

UDC 332.14 (985)
LBC 65.050.22(001)
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Assessment of the potential of large business' participation in the socio-economic development of the Arctic region

The article deals with the issue of corporate social responsibility (CSR) of large corporations and studies its role in the life of local communities in Russia's Arctic regions. The authors summarize some foreign and domestic theoretical studies and propose a classification of CSR forms and development stages. The obtained theoretical data serves as the basis for the analysis of CSR at the largest mining enterprises of the Murmansk Oblast, which is presented in the article.

Corporate social responsibility, mining and industrial corporations, local communities, Arctic region.



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Development of the Arctic zone of Russia in the modern geopolitical and economic context is viewed by Russian society as an important imperative of the country's long-term development. A broad debate on the issues concerning the determination of a role and place of Northern territories in the formation of Russia's socio-economic potential and its rating on the global political arena is becoming more intense, as the interest of the leading circumpolar powers in the Arctic shelf resources increases. The growth in consumption of oil and gas products, mining, chemical, metallurgical

industry products in the world and national markets is accompanied by an increasing importance of the Russian North. Meanwhile, handling the issues of sound natural resources management in the Northern territories, enhancing the economic presence of Russia in the Arctic zone is complicated by the whole range of infrastructural, socio-demographic and institutional problems.

According to the authors of the project 'Development strategy for the Arctic zone of the Russian Federation and for ensuring national security in the period up to 2020',

the main threats to the competitiveness of Russia' Arctic zone among other things include the increase of spatial asymmetry in the development between individual subarctic territories, the aggravation of social stratification of the employed in different industries in terms of income, the narrowing of the social base of development. Obviously, a big number of problems of the Northern territories is conditioned by the peculiarities of the existing settlement system, that has a strong bias toward high urbanization. It should be noted that this tendency is the stronger, the more the respective territory has been involved in industrialization process. The cities, emerged in the Soviet period around mineral resources extraction centres for ensuring their development objectives are faced with three major groups of challenges [1].

The first range of issues is stipulated by the inadequacy of the manpower balance in the North. The structure of labor resources was formed in the framework of the Soviet northern contract. The system assumed that healthy, young people agreed to work in uncomfortable living conditions provided that they could earn enough money for a comfortable old age. At that, the northern contract was a social agreement, which did not establish the criteria for the quality and efficiency of work in the Northern territories. The work was not market-oriented, and the development of the North, adopted in the Soviet Union was not market-oriented as well. This happened in connection with the fact that the Northern territories were developed for the industrial needs of the whole country and the existence of certain Northern corporations was justified by what they were doing in the framework of cooperation with other industrial groups.

A huge infrastructure of the Northern cities and towns is the second problem. The provision of its functioning is a financial burden for municipalities. In spite of severe climatic conditions, the planning and architectural

image, as well as the engineering maintenance of Northern cities and towns do not differ essentially from those of the cities and towns, located in the conditions of a more moderate climate.

The third challenge consists in the low labour productivity, the problem of excessive employment. Taking part in global competition, Russia's corporations have to struggle for the increase of labour productivity, which will inevitably lead to the restructuring of non-core assets, the release of employees. And again there arise the questions concerning the deterioration of labour balance and growth of social costs.

The maximum responsibility for the solution of the listed problems is rested traditionally on the state and local authorities of the federal level, as well as of the regional level of the Northern territories. However, experience proves that this activity widely involves corporations, working in the Northern regions. At that, if the common position of the state concerning the Northern territories for a number of reasons is not completely defined yet, then the interest of the companies in the issues of socio-economic development of their production residences is quite justified. It seems that in this case the task of ensuring labor resources reproduction in the right quantity and quality is of paramount importance. At the same time, there exist other motives (they are described later), encouraging business to participate in the life of local communities.

Corporate resource for the solution of social issues is very important, and in some cases, it is even possible to talk about its comparability with the state one. Using this resource for general purposes can bring substantial synergy effect, give a new impetus to the development of the Northern territories. Therefore, the subject of this study is a set of issues on the qualitative analysis of the phenomenon of social responsibility of large corporations operating in the Arctic regions of Russia (in the case of

the largest mining enterprises of the Murmansk Oblast and their parent holding structures), and the role of this resource as a factor of socio-economic development of local communities.

Theoretical framework and methodology of the study

The complex of companies' actions aimed at solving socio-economic problems, traditionally associated with the exclusive competence of the state, is described by the category of corporate social responsibility in the global scientific and business practice.

A CSR concept is believed to originate in two theoretical structures that emerged in the 1970s. The author of the first one, *the theory of corporate egoism*, is the Nobel laureate M. Friedman, who wrote in 1971 in *The New York Times*: "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game" [2]. Another viewpoint is called *the theory of enlightened self-interest*. It identifies corporate social responsibility is identified with sponsorship and charity as the varieties of social investment. The central message of the theory consisted in the notion that current reduction in the companies' profits due to the socially oriented expenses creates a favourable social environment, promoting sustainable business development [2].

The subsequent evolution of theoretical notions concerning the phenomenon of CSR has led to the emergence of extensive scientific platform, classifying the possible socially-oriented activities of companies and formalizing the managers' motivation to implement CSR. In the modern conditions of social development, the interpretation of the CSR concept, when it comprises everything, including the ability to pay wages and salaries to their employees in time and to pay taxes in time, is characteristic for the 'young, emerging markets...like the Russian and Chinese ones' [3]. A narrower interpretation adopted in Western companies,

states that 'social responsibility is the ability and willingness of business of its own accord to deal with the issue that is not only directly associated with production, sales of goods and services, but also with the welfare of the society of the country in which the company operates' [2], and the society includes the consumers of the company's products, it also includes the company's employees as well as their families. Paying tribute to the pluralism of opinions on the part of scientific and business community in the issues of formalizing the category of CSR, in general, one can understand its contents as a system of voluntary relations between the employee, the employer and the society (the state), aimed at the improvement of social and labour relations, the maintenance of social stability in the work team and the surrounding community, the development of social and environmental activities at the national and international levels [3].

Systematization of the ideas of domestic and foreign researchers concerning the internal structure of the corporate social responsibility phenomenon allows a number of conclusions to be made.

Firstly, the social responsibility of business has a multi-level character. The basic level envisages the fulfillment of the following obligations: timely payment of taxes, payment of wages and salaries, the provision of new jobs, where possible (expansion of staff size). The second level of CSR involves the provision of employees with adequate work and life conditions: improving their qualification level, preventive treatment, housing construction, development of social sphere. The third level of responsibility implies the 'exit' of a company's social and environmental programmes beyond the corporate boundaries.

Secondly, it can be observed that at present there exists a well-established set of 'action points' of corporations in the field of CSR. These directions can be divided into internal ones and those relating to the outward manifestations of social responsibility (*tab. 1*).

Table 1. Forms of corporate social responsibility by the criterion of the relation to the main business of the company

No.	Internal	External
	A	B
1.	Enhancement of work safety	Charity
2.	Stability of salaries and wages payment, maintenance of socially important salaries and wages	Promotion of environmental protection
3.	Additional medical and social insurance of employees	Cooperation with local community, local and state authorities
4.	Development of human resources through training programmes and skills upgrading	Readiness to participate in crisis situations
5.	Provision of support to employees in emergencies	Responsibility to the consumers of goods and services (the production of quality goods, products certification, etc.)

Thirdly, it is possible to classify the main motives of implementing corporate social responsibility:

- development of its own staff and the enhancement of labour productivity in the company;
- stability and sustainability of the company's development in the long term through the establishment of closer cooperation with the state;
- preservation and enhancement of the main state institutions' activities. Maintenance of social stability in the society as a whole.

The given conclusions concerning the internal structure of CSR provide a theoretical framework for a necessary empirical analysis of the integrity and complexity of social strategies implemented by the largest mining companies of the Murmansk Oblast, as well as their parent holding structures. The main methodological technique of the analysis is the comparison of the companies' principles, directions and motives of responsibility with the 'standard' principles, directions and motives, previously defined through theoretical generalizations. Social strategies of the companies are being consistently analyzed. At the first stage, the phase of CSR practices development at the enterprises of the group is defined. At the second stage, on the basis of the corporate social responsibility matrix (see tab. 1) the concrete practices of social responsibility, implemented by the company, are reviewed.

At the third stage, the main motives of CSR, declared by the companies, are analyzed.

The largest mining enterprises in the Murmansk Oblast include OJSC Apatit, JSC Kola Mining & Metallurgical Company (JSC Kola MMC), OJSC Olenegorsky GOK, OJSC Kovdorsky GOK. All the four plants are included into the vertically integrated business-groups, which are the major producers in ferrous and non-ferrous metallurgy, phosphorous-containing fertilizers, and which have a great impact on the socio-economic development of their residential territories. According to the statistics and annual reports of companies, in 2011 they provided jobs for a quarter to almost a half of the able-bodied population in the cities and towns of their presence (*tab. 2*).

Tax revenues from OJSC Apatit, JSC Kola MMC, OJSC Olenegorsky GOK, OJSC Kovdorsky GOK in the local budgets of the towns of Apatity, Kirovsk, Monchegorsk, Zapolyarny, Nikel, Olenegorsk and Kovdorsky District by the main 'municipal' tax, i.e. individual income tax, amounted to 36.3%, 35.1%, 19.8% and 51.3%¹ respectively in 2011. Such a close integration of the companies in the socio-economic structure of the territories once again emphasizes the importance of CSR practices for the local communities.

¹ The data on the tax paid by JSC Kola MMC have been consolidated according to three budgets: of the towns of Monchegorsk, Zapolyarny and Nikel. The data on OJSC Apatit have been consolidated according to the budgets of Kirovsk and Apatity.

Table 2. Share of workers of the largest mining companies in the Murmansk Oblast in the total number of employees of municipal entities

Municipal entity	Number of persons working at large and medium enterprises of the municipal entity, pers.	Share of employees of backbone enterprises in the total number of working population, %			
		OJSC Apatit	JSC Kola MMC	OJSC Olcon	OJSC Kovdorsky GOK
Town of Apatity	16852	33.1			
Town of Kirovsk	18349				
Town of Monchegorsk	15598				
Town of Zapolyarny	8113		33.2		
Urban-type settlement of Nikel	2981				
Town of Olenegorsk	8801			24.5	
Kovdorsky District	7892				45.6

Before moving on to the description of the results obtained by analyzing the development of corporate social responsibility practices at the largest mining enterprises of the Murmansk Oblast, it is necessary to make some methodological clarifications. Firstly, it should be taken into account that these companies are the production sites of large holdings with a centralized decision-making system. And their main task consists in the implementation of production function, and as for the issues of social strategy development, they are the prerogative of the higher levels of corporate hierarchy. Therefore, the main source of information for the analysis of CSR is the data of the parent companies: OJSC PhosAgro, OJSC MMC Norilsk Nickel, OAO Severstal and JSC EuroChem.

Secondly, a substantial allowance has to be made for the factor of information disclosure. The fact is that the majority of Russian corporations form their social accounting only at the level of the holding as a whole. At that, the disclosure of information on the social programmes, as a rule, is carried out on a much smaller scale in the reports and development strategies of the constituting enterprises of the holding.

Analysis of CSR programmes

PhosAgro, one of the largest world manufacturers of mineral fertilizers, declares its readiness to participate in the responsibility for ensuring the country's food security and the

development of the domestic market of mineral fertilizers, compliance with ecological norms and rules, rational nature management. Being the largest, and, in some regions, the main employer (*tab. 3*), OJSC PhosAgro recognizes its responsibility for the social stability and sustainable economic growth of the territories of its presence.

The major social programmes of OJSC PhosAgro are aimed at the following:

- improvement of working and living conditions of the company's employees, living conditions of their family members, development of the regions;
- charitable projects for the benefit of local communities;
- activities in the sphere of ecology and industrial safety, aimed at the improvement of ecological situation, reduction of harmful emissions, enhancement of the safety of production and usage of the company's products;
- programmes, aimed at the development of relations with international branch-wise scientific community and the support of young Russian chemical scientists [4].

The development phase of CSR practices at OJSC PhosAgro can be referred to the third stage, at which the company's social and ecological programmes go beyond the corporate limits. The company's social accounting for the year 2011 indicates its participation in the implementation of all the forms of responsibility presented in table 1.

Table 3. Number of employees and average remuneration at the major mining enterprises of the Murmansk Oblast in 2011

Indicator	OJSC Olcon	OJSC Apatit	JSC Kola MMC	OJSC Kovdorsky GOK
Average number of employees, persons	2154	11648	8857	3601
Average monthly remuneration, rubles	39800	41369	49970	43366
Average monthly nominal accrued wages in December 2011 in the Murmansk Oblast on the average	32797			

The main motives for the company's activities in the sphere of CSR are as follows:

- motivation of employees to improve the level of professional training and personal growth;
- reduction of the risks of social conflicts between the employees and managers of enterprises;
- enhancement of life quality of the company's employees, their education and cultural level, health condition of employees and their family members;
- development of efficient and long-term relations with executive authorities of all levels;
- formation of a positive public opinion about the company, enhancement of its attractiveness as an employer.

The facts indicate that the holding's management pays much attention to the issues of social responsibility. At the same time, the official web site of OJSC PhosAgro, as well as the accounting of OJSC Apatit itself contain extremely insufficient information about the social practices implemented by OJSC Apatit. The company does not produce independent social accounting, it does not define sections dedicated to CSR in its annual and quarterly statements. In addition, OJSC Apatit does not disclose information concerning the volume of taxes and other obligatory payments transferred to the regional and local budgets. The only figure on the basis of which it is possible to estimate the scale of the enterprise's social responsibility, is contained in part 8 of the report for 2011: "In the reporting year, the Company's expenses on the social sphere, cultural activities, payments

under the collective agreement, charity and other similar non-production needs amounted to 1 billion 252 million rubles."

OJSC MMC Norilsk Nickel states as its social mission the production of necessary goods using the safest and most efficient technologies on a sustainable, long-term basis for promoting social progress and prosperity of society, sustainable development of territories and well-being of the regions' population, improvement of living standards of its employees [5].

The main principles of corporate social responsibility, implemented by the company, are grouped in three sections. In relation to society as a whole, they are as follows:

- production of goods required by society and meeting the requirements of safety of competitive products in the volumes, quality and range that comply with the needs of a modern market;
- production in the most efficient way, taking into account the interests of business and society and using resource-saving technologies;
- unconditional compliance with the legislation of the countries where the enterprises are located, also with regard to tax payment;
- compliance with international agreements, including the standards of doing business, worked out by international community.

In relation to local communities:

- provision of jobs to the population on the territories of presence;
- payment of taxes to local and regional budgets;

- socially responsible restructuring in a way acceptable to local communities;
- ensuring environmental and industrial safety of production, participation in regional projects on environmental protection;
- implementation of projects facilitating the socio-economic development of territories;
- support of socially unprotected categories of citizens.

Principles of corporate social responsibility of business in relation to the personnel:

- provision of jobs with competitive remuneration and social benefits;
- unconditional compliance with the norms in the sphere of social and labour relations set by the law and collective agreements;
- ensuring safe and convenient working conditions based on the priority of employees' safety and their health preservation;
- promotion of a comprehensive professional and cultural development of employees.

It should be noted that the achievements of MMC Norilsk Nickel in organizing socially responsible business are much more significant in comparison with its 'counterparts'. This is the only one out of the four companies under the analysis that has an administrative mechanism of CSR development management integrated into the holding's organizational structure. Unlike OJSC PhosAgro, OAO Severstal and JSC EuroChem, Norilsk Nickel has developed a long-term strategy of its own sustainable development (including in the area of social responsibility) contained in fundamental corporate documents. Finally, the third feature indicating the leadership of MMC Norilsk Nickel in the level of CSR management quality lies in the fact that the company has formed special social reports for 2009 – 2011 according to the international standard GRI G3 (in 2010 – 2011 social reports under GRI G3 standard were also prepared by JSC EuroChem).

The formal analysis of CSR development at the enterprises of MMC Norilsk Nickel produced results similar to those obtained with respect to the corporate social responsibility of OJSC PhosAgro. *The development phase of CSR practices at OJSC PhosAgro can be classified as the third stage*, at which the company's social and ecological programmes go beyond the corporate limits.

The high level of organization of socially responsible business in the parent company, obviously, determines the directions of activities of its departments. For instance, the annual report of JSC Kola MMC contains the specialized section devoted to the implementation of social programmes for employees, their family members, local communities of Monchegorsk, Zapolyarny and Nikel. The total amount of the company's expenses on the implementation of CSR programmes in 2011 amounted to 532437 thousand rubles, 119800 thousand rubles were spent on the charitable support for state, municipal and public organizations; the company's expenditures on the financing of the corporate pension programme amounted to 38083 thousand rubles, and 374554 thousand rubles were directed to other social payments and the financing of corporate programmes.

As for OAO Severstal, it pays major attention in CSR sphere to the people, health care, work safety and environmental protection, society and charity [6].

The list of specific social practices that are described on the company's website, is similar in content to the same programmes of OJSC PhosAgro and OJSC MMC Norilsk Nickel. The analysis of the data contained in the company's social reports and programme declarations allows the following conclusion to be made: *the development phase of CSR practices at OAO Severstal can be classified as the third stage*, at which the company's social and ecological programmes go beyond the corporate limits.

The company *participates in the implementation of all the forms of CSR, presented in the matrix in table 1, and the basic motives of corporate social responsibility of OAO Severstal correspond to the 'standard' directions of the companies' social activity.*

OJSC Olcon, which represents Severstal holding in the Murmansk Oblast, exerts the least impact on the territory of presence (the town of Olenegorsk) out of the companies considered in the present study (see the data in tab. 2 and 3). The company does not make up an independent social report and it does not single out a section dedicated to CSR in its annual accounts. Therefore, without access to insider information, it is not possible to evaluate the extent of social programmes of OJSC Olcon.

The EuroChem group has created an efficient system of corporate social responsibility, described by the company itself as the most developed in the agrochemical industry of the Russian Federation [7]. It should be noted that such statements are not groundless. The main evidence of the holding's achievements in the sphere of CSR are can be found in the social reports prepared by EuroChem for 2010 – 2011 in accordance with the international standard GRI G3, as well as the extent of the company's social and environmental programmes. The EuroChem group is currently in the third *development phase of CSR practices* when the company's social and environmental programmes go beyond the corporate limits. The company *participates in the implementation of all the forms of CSR, presented in the matrix in table 1, and the basic CSR motives of the company correspond to the 'standard' directions of socially oriented business.*

OJSC Kovdorsky GOK, which is a structural unit of JSC EuroChem, is a backbone enterprise of Kovdorsky District, the Murmansk Oblast. The company's importance for the local community is determined by the fact that it provides almost half of the jobs in the municipal

entity and over a half of the local budget's own revenues. Socially-oriented activities of the company are highlighted in detail in its statements and cover a wide range of spheres. The main expenditures in 2011 were directed to the financing of labour safety measures (52.3 million rubles), social programmes and liabilities of the company (32.8 million rubles), to the support of the socially important projects and financing of charitable activities (24 million rubles).

Actual motives and trends of CSR development

Assessing the potential of corporate social-economic resource of large mining business is a difficult and controversial task. The enormous scale of CSR activities remains in the shade due to the incomplete disclosure of information in programme documents and statements of corporations. In addition, this activity of Russian companies is not well-structured at present. The conducted analysis of its strategic directions in the four major mining holdings in comparison with specific practices implemented by their production divisions located in the Murmansk Oblast allows a number of conclusions to be made.

Despite the fact that the parent companies of holdings try to comply with the global trends in the set of declared incentives and guidelines in the sphere of CSR, the work 'on site' is carried out not in all the directions. Peripheral enterprises implement the social responsibilities that developed spontaneously. The work of management companies is often reduced to the arrangement of information on the activities, implemented by peripheral enterprises, into neat reports at the level of the group.

Only the companies, which have been implementing such practices over the years, possess clear strategies and institutional mechanisms for CSR management. Among the analyzed groups and enterprises within these groups, only MMC Norilsk Nickel and its subsidiary, JSC Kola MMC, can be included in this category.

Taking into account the conclusions concerning the heterogeneity of CSR forms and the low level of its internal organization (with regard to its large scale), additional attention should be focused on finding the actual motives of this activity. As it was shown earlier, the CSR motives, officially declared by the companies, are practically similar to each other and they fit perfectly into certain 'ideal' groups of motives that have been defined by theoretical generalizations in the present study. These groups include:

1) development of the companies' personnel and the increase of their labour productivity;

2) stability and sustainability of the company's development in the long term achieved through the establishment of closer contacts with the state;

3) preservation and enhancement of the performance of the main state institutions. The maintenance of social stability in the society as a whole.

However, empirical data prove that only the first two groups of motives are the most important for Russian businessmen. According to a poll conducted in 2011 by the Grant Thornton International, one of the world's leading companies in the field of audit, business consulting and economic research [8], among the 7 thousand 767 companies in 39 countries the main motive, which makes Russian businessmen carry out CSR policy, is the attraction and retention of key employees. 63% of respondents named this factor the key driving force of CSR, which goes in line with the global tendency. The managers of 56% of the surveyed companies consider the maintenance of the personnel in general, the enhancement of productivity and cost reduction to be the priority tasks of CSR.

The main result of another study (project 'The political dimension of doing good: managing the state through CSR in Russia and China' [9]), conducted in 2011 by the

SKOLKOVO Institute for Emerging Market Studies on the empirical basis of social reports of 660 companies from Russia, China and the OECD member states, consisted in the corroboration of the hypothesis, that in the countries with developing markets (such as Russia and China) CSR practices are understood and used by companies as strategic actions (not subject to government regulation or administrative requirements), undertaken in order to influence the development programme of the state or to obtain different types of resources, using the practice of socio-environmental development support for this purpose.

Accordingly, it can be stated that, by implementing CSR practices, modern Russian business is interested, in the first place, in enhancing its own personnel potential and gaining political and economic benefit from profitable relations with the state. As for the tasks of preserving and improving the work of the main state institutions, as well as maintenance of social stability in society, they are still in the background.

At the same time, the corporate resource in dealing with socio-economic problems of local communities undoubtedly remains significant, because the amount of funding, which the companies are ready to spend on CSR development programmes, is comparable to the size of the budgets of administrative-territorial units where these companies are situated.

In this respect, the priority task of state and local self-government authorities should consist in the alignment of development plans with the plans of the companies' management carrying out their activities in the relevant areas; maximum involvement of local communities in the dialogue with business representatives. It is obvious, that only such joint actions can 'activate' the third group of CSR motives and make the company face the necessity of constructive participation in handling the issues of socio-economic development of the territories of their presence.

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