selected criterion in the available nonfinancial report.

Empirical Studies: Main Results: In today’s Russia, the level of social activity of entrepreneurs is low valued by society and a large number of Russians perceives selfish motives in the social activity of private companies.

Given the lack of public confidence, as well as in the context of solving problems of strengthening the company’s reputation, independent assessment of information provided by the company to external community, is becoming increasingly important. Accordingly, in Russia in recent years, the number of reports that have undergone external assurance procedure in various forms (it should be noted here that there are different opinions among both experts and the companies concerning the worth and necessity for assurance procedure of nonfinancial reports) has been notably increased.

As a result, the leading companies in the field of social responsibility improve their organization, management technology and corporate governance, creating special departments to manage nonfinancial risks and reporting on social responsibility and sustainable development, as well as establishing special committees under the Boards of Directors.
Table 2: Quality assessment of non-financial reporting

<table>
<thead>
<tr>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of awards and bonuses for the preparation of nonfinancial reporting.</td>
</tr>
<tr>
<td>The ability to compare and collate data on the company performance results (compatibility with international standards, the use of generic tools in preparation of nonfinancial reporting).</td>
</tr>
<tr>
<td>Availability of independent (external) assurance.</td>
</tr>
<tr>
<td>Availability of feedback tools.</td>
</tr>
<tr>
<td>Availability of reporting in English.</td>
</tr>
<tr>
<td>Total scores</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OJSC &quot;Tatneft&quot;</th>
<th>JSC &quot;Nizhnekamskneftekhim&quot;</th>
<th>OJSC &quot;MMC&quot; Norilsk Nickel</th>
<th>FC &quot;UralSib&quot;</th>
<th>JSC &quot;MTS&quot;</th>
<th>JSC &quot;RusHydro&quot;</th>
<th>OJSC &quot;MMK&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>0.75</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0.75</td>
<td>0.75</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4.75</td>
<td>4</td>
<td>5</td>
<td>4.75</td>
<td>2.5</td>
<td>3.75</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Table 3: Company ranking based on the nonfinancial reporting

<table>
<thead>
<tr>
<th>OJSC &quot;Tatneft&quot;</th>
<th>JSC &quot;Nizhnekamskneftekhim&quot;</th>
<th>OJSC &quot;MMC&quot; Norilsk Nickel</th>
<th>FC &quot;UralSib&quot;</th>
<th>JSC &quot;MTS&quot;</th>
<th>JSC &quot;RusHydro&quot;</th>
<th>OJSC &quot;MMK&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total score</td>
<td>16</td>
<td>15.93</td>
<td>16</td>
<td>13.96</td>
<td>12.68</td>
<td>12.39</td>
</tr>
<tr>
<td>Company's position in the overall ranking</td>
<td>1-2</td>
<td>3</td>
<td>1-2</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

In addition, the extent and methods of providing information in nonfinancial reports is an important aspect for the analysis. We should also note here the growth of Russian companies' professionalism. The tasks set by companies are stated more specifically year by year and planned activities and performance targets are specified more in detail.

Analysis of nonfinancial reporting of 7 strategically important Russian companies allowed estimating the activities of corporate social responsibility based on the following criteria:

- The company mission;
- The development strategy of the organization and social responsibility policies;
- Approaches to the collaborative engagement of parties concerned, measures aimed at engaging them in discussing and monitoring the implementation of development strategy;
- Information on corporate standards and regulations on association with the parties concerned (i.e. documentation of the company's position in the field of social responsibility: union contracts, codes, regulations, etc.);
- Corporate bodies and organization units performing management and implementing activities in the social responsibility area, as well as describing the availability and quality of corporate governance systems and principles;
- Policies in relation to company staff;
- Staff remuneration and motivation system;
- Social support programs for employees;
- Health and safety measures;
- Professional development and training of employees;
- Corporate culture;
- Work with young professionals;
- Occupational social partnership and cooperation with trade unions.

- Quality control policy;
- Environmental policy and environmental protection;
- Implementation of charity and sponsorship programs, as well as social programs and projects in the company operation region in order to facilitate corporate social and economic development;
- Activities in the field of science and innovation;
- Key elements of risk management;
- Basic principles of cooperation and mutual responsibility with business partners.

One should also assess the status of company's nonfinancial reporting, its quality and compliance with international standards, as it gives an indication of the seriousness of the company's approach to corporate social responsibility issues (Table 2).

Based on an assessment of nonfinancial reporting one can summarize the scores in order to make companies' tentative rating (Table 3).

Most full are the reports of OJSC "Tatneft" and OJSC "MMC Norilsk Nickel", the third is OJSC "Nizhnekamskneftekhim".
Based on the study and comparison of nonfinancial reporting of Russian and foreign companies operating in Russia (CJSC "PricewaterhouseCoopers Audit", JSC "British American Tobacco Russia", "Coca-Cola HBC Eurasia", "Citigroup in Russia" and others), we can note some of the characteristics inherent to nonfinancial reporting in Russia.

- The main reporting systems that Russian companies use in the preparation of nonfinancial reports, is a Sustainability Reporting Guidelines (SRG) and the Social Charter of Russian Business. However, many reports are free-form and they usually do not contain a sufficient number of key performance indicators and the actual data that would make it possible to correctly evaluate the fulfillment of the commitments.
- The main type of report that is used by Russian companies is a report on the triple bottom line, which includes data on the economic, environmental and social performance.
- It can be stated that companies are expanding set of indicators included into the reports. In general, analytical reporting component is enhanced, that increases their substantive significance.
- Most companies maintain a certain succession of formal characteristics (structure, content and visual design) when preparing non-financial reports to help track the selected activities for several years.
- As for possible sectorial differences, they are expressed in the traditionally enhanced attention of mining and processing enterprises to environmental liabilities that naturally follows from the specific character of their operation and meets the expectations of the parties concerned. In turn, the liabilities of banking organizations often focus on charity work.

**CONCLUSION**

Performed analysis allows us to draw conclusions regarding the activities of Russian companies in nonfinancial reporting and the implementation of corporate social responsibility within their own organizations and beyond.

Most companies either provide reporting, which each year is made around topical issues (at that, the issues which have raised in the previous years are virtually not mentioned and the information concerning the attempts to solve them is often not provided), or use non-financial reporting as a platform for a detailed presentation of their company (including detail history, structure and company activities), while the information on liabilities is presented implicitly or is poorly structured. Organizations try to show in their reports mainly the areas where the positive results were achieved; the problematic issues of the company are almost silent. As a result, reports reflect an ideal situation which is presented in accurate, smooth and sometimes in embellished form. This is also true for some of the companies selected for the current study.

Recognizing the continuously increasing comprehensiveness of the information submitted by companies, it should be noted at the same time, that there still remain the issues and the measures for which the information is yet insufficient.

The number of institutions to whom nonfinancial reports of Russian companies are destined is usually limited. These are, first of all, the Russian administrative authorities (at various levels), investors, lenders and sometimes partners (mostly foreign). Few companies are guided in addition by customers. It is characteristic that this list almost lacks press or non-profit organizations which represent the interests of society.

Many companies report that they perform analysis of parties concerned and the engagement activities with them.

However, as a rule, the subject on using the results coming out from the collaborative engagement within the core business remains unlit; substantial aspects of the collaboration are revealed sparingly; the evaluation of just effectiveness and efficiencies of the employed mechanisms in terms of their influence on risk reduction and achieving a balance of interests, is not sufficient. At that, it should be recognized, that the parties concerned often themselves take a passive stand.

A situation may arise, when during the preparation of reports, the companies hardly associate with parties concerned, while presenting them already published report. Quite often, it is about a formal process of reporting the results without discussing the problems that are faced by the company. In other cases, because of the low activity of participants, the whole discussion during the meetings is reduced to the conflict around just one problem that attracts the attention of certain group of parties concerned.

It should be added, that the further development of nonfinancial reporting must be directed, in particular, on the harmonization and comparability of the information that should meet the international standards, because at present, it is quite difficult to compare and collate data on nonfinancial reporting and, respectively, to draw conclusions about the general status of the corporate social responsibility in Russia.
Thus, the results of the analysis indicate that the trends of reporting in Russia are generally consistent with international practice. Nonfinancial reporting is increasingly perceived by leading companies as a standard of the corporate behavior. The main tasks of these companies are focused on the ability to increase transparency and disclose the responsible business practice benefits, to display its effect both on company comparative expansion and the development of regions and the community. At that, majority of Russian companies, even being socially responsible, has not given to compiling of nonfinancial reporting enough attention.

REFERENCES