

From Russia With Love

A national chapter
on the global
CSR agenda

2008

IN CO-OPERATION WITH
THE ECONOMIST INTELLIGENCE UNIT

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About the research

From Russia With Love. A national chapter on the global CSR agenda is an original research report, commissioned by UC RUSAL from the Economist Intelligence Unit and supported by PricewaterhouseCoopers in Russia and the United Nations Development Programme. The report aims to shed light on how Russian companies compare with other multinationals elsewhere, evaluate how mature Russian CSR practices are and what role they play in companies' strategic development, as well as outlining immediate priorities for Russian multinationals. The analysis in the report draws on a global survey of 258 senior executives with representative samples from Russia and other emerging markets, as well as the developed world. Along with this, more than 20 in-depth interviews were conducted with companies and sustainability experts. The research programme was conducted between June and September 2008.

The survey focused on large companies, representing a range of industries: 97% of all companies polled reported revenues of at least US\$1bn in their previous financial year. In all, 32 companies were headquartered in Russia while a further 34 were headquartered in other emerging markets. The balance of the companies hailed from North America, Europe and Asia Pacific.

This report continues a series of research projects initiated by UC RUSAL to inform the worldwide community about the most vital trends of the Russian business development. *The Russians Are Coming*, a report published in 2006, was devoted to emerging Russian multinationals going global.

Our sincere thanks go to all executives and experts interviewed for this report for sharing their professional insights.

About the Economist Intelligence Unit

The Economist Intelligence Unit is the business information arm of The Economist Group, publisher of The Economist. Through our global network of 650 analysts, we continuously assess and forecast political, economic and business conditions in nearly 200 countries. As the world's leading provider of country intelligence, we help executives make better business decisions by providing timely, reliable and impartial analysis on worldwide market trends and business strategies.

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Defining corporate social responsibility

Corporate social responsibility (CSR) is a difficult concept to define. It is understood and expressed in differing ways across various industry sectors and regions. Many firms include environmental sustainability within their CSR remit, whereas others consider that a separate set of responsibilities. For the purposes of this report, CSR is taken to be the concept whereby organisations take responsibility for their impact on customers, employees, suppliers, shareholders and the communities they operate within. It encompasses both social and environmental concerns, as well as issues of corporate governance and transparency.

Executive summary

Today, Russian multinationals are well established in the global marketplace. Some evolved out of state-held behemoths. Others were built from scratch in a young market economy. But whatever their roots, these companies have, over the past decade, started to expand abroad aggressively. The effect of this growing presence in international markets has changed their approach to corporate social responsibility (CSR). First, expansion has drawn the attention of international peers, investors, customers and regulators, many of whom have demanded greater clarity about their operations and approaches to doing business. As well as worrying about their international reputations, companies have also been able to learn from their experiences abroad, maintaining best practices and strategies from companies they have acquired or adopting them from their peers in the global marketplace.

As a result, the Russian business community has taken a number of steps to define CSR principles and implement them across business operations. In doing so, these firms are emulating Western business practices while also finding their own way, building on the strong philanthropic traditions of pre-revolutionary Russia. But how deeply is CSR embedded in the activities of Russia's multinationals? This report explores that question and examines the progress being made. Among the key findings of the study are the following:

- **Nearly all large Russian firms either have a CSR or sustainability policy in place today, or are developing one.** About six out of ten (61%) of the major Russian companies polled for this report have a formal policy or strategy in place today. Although this is a lower ratio than that of their emerging market peers (79% of whom have a policy in place), nearly all Russian companies are working to catch up with their rivals abroad. Just one in ten do not plan to adopt a CSR policy in the immediate future, which is in line with global norms.
- **Creating better workplace policies has received much focus, but attention is switching towards environmental issues. In general, corporate philanthropy appears to be a central part of much Russian CSR.** Over the past three years, Russian companies have placed a strong emphasis on workplace practices such as development of health and safety regulations and improved working conditions, far more so than their peers internationally (75% say they've worked on this, compared with less than 70% elsewhere). Looking ahead, Russian companies expect to put a high priority on cleaning up waste and pollutants, as well as improving corporate governance and energy efficiency, roughly in that order. Indeed, 83% of Russian companies polled say they have documented an environmental policy—well ahead of their emerging market rivals (70%). All of these issues are core areas of CSR. Beyond this, at a secondary CSR level, many Russian companies are actively engaged in various forms of corporate philanthropy or charitable giving.
- **Firms are focusing on protecting and enhancing their brands, especially as part of their efforts to adapt to a globalised marketplace.** More than 60% of Russian companies—the same proportion of their counterparts globally and in other emerging markets—cite the desire to improve the company's reputation and brand as the primary motivation for their efforts. Much of this stems from new demands that Russian multinationals face as they increasingly expand their global presence, such as pressure from international shareholders. Perhaps because of this, large Russian businesses are rapidly developing reports on sustainability, CSR and other non-financial activities. In September 2006, just 50 such reports were issued in Russia, according to the Russian Union of Industrialists and Entrepreneurs (RSPP), a leading big business lobby group. By July 2008, the figure had more than doubled to over 120. Although a small absolute number, the rate of growth is impressive.

- **More attention needs to be paid to the supply chain and the establishment of ethical guidelines, as well as stronger leadership.** Establishing ethical guidelines appear to be a weak point for Russian firms: less than half (48%) of Russian companies polled have documented a policy here, compared with 70% of emerging market firms and 80% of global firms. This also highlights a possible concern about leadership. As in many companies globally, the seniority of the executives tasked with heading up CSR activities provides a clue to that issue's relative importance in the company. In Russia, one in four CEOs handle environmental policies, a sign of the push being made in this area. By comparison, just one in ten CEOs or board members are in charge of devising and implementing ethics policies. Another gap comes with supply chains. Implementing stronger controls over suppliers on human rights standards does not appear to be a priority for companies in Russia—or elsewhere. Only 12% of Russian firms, 11% globally and 6% in other emerging markets say it would be a high priority for them in the next three years.
- **Concern about costs is the number one obstacle to greater take-up of CSR. A shortage of skills also hinders progress, along with a general absence of pressure from the media.** One third of Russian executives cite worries about costs as the main barrier—higher than any other issue—to further progress on CSR and sustainability. This reflects views elsewhere in the world: it is top of the agenda for businesses in all regions. Another specific concern identified by executives interviewed for this report is the paucity of relevant skills and experience in the market. More broadly, a general absence of pressure from the press has not helped to promote the take-up of CSR activities. While 12% of companies globally, as well as those in other emerging markets, cited the media as a key driver for change, none of the executives surveyed in Russia agreed.
- **Companies have also identified a wide range of possible benefits.** Although few companies admit to being able to quantify the gains to be had from increased CSR activity, executives identified a range of clear benefits. These include improved energy efficiency, higher productivity and a better ability to win business and raise capital from investors.
- **Businesses agree that the state needs to provide greater incentives for CSR.** In Soviet Russia, major state-owned companies played an enormous social function, providing the communities in which they were located with such fundamentals as education and healthcare. Despite ongoing privatisation since the early 1990s, many private and state-owned companies still play a more significant role within communities than the state, a situation that is sometimes seen as unfair. Accordingly, pressure is mounting for government to provide stronger incentives for the market to pursue such activities.

Introduction

Social responsibility in one form or another has had a long history in Russia. In pre-revolutionary times, merchants and industrialists built schools, libraries and railroads to support ordinary citizens. Later, during the Soviet era, state-owned companies met many of the social needs of the communities in which they operated, providing everything from workers' housing to schools, hospitals, swimming pools and football stadiums.

Following the widespread privatisation of the economy in the 1990s, many formerly state-owned companies sought to shed their non-core assets. However, many of these firms – both state-owned and privately held ones, such as Russian Railways, Gazprom and Rosneft – continue to play an enormous social role within communities.

Over the past few years, a more strategic approach to corporate social responsibility (CSR) has been gaining momentum among Russia's largest companies, as they have become aware of the risks and opportunities they face and as the process of globalisation has brought companies in contact with their international peers.

However, the legacy of early Russian philanthropy lives on, building on the traditions set by famous Russian philanthropists from the past. Today, some of Russia's wealthiest people have established personal funds, typically supporting healthcare, science and culture, while many companies now run their CSR and philanthropic activities through corporate foundations.

Such efforts are often in response to a lack of state support. However, some scepticism remains about charitable giving as, in the 1990s, some companies and individuals used various funds to avoid taxes and launder or extort money.

There is also a growing awareness that generous giving or flashy one-off campaigns will not be enough if companies want to be seen as responsible corporate citizens—both within Russia and abroad. Accordingly, many companies are now aligning their CSR strategies with societal needs, rather than focusing on sponsoring gala dinners or opera performances. This requires that they define their values, develop and implement related targets, and then standardise these practices locally and internationally.

Of course, some companies are only too happy to agree with the notion expressed by Milton Friedman that the business of business is business, with social responsibility restricted to conducting commercial activities that lie within the law, increasing value for shareholders and paying taxes.

However, most companies interviewed for this study seem prepared to look beyond this, with many defining CSR as a need to find a balance between the interests of the company, consumers, state, NGOs and other stakeholders. And while a few years ago, CSR was viewed almost entirely through a philanthropic lens, many companies are now trying to embody aspects of corporate responsibility into their operations.

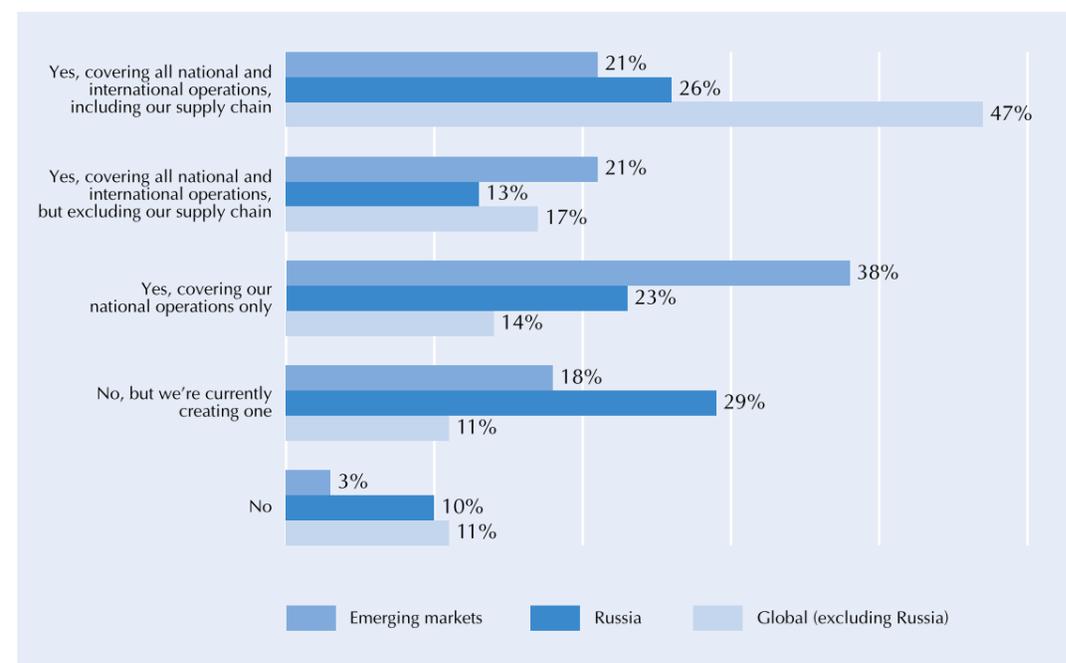
This survey confirms this trend. It shows that most large Russian firms have a policy or strategy for CSR and sustainability, or are developing one. About six out of ten (61%) major Russian companies have a formal policy or strategy in place today. Although other markets are ahead in this respect (eight out of ten companies in other emerging markets say they have such a policy or strategy), most Russian companies say they are working to catch up. Just one in ten have no plans to devise a relevant policy in the immediate future, broadly in line with the global figure.

Still, much progress needs to be made. In particular, many companies have yet to turn their attention to their environmental impact, unlike companies in mature markets, where improving energy efficiency and the reduction of greenhouse gas emissions and other pollutants are major areas of focus. Moreover, Russia has a significant legacy of inefficient and obsolete infrastructure to grapple with, most of it constructed in the Soviet era when energy was cheap and environmental issues were not a global concern.

Russian companies could benefit from taking action in this area. According to the European Bank for Reconstruction and Development, the country could reduce 35–40% of its annual energy consumption simply through improved efficiency. In addition, stronger efforts are needed in areas ranging from better corporate governance, especially as more firms seek to raise capital on public markets, to reduced corruption.

This report will outline some of the drivers behind CSR in Russian business today, focusing on the country's largest companies and their progress so far. It will also highlight the key barriers to implementation of CSR, examine how companies are addressing those challenges, and ask what Russian firms stand to gain from the increased adoption of corporate responsibility.

Does your firm have a formal CSR/sustainability policy and/or strategy in place?



Source: Economist Intelligence Unit survey

Please note that not all answers in the chart add up to 100%, and some figures in the text of the report may differ, due to rounding.

Globalisation and other drivers for change

While today the CSR strategies and activities of Russian companies are starting to resemble more closely those of their peers elsewhere, drivers for change differ from the forces that have led multinationals in Europe and the US to adopt responsible policies on their social and environmental impact.

In the West, campaigns led by activist NGOs and the media have prompted many companies to adopt more responsible business practices. Many multinational apparel companies, for example, were in the 1990s accused of running sweatshops in poor countries, while the extractive industries came under attack for breaches of human rights in their use of local militia to defend their operations. Corporate scandals at companies such as Enron and WorldCom intensified the demand for business to clean up its act.

In Russia, however, the weakness of the media has meant that the corporate sector has generally escaped this kind of scrutiny, and led to little pressure from consumers and shareholders for businesses to change their ways. Only 17% of Russian respondents to our survey cite pressure from shareholders as the reason for adopting best practices, with just 14% in Russia citing customers.

However, the rapid and successful expansion of Russian companies overseas and listing on foreign stock exchanges is changing much of this. Since the beginning of this decade, Russia has become a major source of foreign direct investment, especially within the energy and metals sectors. By 2010, Russia is predicted to have a total capital stock of US\$240bn invested abroad, far ahead of India and Brazil and only narrowly behind China (see table 1). Two of the primary drivers for this expansion have been the desire to access new markets and technologies, and to open up new financing opportunities.

Table 1. Russia's growing foreign assets

Stock of direct investment capital by domestic residents out of the country at current prices (US\$ bn)

	2005	2006	2007	2008	2009	2010
Russia	54.5	77.7	123.3	165.3	204.3	240.3
Brazil	71.8	100.0	107.1	119.1	127.1	135.1
China	46.3	73.3	99.3	148.3	210.3	279.3
India	13.0	24.0	37.5	56.9	76.9	101.9

Source: Economist Intelligence Unit survey

However, as Russian companies expand abroad, they increasingly come into contact with new external pressures, such as the need to adhere to international standards. Lukoil, for example, complied with standards such as ISO14000, the environmental standard and OHSAS, which governs occupational health and safety, when listing on the London Stock Exchange (LSE), to demonstrate good practice. In general, operating abroad, especially within developed markets, requires firms to increase transparency and improve their governance structures. Moreover, raising money on overseas markets has other implications, beyond mere compliance. "What's happened now is that some companies are becoming part of an international globalised society and are being put under pressure from international shareholders," notes Brook Horowitz, executive director of the International Business Leaders Forum (IBLF), Moscow office. "So they have their international reputations to worry about and that's what is beginning to change their attitude."

Given the scale of Russia's investment abroad, this has a major impact on the country's biggest firms. The LSE alone lists over 50 companies headquartered in Russia or CIS states, either through depository receipts, listings on AIM or on the main board, including: Sistema, a diversified group; Evraz Group, a steel and mining company; and Gazprom, an energy firm. Many more are merging with or acquiring companies in markets across the world (see table 2). At least 13 Russian companies have foreign assets of US\$1bn or more, two of which hold assets of more than US\$10bn (see table 3).

Table 2. Corporate Russia expanding abroad

Major M&A deals, originating in Russia, 2006–07

Acquirer	Target	Sector	Target country	Deal value (US\$ m)
2006				
Evrax Group	Oregon Steel	Metallurgy	United States	2,300
Novolipetsk Steel	Duferco	Metallurgy	United States, EU	806
Evrax Group	Highveld Steel	Metallurgy	South Africa	678
VimpelCom	Armentel	Telecoms	Armenia	496
UC RUSAL	Eurallumina	Metallurgy	Spain, Italy	420
Norilsk Nickel	OMG nickel assets	Metallurgy	Australia, Finland	408
UC RUSAL	Alscon	Metallurgy	Nigeria	250
Interros	Plug Power Inc.	Energy	United States	241
VimpelCom	Unitel	Telecoms	Uzbekistan	207
2007				
Norilsk Nickel	LionOre Mining	Mining	Canada	5,234
UC RUSAL	SUAL, Glencore	Metallurgy	Switzerland	3,600
Gazprom	Beltransgas	Energy	Belarus	2,500
Renova	Energetic Source SPA	Energy	Italy	700
Titan Acquisition Sub Inc. (Evrax Group)	Claymont Steel Holdings Inc.	Metallurgy	United States	564
Lukoil	Jet Petrol Stations	Energy	Czech Republic, Poland, Hungary, Finland	560
Global Information Services Holding	Altis Semiconductor	Machinery	France	449
MTS Telecom	K-Telecom	Telecoms	Armenia	434
Mirax Group	Sungate Port Royal	Hotels	Turkey	340
Severstal	Celtic Resources Holdings Plc	Mining	Ireland	315
Evrax Group	Highveld Steel and Vanadium	Metallurgy	South Africa	238
Novolipetsk	Winner Steel Inc.	Metallurgy	United States	212

Source: DB Research

Table 3: Top 25 Russian multinationals, based on foreign assets

Based on foreign assets (US\$ m, 2006)

	Foreign assets	Sector
Lukoil	18,921	Oil/Gas
Gazprom	10,572	Oil/Gas
Severstal	4,546	Metals/Mining
UC RUSAL	4,150	Metals/Mining
Sovcomflot	2,530	Transport
Norilsk Nickel	2,427	Metals/Mining
AFK Sistema	2,290	Telecoms/Retail
VimpelCom	2,103	Telecoms/Retail
Novoship	1,797	Transport
TNK-BP	1,601	Oil/Gas
Evrax	1,322	Metals/Mining
FESCO	1,074	Transport
PriSCo	1,055	Transport
Novolipetsk Steel	964	Metals/Mining
RAO UES	514	Electricity
TMK	490	Metals/Mining
Eurochem	456	Agri-chemical
GAZ	366	Manufacturing
OMZ	354	Manufacturing
Alrosa	294	Metals/Mining
ChTPZ (Arkley Capital)	244	Metals/Mining
Alliance Oil	211	Oil/Gas
Acron	200	Manufacturing
Euroset	147	Telecoms/Retail
Mechel	116	Metals/Mining

Sources: Skolkovo (2007); DB Research

Our survey reflects the growing view that CSR enhances the ability to compete internationally, with 31% of respondents citing requirements to compete globally as a reason to adopt sustainability policies, and 21% citing demand from government and regulators. Moreover, many Russian executives express a desire to improve their company's ability to raise capital abroad. Meanwhile, at home, the presence of international companies on their doorstep has brought Russian companies into contact with the CSR practices of others.

With concerns about their international reputation at the forefront of many Russian business leaders' minds, a key driver of CSR in corporate Russia today is a desire to promote and enhance the company's brand and reputation.

"Unilever's CSR initiatives in Russia have a large impact on how our corporate brand is perceived, particularly among our employees, who attach a great deal of importance to the company's social activities," says Ekaterina Zadonskaya, corporate brand specialist at Unilever Rus.

More than 60% of Russian companies polled for this report cite positive branding as the primary motivation for adopting CSR—the same proportion as their counterparts globally, as well as in other emerging markets. "Of course, it helps the company's business because it has an image and reputation of a responsible company," says Olga Prokhoda, a CSR manager at Nestlé Russia. Other companies make no bones about this being a key goal. Andrei Terebenin, vice-president for corporate communications at MTS, a telecommunications company, puts it bluntly: "I work in PR," he says. "I need a success story."

However, as in Europe and the US, savvy companies know that CSR must be more than window dressing. "If it were done with an eye for the public only, [the effort] wouldn't be that serious," says Igor Beketov, head of corporate communications at Lukoil, an energy company.

In much of the world, a major driver for companies' adoption of CSR and sustainability is the buy-in and leadership of senior executives. However, in our survey, just 17% of Russian respondents selected CEO and management decisions as a primary driving force, compared with over 40% globally.

Nor has CSR made it up the corporate hierarchy in many Russian companies. More than one-third of Russian companies polled for this report say that responsibility for devising and implementing CSR policies lies within either their public affairs or marketing, corporate communications or public relations departments. Just one in five respondents had developed a standalone CSR function. By contrast, one in three companies globally have established a distinct CSR department. Very few Russia-based companies have any board-level committees overseeing specific CSR issues or a specialised CSR department to coordinate issues across the company—the lack of which can lead to fragmented management of such issues. This perhaps reflects the relatively early stage of the country's economic development, following its chaotic period of transition to a market-led economy in the early 1990s.

Despite this, most executives confirm that top managers within their firms spearhead and actively support CSR efforts. One example is the creation of the Charities Aid Foundation's LifeLine programme, which helps to fund costly operations. The initiative was launched four years ago after a board member (and major shareholder) of Alfa Bank, a financial services firm, visited a hospital and found children dying due to a lack of funds for the operations they needed.

Corporate responsibility elsewhere in the BRIC countries

When considering the progress and challenges that Russian companies face, it is interesting to compare with the status quo in other emerging markets, especially the three countries that complete the co-called BRIC countries: Brazil, China and India. In general, although words and phrases such as "sustainability" or "corporate responsibility" have yet to enter the lexicon of many companies in these markets, this does not mean they are ignoring issues such as climate change, poverty or labour standards. Unlike mature markets brands, however, many simply see this as part of doing business or tapping into new consumer markets.

Several factors lie behind this approach. For a start, while in the US or Europe, corporate sustainability initiatives have often been sparked by attacks on business practices from activists, brand protection for younger companies is lower on the agenda. "Companies in emerging markets are responding less from a risk management point of view and are looking at some of this as opportunity," says Jodie Thorpe, head of the Emerging Markets Programme at SustainAbility, a UK-based consultancy.

In a report¹ conducted by SustainAbility and the International Finance Corporation (IFC), part of the World Bank, the authors found that it was value creation, rather than defensive brand protection, that was the main motive of the companies profiled. These included Amanco, a Latin American water pipe manufacturer whose watertight technology caters to low-income customers, or Deqingyuan, a supplier of high-quality eggs in Beijing that meet growing demand for safe food products. In both cases, sustainability initiatives were driven by the opportunity to fill a market niche.

With social and economic deprivation closer to home, these companies have often paid closer attention to issues such as poverty and labour standards. Brazil's Banco Bradesco has brought low-cost financial services to more than 6 million people through its Banco Postal service, operated through post office branches. "This is the only network around that allows these people to access programmes that improve their quality of life and create effective opportunities for them to become integrated in economic life," says Lincoln Cesario Fernandes, the bank's social-environmental responsibility manager. In India, among the programmes developed by Hindustan Unilever is Shakti, which helps underprivileged rural women generate income by selling its soap and other products, and promotes health and hygiene, but also takes the company's products into new markets.

At the same time, sustainability activities are often integrated throughout the business. At Tata, the Indian business group, every one of the more than 90 subsidiaries has a vice-president or general manager who leads such efforts. At annual meetings, these people help set the focus of the Group's initiatives. "We go through a lab of three days and make sure these people evolve some bottom-up solutions," says Anant Nadkarni, vice-president of group corporate sustainability at Tata. As the group has expanded internationally—purchasing companies such as Corus and Jaguar Land Rover—it treats acquisitions as sources of knowledge and experience.

In some countries, looser legal enforcement on environmental and social issues can provide opportunities for those pursuing a sustainability agenda. "Companies that regulate themselves can find themselves in market niches that others don't," says Richard Caines, Hong Kong-based manager for environmental and social development in East Asia at the IFC. In China, for example, rapid implementation of tighter regulation on the environment (facing appalling pollution) will prompt action from companies. "China has upgraded the status of its environmental ministry and is passing new legislation copying the best existing legislation elsewhere," says Ms Thorpe. "The implications for China-based businesses and their lenders are pretty immediate."

¹ Market Movers: Lessons from a Frontier of Innovation, 2007

More pressure needed

In Russia today, companies face an array of obstacles when it comes to adopting CSR principles and practices, including uncertainty about government policy, a lack of qualified personnel and worries about the total costs involved. This final point is the biggest barrier. One third of Russian executives selected cost as their key concern, above all other issues. This reflects views elsewhere in the world, as it was top of the agenda for businesses in all regions.

Nevertheless, leading companies recognise that the benefits of responsible business practices outweigh these costs. “It is fundamentally wrong to consider the necessity of following the principles of CSR as a burden on business,” says Sergei Kupriyanov, a senior spokesman at Gazprom. “For Gazprom, CSR is one of the important components of final success.”

The next biggest issue for Russian companies is a lack of clear responsibility at the board level for sustainability and CSR issues. One in four Russian executives note this as a major barrier, as do 21% of executives in other emerging markets.

A less obvious constraint has been the role of the media. Elsewhere, this is a powerful force that prompts companies into action, but this pressure is absent in Russia. While 12% of companies globally, as well as those in other emerging markets, cite the media as a key driver for change, none of the executives surveyed in Russia say pressure from media forced them to embrace CSR and sustainability. “You don’t have the same public pressure here,” says Douglas Grier, a Moscow-based manager for non-financial reporting and assurance at PricewaterhouseCoopers Russia.

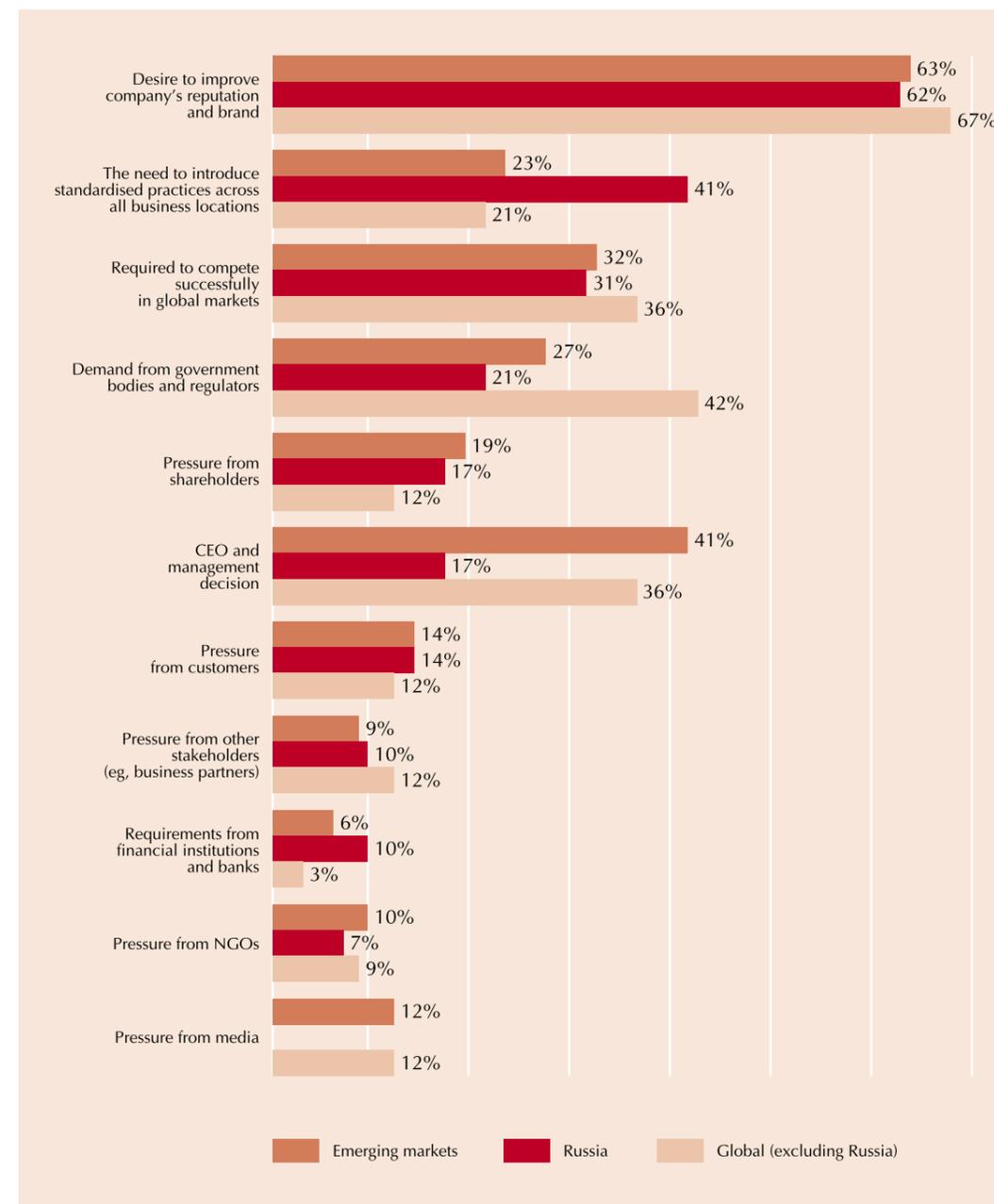
“None of the basic corporate responsibility concepts as we know them in the West—where there’s public pressure, the pressure of the press, of civil society or shareholders and other stakeholder—was in force in Russia, and it’s probably not in force now,” says Mr Horowitz of IBLF. “Companies are still not being put under pressure by Russian law or the press or civil society.”

A further barrier is the relationship of the corporate world with NGOs. While many executives say they value co-operation with non-profit organisations or NGOs, this survey shows that such bodies exert little influence on companies. This is not unique to Russia: just 7% of Russian companies name NGOs as a key driver for their CSR initiatives, only slightly less than the proportion for firms globally (10%) and within other emerging markets (9%).

In some cases, NGOs can have a positive influence on companies’ CSR, although the scope for this should probably not be exaggerated, even in the case of Western companies. According to Elena Topoleva, a director at the Agency for Social Information, a Russian NGO, organisations like hers typically help companies set their CSR and environmental strategies and establish dialogue with various stakeholders, as well as the provision of related skills. She believes about 50 such NGOs providing CSR-related services to domestic firms are in operation in Russia today, the majority of which are domestic, rather than foreign. Still, the ability of NGOs to influence companies has been affected by government restrictions on the activities of NGOs, especially those that rely on foreign funding. In Ms Topoleva’s view, since the introduction of the revised NGO laws in Russia, it has become harder to deal with the requisite paperwork, requiring more time and people, although this is not insurmountable.

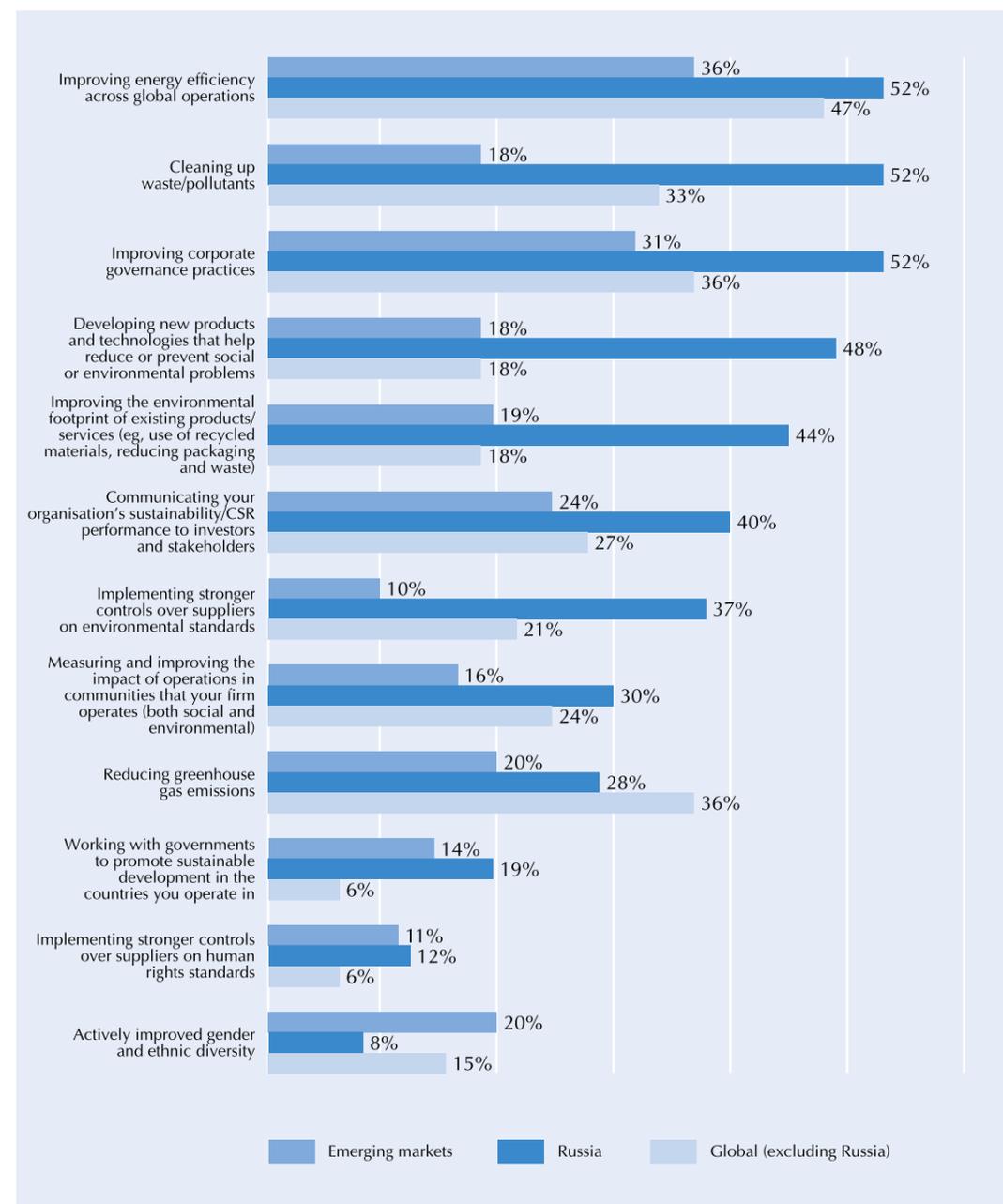
Finally, lack of government support is seen as hampering expansion of CSR activities. Russian executives say they often encounter resistance to their projects at local government level. “Sometimes local authorities are unaware of these plans,” says Alexei Germanovich, senior vice president for CSR at Severstal. “These plans are not being jointly discussed or worked out. Sadly sometimes we have a situation when industrial enterprises exist in one reality and make plans, and local authorities exist in another reality and make different plans.”

Primary motivations for your company to develop a CSR/ sustainability strategy



Source: Economist Intelligence Unit survey

High priority objectives for your company over the next three years



Source: Economist Intelligence Unit survey

CSR and the relationship between business and the state

When it comes to CSR, relations between business and the state in Russia have always been complicated. Under the model that has taken root in recent years, some executives note that the government is often seen as issuing directives, with which business is then expected to fall into line. This fails to facilitate the dialogue needed before sustainability practices can develop and flourish. As a result, companies are unsurprisingly divided about the state's role in promoting sustainability.

On the one hand, businesses want the state to help support CSR practices by creating incentives, among other things. But, as PricewaterhouseCoopers Russia's Mr Grier notes, right now "there's no carrot from the government to do it". On the other hand, business is wary of the state's approach, which is often heavy-handed. These views are reflected in this survey: 53% think uncertainty over government policy makes it tougher to plan sustainability strategies, but 30% disagree.

One example of how the state issues directives to business comes from Alfa Bank, which received a letter several years ago from a school to a high-ranking state official asking for computers. The official endorsed the missive, simply passing it on to the bank with an order to deal with it. This highlights the broad range of social concerns that companies face.

Companies argue that it is unfair for them to be put forward to take on the responsibilities and obligations of the state. "Business has the Charter [as its set of principles]. And what about the state?" asks Elena Feoktistova, director for corporate social policy department at the Russian Union of Industrialists and Entrepreneurs (RSPP).

Still, CSR is slowly attracting government attention. Artyom Shadrin, deputy director of strategic management and budgeting at the Economic Development Ministry, hopes that a bill on corporate and individual volunteering he is helping write will go into force in 2009. He is also contemplating the possibility of introducing obligatory non-financial reporting for companies in which the state owns more than 50%, although it is unclear how those corporations would react and whether it could be passed.

Still, when it comes to sustainability, Mr Shadrin holds his faith in the market. "I welcome self-regulation," he says. "What I want is to understand how we can help." One way may be the imminent launch of an online portal tackling issues of social partnership and civil society. But much work remains to be done.

Addressing the talent deficit

It is clear that there is a lack of CSR skills in Russia today. While poor understanding by management of the issues is not seen as a worry, executives point to paucity of specialists in the area as a concern. "There is one main barrier, a lack of qualified personnel," says Yulia Kochetygova, director of corporate relations at MDM Bank. "In order to develop these programmes, people are needed but they are few and far between in Russia."

Companies are addressing this in different ways, looking for help both externally and internally. Some are giving oversight of CSR issues to executives with most experience in social issues. Others have given key executives additional responsibilities. For example, Oleg Sysuev, first deputy chairman of the board of directors at Alfa Bank, whose primary responsibility is the development of the bank's regional network, also has oversight of CSR initiatives due to previous experience as the first deputy Kremlin chief of staff, labour and social development minister and mayor of Samara, a large city.

And while limited for now, relationships with NGOs are growing. “The more advanced companies are anxious to engage with NGOs, because they provide local expertise and feedback from the localities,” says Mr Horowitz. The IBLF’s Moscow office is fostering these cross-sector partnerships by bringing to Russia a programme developed in the UK designed for professionals working on the intersection between government, business and the NGO community.

Today’s CSR priorities

In their social responsibilities, some businesses—particularly in sectors such as metals and mining—are grappling with a situation unique to former Soviet countries: moving on from the legacy of communist business practices in which companies were the community-dominant service providers.

In Cherepovets, in north-west Russia, for example, Severstal supports several health institutions, as well as leisure clubs and other organisations. “The main problems, which Russian companies encounter more often than our Western partners, are connected with the Soviet heritage in the social sector,” says Mr Germanovich of Severstal. “These are those objects of social infrastructure which were not transferred to local government authorities in the beginning of the 90s ... And none of us can just abandon it overnight.”

The challenge, then, for many companies in this position is how to shift the balance to one where communities are less dependent on a single corporate entity for services such as education and healthcare. In this, some are taking lessons from their peers overseas. The IBLF, for example, is organising a visit for senior executives from SUEK, the energy company, to a city in East Germany to find out how ArcelorMittal, the dominant single factory there, is transforming the relationship between business and local government.

In other Russian companies, much emphasis has been placed on improving workplace practices over the past three years, with the development of health and safety practices and improved working conditions. Three quarters of Russian firms say they have focused on this issue, compared with less than 70% globally. “Building a positive brand reputation starts with creating a responsible work environment our employees are proud to be a part of,” says Unilever’s Ms Zadonskaya.

Priorities differ according to industrial sector. For energy or natural resource companies, obvious and well-established steps to take include minimising environmental damage or providing local education and healthcare support. In the financial sector, many companies focus on promoting financial literacy and other capacity-building programmes. In Nigeria, for example, Renaissance Capital helps financial authorities develop requirements for the local stock market to function properly under international standards.

Corporate governance is seen as an area in need of attention. Globally, improved governance on environmental and social performance tops the list of issues that firms have paid attention to over the past three years. In Russia, this comes second, along with improved corporate governance practices. However, in our survey, three-quarters (74%) of Russian respondents selected improving corporate governance as a priority over the next three years, reflecting the shift of focus towards this issue.

This comes as no surprise in an economy in transition. The country has thousands of joint stock companies. More generally, an increasing number of companies are listing on stock markets, either locally or abroad, to raise capital. This brings increased pressure to improve corporate governance—both for firms that are already publicly listed and for firms considering a possible future listing.

This focus may be why other CSR activities, such as action on the environment and social issues, are often put on the back burner. Many executives talk of restructuring and work to improve transparency, and as a result

they feel unable to pay equal attention to sustainability issues. MTS, for example, has focused in recent years on improved corporate governance. “Why? Because it’s our unique selling proposition. We wanted to make our company the most transparent in respect of financial markets,” says Mr Terebenin.

Even so, Russian companies still lag behind other countries in some areas of corporate governance. Our survey revealed that 69% of Russian firms have documented policies versus about 90% globally. Setting policies on ethics is even weaker: less than half (48%) have developed a policy here, compared with 70% of emerging market firms and 80% of global firms.

CSR weak spots

While many companies are gearing up in areas such as health and safety, corporate governance, and financial literacy, fewer companies in Russia are focusing on climate change and cutting their greenhouse gas consumption than businesses in other countries. Reducing energy consumption is cited as a priority in more than 60% companies globally, but just 44% in Russia.

As in many emerging markets, the results suggest that many companies are putting greater emphasis on cleaning up their pollution than taking measures to stop polluting in the first place. A significant minority of emerging market companies, nearly one in four, agree that it is easier to pay fines for environmental damage than to invest in improving the underlying infrastructure.

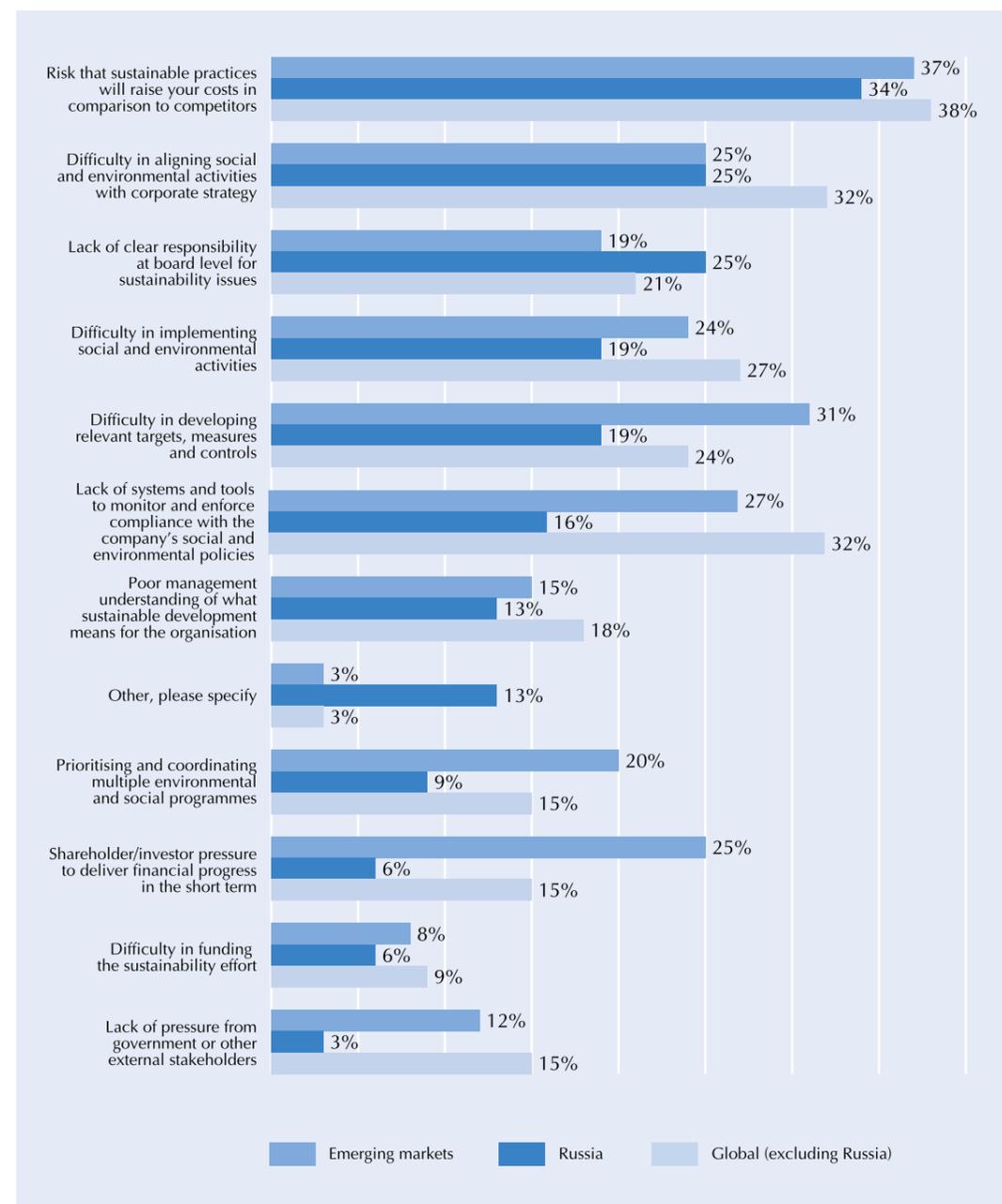
However, many Russian companies are stuck with antiquated and inefficient infrastructure from the Soviet era. “When you inherit a Soviet-era enterprise, you also inherit millions of tons of waste,” notes Vera Kurochkina, director of corporate communications at UC RUSAL, which has invested over US\$1bn in modernising its aluminium smelters and other equipment. A large number of energy companies and other heavy industry firms have been installing new equipment and earmarking budgets to clean up Soviet-era waste.

Another weak point is that while CSR elsewhere increasingly extends to the broader supply chain, efforts by Russian companies are largely limited to operations at home, despite their aggressive expansion abroad over the past decade. Just 26% say that their CSR or sustainability strategy extends to cover both their global operations and their supply chain. This is far behind the global average of 47%, but ahead of other emerging markets (21%). “We can and do consider it possible to demand that from our suppliers,” says Elena Trifonova, a senior public relations manager at Wimm-Bill-Dann, a food and beverage company. “However, it’s a voluntary matter.”

A further area in apparent need of attention is workplace gender and ethnic diversity. However, unlike dealing with pollution and better workplace standards, this is arguably a secondary issue for CSR. Only 8% of Russian executives believe that actively improving this will be a high priority for their firms over the coming three years. Nearly one in four (24%) say it is not a priority at all. This compares with one in five companies globally who say it would be a high priority for them in the next three years. Only 6% report that it is not a priority. “Neither the government nor top executives in Russia are seriously dealing with gender diversity,” says Nozima Rakhmanova, a marketing and corporate communications manager at PricewaterhouseCoopers Russia. In her view, this is partly because the situation in Russia is much better than in many other countries.

This may be because, in Russia, the tendency remains to hire employees on the basis of merit. Indeed, a positive legacy of Soviet education is that many women work in scientific and engineering fields such as heavy industry, civil engineering and chemicals—industries that are notably male-centric in other countries. Nevertheless, as in the West, it is difficult to find many examples of female Russian CEOs or board members.

Major barriers to making further progress on sustainability goals in your organisation



Source: Economist Intelligence Unit survey

Mapping the progress so far

As many of the reports produced by Russian companies reveal, philanthropy is still seen as an important part of CSR and of the country's corporate heritage. "There were charitable traditions in Russia and we should value them and be proud of them," says Mr Beketov of Lukoil. "What is being done these days is probably the continuation of those traditions."

However, while continuing to support philanthropic projects, savvy companies are at the same time starting to address the social and environmental impact of their business activities and integrating CSR principles into their operations. "The overall picture [in CSR] is not so good in Russia," says Mr Horowitz of IBLF. "But below the surface, we see management becoming more and more professional, with a real hunger for learning different approaches from each other and from abroad and applying them in Russia."

Moreover, there is evidence that companies are starting to tackle environmental issues. Over the next three years, Russian companies expect to place emphasis on cleaning up waste and pollutants (78% selected this as a top priority) and implementing energy efficiency measures (65%), while 83% of Russian companies polled for this report have set an environmental policy. This is well ahead of their emerging market rivals (70%) and other firms globally (73%).

When it comes to establishing general CSR policies, Russian firms are broadly in line with other emerging market companies (about seven out of ten have done so), although this lags behind the global developed market average of 80%.

As in the rest of the world, participation in voluntary initiatives is an important part of many companies' CSR activities. Within specific industries that issue codes of practice for sustainability or CSR, attendance is not particularly strong among Russian companies: just one in ten subscribe to these, compared to one-third or higher globally.

However, membership of voluntary business associations is growing. While the IBLF's membership in Russia was initially dominated by overseas multinationals, the numbers of local companies joining the association is growing rapidly.

In 2004, the Russian Union of Industrialists and Entrepreneurs, or RSPP, a leading big business lobby group, developed and adopted the Social Charter outlining principles for responsible business practices. Today, more than 200 companies and organisations with a total staff of 5.5 million have joined the charter. According to this survey, about one in ten major companies in Russia subscribe to initiatives such as this, about the same proportion as their rivals abroad.

Last year, the charter was updated and recognised as being in agreement with the social and environmental standards laid out by the UN Global Compact, the world's largest voluntary corporate citizenship initiative. "By promoting the Social Charter, we are promoting the Global Compact," says Elena Feoktistova, director of RSPP's corporate social policy department. "It's very important that the Russian business has developed a position on what corporate social responsibility is all about," she adds.

In April 2008, UN Secretary-General Ban Ki-moon launched a Global Compact Network in Russia, which now has 28 local members, including the RSPP. This is a good start, although far more companies from other emerging markets subscribe to it: 178 in China, 168 in India and 251 in Brazil.

When it comes to documenting CSR, social reporting is in early stages in Russia, but growing. "This process is very actively developing in Russia," says RSPP's Ms Feoktistova. According to the RSPP, just 50 non-financial reports were issued in Russia by September of 2006. That figure grew to 63 by January 2007. As of July 2008, there were 122 reports in total, an impressive rate of growth.

And while many still see these reports as a way to trumpet activities that are only tangentially related to CSR—such as sponsorship of art exhibitions or rock concerts—others are adhering to international reporting and assurance guidelines from organisations such as the UK's AccountAbility or the Global Reporting Initiative (GRI). This survey shows that a large number of companies (42% in Russia, 35% in emerging markets and 46% globally) report on their social and environmental impact and performance in accordance with international guidelines. A further 26% of Russian firms publish such reports, although not in accordance with any guidelines. Most of the rest (23%) plan to publish a report within the next three years.

Gazprom and SABMiller Rus are preparing to publish their first sustainability reports. Renaissance Capital, an investment bank, will produce its first report in April 2009. Others are sharpening their standards. Lukoil, for example, publishes a detailed biennial report in accordance with GRI standards. UC RUSAL first reported on these in 2004. Its next report is expected to comply with both GRI and UN Global Compact standards, as well as being externally audited.

However, there is also a recognition by some that international standards are sometimes hard to implement and not always aligned with the country's standards of statistical and financial reporting.

For this reason the first non-financial report of Renova Group, an asset management firm with stakes in a wide array of industries, will not be in full accordance with GRI standards. Marina Mikhaylova, director of corporate responsibility and sustainability reporting department at Renova Management, says the report will present examples of responsible business practices in these companies—encompassing the metallurgical, oil, machine engineering, mining, development and financial sectors—but will not include a full list of GRI indicators.

Moreover, many believe reporting should not be done simply for the sake of reporting. And as the practice of publishing an annual CSR report starts to lose its lustre globally, Russia may have an opportunity to bypass this mechanism and move to the kind of web-based information many Western companies are now turning to.

A snapshot of corporate Russia's CSR efforts

-- Energy --

- *Gazprom: gasification as a social mission*

One of the key tasks at Gazprom is sending gas to the country's most remote corners. Between 2005 and 2007, the gas giant spent Rb43bn on sending gas to 13 million Russians across 53 regions. As a result, the level of gasification in the country has increased to 62% from 54%. This year, the company plans to spend more than Rb23bn to that end, with the number of regions set to benefit growing to 62. "Providing Gazprom with the big possibilities to implement social projects, the state solves the task of maintaining an economic, social and spiritual well-being of the Russian population," says Sergei Kupriyanov, company senior spokesman. "The gasification project in any country in Europe, where consumers pay for gas at market prices, would be considered commercial," he adds. "In Russia—where, in a recently unprofitable market, Gazprom has for three years invested Rb43bn in regional gasification—gasification is certainly a social initiative."

- *Lukoil: urban regeneration*

When Lukoil bought KomiTEK in 1998, the situation at the company town, Usinsk, in the Komi republic, was dire. In 1994, a large oil pipeline spill had created an environmental disaster, while a dramatic fall in extraction had left much of the population out of work and depressed. Many were selling their homes and

leaving. The company needed to act. At a time when government action was lacking, the company spent a huge amount of money on post-disaster relief, increasing production. Lukoil also renovated the town's plant, the oldest in the Soviet Union, built in 1934. It flew a dozen local administration officials and activists to Kogalym, in Western Siberia at the heart of its operations, to show them how an oil town could look. When they saw a neat, well-ordered town, "people had an emotional shock", says Lukoil's Mr Beketov. Ten years later, Usinsk, too, is a well-ordered town. Oil extraction has significantly increased and people are no longer leaving. "If it's a serious business, which thinks about the future, then this is the way to go," says Mr Beketov.

-- Metallurgy and mining --

- *UC RUSAL: efficiency gains with environmental benefits*

Having acquired a legacy of ageing equipment, UC RUSAL, a major aluminium producer, is firmly focused on modernisation as a key priority. Since 2000, the company has invested more than US\$1bn to reduce the environmental impact of its operations globally. A further US\$1.4bn is planned for additional modernisation over 2007-2013. UC RUSAL invests over US\$100m in R&D annually, which has helped upgrade its outdated smelter technology and also created new electrolysis cells. These not only raise production efficiency but also create significant reductions in greenhouse gas emissions. Developing and deploying such technologies is intended to help the company achieve its stated goal of cutting power consumption and reducing greenhouse gas emissions across its smelters by 50% by 2015 and, in the longer term, to become carbon neutral. The company also aims to find ways of re-using industrial waste, conserving water and increasing the use of renewable energy recycled materials in its production processes.

- *Severstal: eco-friendly investments*

In September 2001, Severstal became the first Russian metal and steel company to receive a certificate of compliance with the international standard ISO 14001 for its environmental protection and management from Bureau Veritas Quality International, an international certification agency. In 2006, the company's two major projects were the reconstruction of a blast furnace and a coke oven battery at the Cherepovets Metals Combine. As a result, wholesale emissions to atmosphere were reduced by 1,099 tons a year, among other achievements. The plant spent a total of US\$43.8m on environmental protection in 2006. The same year, Severstal North America spent more than US\$9m on steelmaking technologies that allowed it to reduce emissions significantly. In addition, at each of the company's enterprises, managers with specialist skills in areas such as ecology are responsible for reducing the negative impact of their enterprises on the environment by, for example, working to reduce the amount of emissions generated by their activities or introducing closed water cycles.

- *SUEK: focusing on internal accountability*

Accounting for almost 30% of thermal coal shipments in Russia, the Siberian Coal Energy Company (SUEK) is the country's largest coal-mining corporation. It also has shareholdings in a large number of energy companies in Siberia and the Far East. Faced with a large and complex organisational structure, SUEK is focusing on compliance with international standards and best practice across its operations. As a result, it has developed extensive internal assessment mechanisms. These include an internal audit function—which reports to the audit committee of the board of directors and the general director—a risk management division and an internal controls group that is responsible for developing and improving control procedures. These mechanisms allow the company to assess not only traditional areas of risk such as asset values and information security but also social relations.

-- Banking --

- *MDM Bank: improved transparency and clear corporate ethics*

MDM Bank, a Russian financial services firm, last year began implementing a formal corporate social strategy. The bank's primary aim is to adhere to global standards for banking services and principles for corporate ethics, while improving transparency for stakeholders and the public. Underneath these overarching aims are several specific goals, such as ensuring access to its services to a wider range of customers and becoming an "employer of choice" for staff, thus boosting staff hiring, retention and motivation. Yulia Kochetygova, the bank's director of corporate relations, says one of her most urgent tasks was to ensure clear and immediate communication of all key management decisions to the bank's 5,000 employees, spread out across 35 branches. Another key task was establishing a dialogue with regional stakeholders. Alongside this, the bank decided to channel 1% of profits (estimated at US\$2m in 2007) into sponsored projects, such as classical music concerts and education.

- *Troika Dialog: spreading business ethics*

Russia's oldest investment bank, Troika Dialog, has taken an active role in addressing Russia's reputation for corrupt business practices. It started in 1994, when the company established a formal values statement, putting fairness, trust and integrity at the heart of its operations. Crucially, a clause entitled "Commitment to Russia" signalled the company's interest in providing leadership in corporate governance beyond its own four walls. An internal team was set up to foster healthy business practices. Since then, the company has become a catalyst for business ethics debates and initiatives across Russia. In 2001, for example, it formed a partnership with the World Economic Forum to release a 65-page report on the corporate governance investment risk profiles of Russia's largest companies. It has also spread business ethics principles to clients, who regularly request corporate governance details about a company before deciding to invest in it.

Sources: Published CSR reports from relevant companies.

Return on investment?

As elsewhere, most Russian executives see CSR and sustainability as an asset, rather than a liability. Companies say implementing sustainability programmes, such as reducing carbon emissions or investing in healthcare, cost money in the short term, although it is unclear how significant the benefits could be over the long term.

This is because developing a precise formula for measuring CSR remains difficult and something that even the most advanced proponents have yet to develop. Calculating the benefits "would be very interesting," says Alfa Bank's Mr Sysuev. "But I don't know if there's an instrument which could do that with a certain degree of precision."

Attempts at measurement are being made nevertheless. "Social benefits have to be measurable," says Nadezhda Khotina, corporate affairs director at SABMiller Rus. "We are confident that social projects can be measured over a certain period of time," says UC RUSAL's Ms Kurochkina. "Measurability is a component we include in all our key performance indicators to measure the effectiveness of our operations and we have developed a calculation system which includes analysis of quantitative and qualitative data."

In many areas, however, Russian executives have found that sustainability efforts can deliver tangible benefits. The obvious one, especially at a time of record energy prices and serious concerns about climate change, is improved energy efficiency. A programme at Lukoil, for example, aims to save 1.6bn kWh of energy during 2006-2010. The financial benefit of this initiative is expected to be Rb1.7bn (US\$71.5m).

Such programmes "provide a rather big and positive effect from the point of view of reducing CO2 emissions and [the firm's] environmental footprint on the whole, and it can really save money for the company," says Severstal's Mr Germanovich.

There are also benefits beyond energy efficiency. One of the Renova Group companies, for example, reduced absenteeism and increased production at its non-ferrous metals processing plant in Kamensk-Uralsky by expanding its health awareness programme to include the entire town, not just the plant itself. "As a result, we saw fewer instances of people getting sick and productivity has increased," says the company's Ms Mikhaylova. In another example, the launch of a three-step system to control labour and industrial safety in the Koltsovo Airport near Yekaterinburg, controlled by the Renova Group since 2006, led to an almost threefold reduction in production injuries and a 30% increase in operating activities by the end of 2007. This also produced savings of Rb7m (US\$273,000).

Beyond the cost reductions, sustainability and CSR in general is widely expected to deliver reputational benefits and increased brand value. This survey bears this out. Respondents are unanimous in their view that good CSR and sustainability delivers a competitive advantage through a stronger brand. In addition, 70% companies in Russia, more so than elsewhere in the world, say it helps attract business in other emerging markets.

In Africa, Renaissance Capital is helping set up football pitches with the aim of taking children off the streets and engaged in sport. UC RUSAL is another example: "Our company invested a total of US\$11.3m in its African operations during 2007, encompassing both infrastructure and social projects within Nigeria and Guinea," says Ms Kurochkina. Such actions help companies like these establish a better local reputation in those markets, which in turn can help to secure deals.

CSR strategies can also help companies attract mainstream investors and specialist socially responsible investment funds by demonstrating that they are well run and respected in the local community. "Many companies [are listed] in market indices of sustainability development and there's a number of investors who begin to look at them," says Severstal's Mr Germanovich.

While the impact of SRI funds on companies today remains small, most executives talk of their aim to improve their ability to raise capital abroad as a result of their CSR initiatives—or at least to boost their market capitalisation via an improved public image.

Russia's CSR outlook

Although plenty of barriers remain for Russian companies wanting to improve their social and environmental impact, CSR is firmly on their agenda and, while its pace and depth varies widely, the process of building corporate social responsibility into business operations is gathering momentum. As in the West, Russian companies are using broad definitions of CSR and sustainability in their attempts to align financial, social and environmental goals. However, some companies lack a clear understanding of what such initiatives include, limiting activities to community work or various forms of corporate philanthropy.

Much remains to be done. This report shows that greater attention needs to be paid to developing stronger leadership, more comprehensive measurement mechanisms and improved relations with the state, third party suppliers and partners. From an environmental perspective, much more needs to be done to replace the infrastructure legacy of the Soviet era as well as to reduce the carbon footprint of current business activities. However, most executives appear to understand that they need to raise their game, particularly those making investments abroad.

A greater question for Russian companies, however, is determining what CSR means in the context of their country. For centuries, Russians have debated whether their country should adopt a Western path of development or one of its own. The country's interpretation of sustainability is part of this debate. Some hope that companies will increasingly conduct business in line with accepted values and practices of the West. Others argue that Russian business should not blindly copy models accepted elsewhere, given the vast differences in the business environment, attitudes and traditions. However, as Russia's major corporations work to transform themselves into competitive international brands, the issues they tackle will, from necessity, also become more global in nature.

Key conclusions and recommendations

- **External pressures are a major driver for CSR in Russia.** Pressure from international stakeholders and other new demands that Russian firms face as they expand and operate globally, has acted (and will continue to act) as one of the primary drivers for increased CSR take up. Indeed, the majority of large Russian companies have a CSR or sustainability policy in place today.
- **The workplace has benefited most from efforts so far.** Since the start of this decade, Russian companies have focused in particular on improving workplace policies, such as better health and safety regulations. Corporate philanthropy also plays an active role in many companies' efforts.
- **Social, environmental and financial goals should be aligned.** Sustainability does not involve a simple checklist of activities, but an alignment of social, environmental and financial goals. Companies should also focus on the activities that are closest to their core competencies.
- **The environment looks set to be the next major focus.** Looking ahead, the focus is necessarily shifting towards environmental issues, as companies grapple with the challenges of Russia's legacy infrastructure. Other things will need attention too, such as the establishment of clear ethical guidelines. More attention also needs to be placed on the supply chain. Just as with the financial side of operations, poor performance by suppliers here can harm a company's sustainability record—and very quickly its public reputation.
- **Strong leadership will be needed.** Success in these areas requires that somebody be responsible for sustainability issues. Moreover, wherever that responsibility is placed in the corporate structure, environmental and social priorities must have unequivocal support from the board, CEO and other senior management. This report shows that the strength of leadership is mixed on these issues within Russian firms.
- **Firms should move to a systematic approach.** Sustainability will not work as an add-on. It needs to be included in all aspects of the business and integrated into corporate structures and processes. Such change can be hard to manage, but is a key element of getting this right.
- **Companies should be on the lookout for beneficial innovations.** The primary obstacle preventing greater take up of CSR-related activities is uncertainty about costs. However, taking account of social and environmental issues can lead to extensive innovation that cuts costs in the long run. At its best, it can open the way to new market opportunities and prepare the company for the growing risks in these areas. The precise measurement of benefits remains a work in progress for most firms, but gains have been demonstrated in a range of ways, such as reduced energy bills, improved productivity and stronger brands.

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