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“Business Society and Corporate Social Responsibility:  
Comparative analysis in Russia and Japan”

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# **Business Society and Corporate Social Responsibility: Comparative analysis in Russia and Japan<sup>1</sup>**

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## **Abstract**

Comparative analysis of CSR allows characterizing both corporate society and market institutions. Even though transition economies have backwardness of corporate governance institutions and include premature CSR, Russian CSR, paradoxically speaking, can be regarded as hyper one, and specific stakeholders have played a decisive role in its establishment. The present paper empirically and descriptively analyzed evolution of the contemporary Russian CSR and described its characteristics. Observations made show that market-type changes are obvious in Russia, companies try to adapt to the market changes, but at the same time, the historical inertia is quite strong. Moreover, through a comparison of CSR in Russia and Japan it was proved that a certain type of hybrid CSR exists in both countries, due to the existence of path-dependence institutions and a new impact of globalization.

**JEL classification:** J24, M10, M14, P12, P31, P5

**Keywords:** Corporate social responsibility (CSR), comparison, corporate governance, public policy, stakeholder, Russia, capitalism

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<sup>1</sup> The study refers to the following papers: Mizobata 2004, 2006, and 2008–2010. I presented Russian CSR in the following conferences: Workshop of Russian Research Center of IER Hitotsubashi University on 30 January 2010; Asian Conference of Slavic Research, Seoul, on 4 March 2010; Annual Conference of the Japanese Association for Comparative Economics on 6 June 2010; Workshop of Russian Research Centre in Institute of Economic Research, Hitotsubashi University “Corporate Governance and CSR in Russia and China” on 28 March 2011. From the comparative analysis, I presented the paper in EACSE bi-annual conference in Tartu, Estonia, on 26 August 2010, the seminar in University of Birmingham, on 22 September 2010, the international conference on ‘The Frontier in Russian Business Economics’ on 11–12 February 2011, AEI Third Asia Joint Workshop in Economics, in Institute of Economics, Academia Sinica, Taipei on 24 March 2011. I thank Leonid Polishchuk (Higher School of Economics, Russia), Shozaburo Sakai (Chuo University), Byung-Yeon Kim, Youngsub Chun and Yonung Sik Kim (Seoul National University), Yutaka Konishi (Gifu), Julian Cooper (Birmingham), Suleiman Cohen (Erasmus University), Taku Suzuki (Teikyo), Hirohumi Katayama (Obirin), and David Lane (Cambridge) for their research support, comments, and useful suggestions. I accept responsibility for any errors and shortcomings of the paper. I acknowledge the financial support Scientific Research (C) “Empirical Survey on strategy and organization of the Russian transnational corporations” (22530225) and Scientific Research (B) “Variety of exit and evolution of state socialism: Comparative analysis of state strategy and governance in the market transition” (20402024) by Grant-in-Aid for Scientific Research in Japan Society for the Promotion of Science, and Project Research “Economic analysis of legal joint stock companies and personnel labour management in Russia” in KIER, Joint Usage Research Centre, Kyoto University.

## Introduction

Market transition has been taking place for around 20 years. Central European and East European countries have joined the EU, and their economies have been deeply integrated into European business society. As a result of high economic growth in the 2000s, economic institutions in Russia also changed. Russia developed formal market institutions and rules, and Russian companies superficially adapted themselves to these liberal institutions (Knell and Srholec, 2007). Even though the economic crisis in 2009–2010 damaged the Russian economy, it indicated that Russia has become an indispensable component of the world capitalist system, in the sense that fluctuations in business in Russia affect business in developed capitalist countries. The transition has changed the centre of gravity of capitalism in transition economies.

The varieties of capitalism (VoC) approach<sup>2</sup> provides a clue of influential typology. Hall and Soskice (2001) define two ideal types of coordination of modern capitalism: liberal market economies and coordinated market economies. Following Hall and Soskice (2001) with regard to degree of privatization, development level of stock markets, globalization, and economic performance, the survey of transition economies by VoC (Lane, 2007) classifies three types of capitalism: the continental type of market capitalism (Slovenia, the Czech Republic, Poland, Hungary, Slovakia, and Estonia); hybrid state-market uncoordinated capitalism (Russia, Ukraine, Kazakhstan, Georgia, Turkmenistan, and Moldova); and those that have not made the breakthrough to a capitalist system (Uzbekistan, Belarus, and Turkmenistan)<sup>3</sup>. Traditionally, VoC is severely criticized because it is heavily biased towards corporation-centred analysis (Yamada, 2008). However, the analysis by VoC of transition economies is quite different. VoC and the aforementioned survey focus on the macroeconomic indicators in practice. The characterization of the capitalist system in transition economies needs to be re-examined from the viewpoint of corporation-oriented analysis.

Other criticisms of VoC are its inability to factor in crises and politics and its static approach (Yamada, 2008). As a matter of fact, many studies use normative concepts such as ownership, markets, and welfare state. The current global economic crisis, however, demands a re-examination of these normative concepts. For example, the criticism of ‘the self-regulating market<sup>4</sup> and fictitious commodities’ in modern capitalism has now been re-evaluated (Polanyi, 2001). Polanyi stressed the diversity of capitalism and the importance of non-market economic institutions. Another noteworthy scholar who has been reassessed is Peter F. Drucker, who was a contemporary

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<sup>2</sup> Karl Polanyi (2001) is said to become a motive power of VoC in 1980s-1990s. How the market is embedded determines the type of capitalism. See Introduction by Fred Block (Polanyi, 2001).

<sup>3</sup> Mizobata ed. (2008) investigated VoC and Transformation. Hanson and Teague (2007) criticized existing VoC for Russian capitalism.

<sup>4</sup> ‘A market economy is an economic system, controlled, regulated and directed by markets alone; order in the production and distribution of goods is entrusted to this self-regulating mechanism’ (Polanyi, 1963, p.68) ‘Self-regulating implies that all production is for sale on the market and that all incomes derive from such sales’ (Polanyi, 1963, p.69).

of Karl Polanyi. Although both scholars held opposite views, they influenced each other and had a common theoretical fear of excessive markets and state (Immerwahr, 2009). They did not regard profit to be a natural motivation for human beings.

Drucker focused on the business/company as the key institution in subordinating markets to society. According to Drucker (1993), the business/company is a specific player that characterizes the capitalist system. He stressed that the business is a social organization that satisfies social needs. Traditionally, the VoC approach considers corporation-centred analysis in the narrow sense. Based on Drucker's work, business cannot be analyzed separately from society and state. In practice, Drucker (1981) highly valued the Japanese management system (decision by consensus, lifetime employment, continuous training, and the godfather system) for solving US problems (such as lack of safety in society). Corporate social responsibility (CSR) has become the focus of attention in describing business society (relationship between business and society) and in measuring the social contributions of business, the balance of stakeholders, and the efficiency of corporate governance. In particular, some decisions on the global standards of CSR (UN in 2000) and Corporate Governance (OECD in 1999) indicate the importance of CSR analysis. In addition, the following review stimulates comparative CSR analysis. Firstly, comparative business and management have emphasized CSR. The Japan Association for Comparative Studies of Management (2006) characterized the mature business society and the transformation of business society through a comprehensive analysis of CSR. Secondly, comparative institutional analysis also enlarged the scope of its investigation to include CSR (Aoki, 2010). In fact, CSR has strengthened in Russia and Japan.

CSR first made an appearance in Japan in 2003. During the 1970s, corporate trials involving public pollution occurred frequently, as a result of which CSR became the focus of public attention. However, at that time, concerns about CSR were not raised because of the lack of NGOs and employees loyal to management. In addition, recession and financial constraints put a damper on CSR. After the announcement of the UN (Global Compact) in 1999, CSR once again became popular. Globalization has further intensified this interest; consequently, in 2003, many Japanese enterprises demonstrated a positive attitude towards CSR.

Firstly, global environmental problems (the Kyoto Protocol) and the environmental movement towards sustainable development have strongly influenced CSR; under these conditions, both governments and the public have demanded that companies be more responsible. Besides these positive results, global impact has also had some negative impacts: globalization in the spheres of production, trade, distribution, and information have highlighted miserable labour conditions and human rights problems. As the result, public evaluation at the global level is now regarded as indispensable to activity assessments of transnational corporations.

Secondly, the market is evaluated by CSR, and a typical case may become a 'social responsible

investment' (SRI). Companies are presently assessed from a CSR angle that makes further investment and financing feasible. Individuals with high social consciousness sensibilities as well as institutional investors such as pension funds tend to select highly valued companies. Corporate law reforms (2002) and the obligatory introduction of internal control (2006) have also positively affected CSR in Japan.

A trend can be observed in Russia. Corporate reform and globalization have strongly influenced CSR activities in Russia and have achieved normalization of the Russian market. Market transition in the corporate sector has penetrated the social sphere. Specifically, as many corporate political scandals such as the Yukos affair in 2003 suggest, the evolution of CSR vividly indicates social changes, institutional arrangements, and state-firm relations in Russia. However, Russian CSR seems to be specific. The 'Pikalevo', Leningrad oblast, episode provides an understanding of Russian CSR.

Three factories in Pikalevo (company town) city (BaselCement owned by Oleg Deripaska; EvroCement group; and Metakhim, SevZavProm<sup>5</sup>) ceased production as a result of the 2008 economic crisis. They began to make extensive layoffs and they stopped salary payments: wage debts became a critical problem and the concerned facilities were closed. As the company was a utility plant that provided Pikalevo's heat and hot water, city functions such as heat and hot water provision ceased. Prime Minister V. Putin then met the managers and the governor in a public meeting, and criticized them. He said, 'If you (owners) cannot agree between yourselves, it will be done without you.... I must say that you have made thousands of residents of Pikalevo hostages of your ambition, your unprofessionalism, and, maybe, simply your greed. Thousands of people. Where is business social responsibility? It is absolutely unacceptable' (V. Putin's announcement in Pikalevo on 4 June 2009, <http://www.ksovok.com/pikalevo.htm>, 28 May 2010).<sup>6</sup>

When CSR is based on the composition of stakeholders and the corporate governance structure, it is an effective tool in understanding the specificities of corporate society and social changes. This paper has two aims: first, I investigate Russian CSR in detail in order to understand Russian firms and business society. Second, I compare Russian CSR with Japanese CSR. Neither of these types of CSR can be regarded as similar to CSR in other developed countries. Japan implemented CSR much after Western countries did, and Russia imported CSR even after Japan did; therefore, CSR in Russia is the least mature. CSR in both Russia and Japan reflect these countries' own historical traditions and experiences. Through a study of CSR in Russia and Japan, I will draw some theoretical implications of comparative CSR analysis.

CSR is said to be positive in the following types of companies (Tanimoto, 2008): companies with high turnover, companies with high sales in foreign markets and a large proportion of holding by

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<sup>5</sup> The total employment figure is more than 3,000, and three companies are town forming companies.

<sup>6</sup> After the conflict, the ministry of industry and trade negotiated with the factories, and an agreement among concerned parties was concluded in September 2010 (<http://www.minprom.gov.ru>, 17 September 2010).

foreigners, and companies related to the environment. This holds true only in Japan, but also in Russia. A CSR comparison reveals that different stakeholders and different pressures produce divergent CSR, despite the trend of convergence that is a result of global pressures. Different stakeholders have selected their own institutional CSR arrangements, and Russia and Japan have developed separate models, which differ from those used in Europe and the US.

Empirically, I use data for the Japanese model, which includes survey data by Keizai Doyukai (Japan Association of Corporate Executives) in 2003<sup>7</sup>, 2006<sup>8</sup>, 2008, 2009, and 2010<sup>9</sup>, as well as other official data<sup>10</sup>. In addition, the recent annual social reports from some leading companies have been quite instructive. For the Russian model, I use my own interview and questionnaire research<sup>11</sup> from 2004–2006, in addition to another empirical survey and recent data from the Managers' Association and the Russian Union of Industrialists and Entrepreneurs (RSPP). The questionnaire survey by the Higher School of Economics in Russia in 2007, which includes a survey of 303 industrial firms<sup>12</sup>, is the most important. In addition, to empirically describe Russian CSR, I use data from 'Firms and Market in 2005–2009' by the Higher School of Economics and some official information of the Russian companies.

## 1. What is CSR?

CSR is regarded as fundamental corporate behaviour for compliance with rules and profit-making. Milton Friedman had the most influential views on CSR. He emphasized accountability to shareholders as far as the company obeys rules and ethical habits. 'The view has been gaining widespread acceptance that corporate officials and labour leaders have a social responsibility that goes beyond serving the interest of their stakeholders or their members. This view shows a fundamental misconception of the character and nature of a free economy.... 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, which is to say, engages in open and free competition, without deception or fraud' (Friedman, 1962, p.133). The market quality theory<sup>13</sup> may be regarded as having followed this view; it stresses the improvement of market

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<sup>7</sup> Data of 229 companies in 2003.

<sup>8</sup> Data of 527 companies during October 2005 to January 2006.

<sup>9</sup> Data of 445 companies during December 2009 to January 2010.

<sup>10</sup> Data of Keidanren and Ministry of Economy, Trade and Industry Japan, 2004, Japan Research Institute Report, 2009, and others.

<sup>11</sup> Data of interview and questionnaire research were analyzed in Mizobata (2008). The paper comes to the conclusion that there is a kind of mixed corporate governance in Russia (an amalgam of Russian tradition and liberal reforms) in Russia.

<sup>12</sup> The survey includes the following industries: 8.3% in chemicals and petrochemicals, 47.4% in machine building, 12.1% in timber and papermaking, 8.1% in construction materials, 6.6% in the light industry, and 17.5% in the food industry. The types of companies include 40.8% limited companies, 38.9% open joint stock companies, 16.6% closed joint stock companies and 2.7% state unitary enterprises.

<sup>13</sup> Makoto Yano insisted on the importance of market quality: 'In a very broad sense, it may be defined as an index

infrastructure for companies' ethical behaviour. Market infrastructure enhances quality of market, and high quality markets are indispensable for achieving healthy economic growth. The market cannot work without competition and rules (laws). Compliance, maturity of players, culture and subculture, organization, institutions and governance, and habits and customs are also indispensable to the functioning of the market (Yano, 2009).

Opposite to shareholder-biased CSR is stakeholder-biased, which has recently begun to be supported by recent business administrations. Stakeholders are a factor in CSR decision-making. For example, Tanimoto (2008, p.59) described CSR as follows: 'the essential point of CSR is to incorporate social fairness, ethics, [and] environmental and human rights in the management process to make clear their accountabilities to the stakeholders'. CSR is made up of three dimensions: business activity, social work, and philanthropy (Tanimoto, 2008, pp.66–74). Therefore, when we study CSR, it is important to consider the stakeholders of the company.

However, stakeholder-biased CSR must not be mistaken for excessive responsibility. Tanimoto (2008) cautiously states that profitability must be the key focus of responsibility. Peter Drucker (1993) also criticized the excessive extension of CSR. On the one hand, Drucker criticized shareholder capitalism as harmful and irresponsible. When the value of knowledge is as high as that of capital, human capital must be focused on. On the other hand, he criticized contemporary CSR concepts. 'The new concept of social responsibility no longer asks what the limitations on business are, or what business should be doing for those under its immediate authority. It demands that business take responsibility for social problems, social issues, social and political goals, and that it become the keeper of society's conscience and the solver of society's problems' (p.315). 'Managers need to be able to think through the limits on social responsibility set by their duty to the performance capacity of the enterprise in their charge' (p.344). Drucker regarded Milton Friedman's views as 'not a denial of responsibility' (p.348)<sup>14</sup>. In short, the new concept of CSR requires the harmonization of profit motivation and 'responsibility for the common good' (p.349).

Under mounting global pressure, many companies have accepted CSR, and the Global Compact 'Corporate Citizenship in the World Economy' of the UN (July 2000) has become the basic principle in Japan and Russia. 'The UN Global Compact asks companies to embrace, support, and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, environment, and corruption' (UN, 2000). Specifically, multinationals cannot ignore these principles. CSR has already been standardized into an ISO (ISO26000).

In Japan, as shown in Table 1, more than 90% of companies have implemented compliance and high quality goods as part of their CSR initiative; a volunteering and proactive attitude has grown. In 2010, the quality of goods was the top CSR concept. Russia also shows a recent CSR boom with

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capturing how well a market functions' (Yano, 2009, p.1).

<sup>14</sup> Drucker denied Friedman, 'Milton Friedman's "pure" position—to eschew all social responsibility—is not tenable either' (p.349).

companies wishing to enhance their reputations. It is said that more than 90% of companies have a CSR strategy or are currently drawing up CSR plans. In 2008, 120 social reports were published (*Vedomosti*, 9 December 2008).

Since stakeholders and their interests and powers differ according to country, the motivation to adopt CSR differs in each country. As Table 1 and Figure 1 indicate, basic points are common to both Japan and Russia, but differences can be observed. The most impressive difference is that Japanese firms (J firms) are more sensitive to CSR than are Russian firms (R firms). J firms recognize the following as components of CSR: compliance, good products, global environmental protection, and tax payment. In particular, many J firms have a strong interest in contributing to solving global environmental problems (eco-activities), and they engage in various forms of philanthropy. However, less than half R firms have implemented CSR. With regard to the components of CSR, while J firms have emphasized dividends to shareholders and philanthropy, R firms have made little of them and have emphasized obligatory factors, including wage payment, investment in production, and more basic items such as reducing corruption and increasing public information. In Russia, CSR is a fundamental obligation of companies.

In both countries, the stakeholders determine the different implementation levels of CSR. In Japan, employees sufficiently understand most corporate values (Table 2), and the company focuses on its customers. When employees are promoted to management, it is usual for them to wield power, and all company insiders (managers and employees) commonly regard customers to be the most important<sup>15</sup>. Traditionally, governments are not very active in CSR, and they regard CSR to be voluntary behaviour. However, due to frequent corporate scandals and the recent economic crisis, governments intend to tighten CSR in the following areas: (1) the environment, (2) food security, (3) financial institutions, and (4) employment. Above all, with respect to the process of CSR legalization, governments have become more active. For example, after the mid 1990s, the government introduced recycling laws, economizing energy, and consumer protection. These laws have transformed CSR into compliance and legal areas.

Although Russia has similar stakeholders, the Russian government is beyond their influence. Specifically, in company towns, companies dominate local society, and their social responsibility overlaps with the role of the government. In practice, many regional governments forge a social agreement with companies. Traditionally, Russian managers have motivated lobbyism (*Vedomosti*, 15 January 2009).

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<sup>15</sup> See Drucker (1993, Chapter 6).

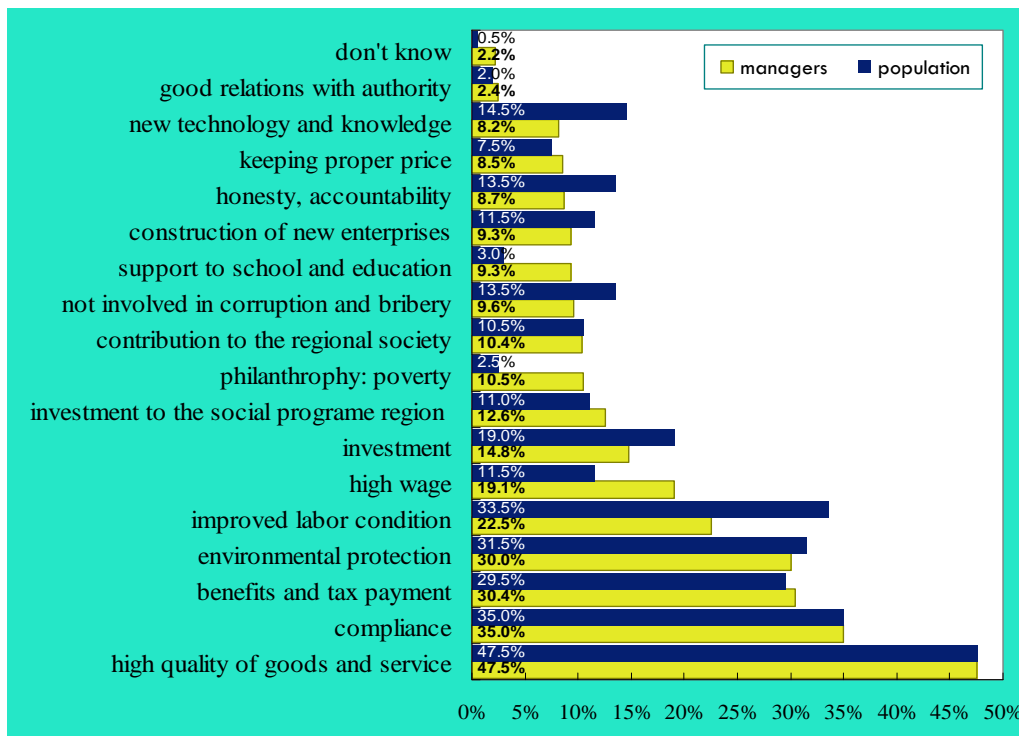


Table 1 Components of CSR in Japan (2002–2010)

		2005	2002	2005–2002	2010
1	Compliance	94.6%	2	+13.2	2 89%
2	High quality of goods and services	91.4%	1	–1.7	1 91%
3	Environmental protection	80.8%	5	+18.9	3 78%
4	Benefits and tax payment	74.7%	3	–0.2	5 71%
5	Contribution to the regional society	72.3%	7	+20.7	4 77%
6	Human rights protection	68.3%	10	+36.0	6 69%
7	Dividends	66.9%	4	–0.7	8 61%
8	Non-provision of harmful goods and services	65.1%	9	+19.7	10 57%
9	Job creation	57.3%	8	+9.3	7 62%
10	New technology and knowledge	54.7%	6	+2.6	9 57%
11	Social contribution by philanthropy and mecenat	45.7%	11	+23.9	11 39%
12	Poverty and settlement of disputes	16.4%	12	+12.8	12 19%

Source: Keizai Doyukai, 2006, 2010

Figure 1 Components of CSR in Russia (2003–2004)



Source: Belyaeva and Eskindarov, 2008, p.67

Table 2 Players in Japan who are well aware of corporate values (2005)

Employees	1.16
Customers, suppliers	0.98
Institutional investors	0.85
Analysts	0.82
Rating institutions	0.65
General investors	0.15

*Note:* Know well: 2; know to some degree: 1; do not understand well: -1; ignorant: -2

*Source:* Keizai Doyukai, 2006

We attempt a deeper understanding of CSR in Russia. The Managers' Association in Russia (2004a, p.8) determines CSR to be a voluntary contribution of business to social development that relates to main operations. The behaviour philosophy and belief of this organization is as follows: business society, firms, and individual entrepreneurs retain the object of resource preservation for sustainable growth and future generations, based on high quality, attractive place of work and human capital investment, reciprocal relations with stakeholders, effective business, social expectations and ethics, and contribution to civil society through partnership relations (Managers' Association, 2006, p.4). This view is in perfect harmony with global standards. CSR is neither a market nor a government activity.

The Managers' Association and Peregudov and Semenenko (2008) emphasized market and social reports as CSR activities. To a lesser extent, managers in the 2000s used CSR for improving corporate image and reputation or for following global standards.

However, the above view is just formal and differs in 'principle and practice'. Russian specialists are extreme about the extent of state responsibility in understanding CSR. Beraeva and Eskindarov eds. (2008) include mutual responsibility among civil society, business and state, and social control. Krishevsky and Goncharov (2008) also include state responsibility in the social sphere and characterize Russian CSR as transfer from state intensive type to state integral type. In addition, as Putin stated, the governments coerced managers into conducting public CSR activities. The CSR concept lies not in a formal announcement but in reality.

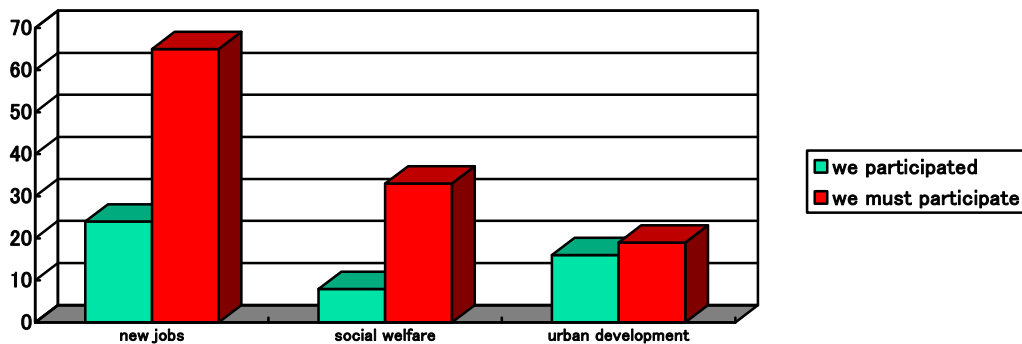
## 2. Evolution of Russian CSR

The opinion poll indicates contradictory attitudes to business in Russia. On the one hand, the people have adopted a negative attitude towards big business, so-called oligarchies (88% in 2004 by IKSI, RAN), and it is natural for CSR to not be highly valued. Many firms undertake parasitic and irresponsible operations, and there are no responsible firms. Many businessmen do not responsibly

cover the labour conditions of their own companies, and the European Management Institute ranked Russia at the bottom in 2007 (<http://www.mirec.ru>, Mirovoe i natsional'noe khozyaistovo, G.P.Chernikov, No.4, 2008).

On the other hand, expectations from business have grown. Inconsistently, research by IKSI showed that 62% of the population regarded big business positively. Even though the people dislike oligarchs (specific privileged Russian capitalists), they regard big business to be a necessity. Above all, as Figure 2 indicates, the creation of new jobs, social welfare, and local infrastructure are the main fields of expectation (Krichevsky and Goncharov, 2008, p.61).

Figure 2 Expectation from CSR



Source: Krichevsky and Goncharov, 2008, p.61

The practical evolution of CSR in Russia is based on globalization and the response of business society to globalization. The following chronicle vividly illustrates the evolution process in Russia. According to the UN Global Compact, many firms released social reports and the Code on Corporate Behaviour and Corporative Business Ethics Charter of the RSPP, which were the main products of corporate governance reform. In November 2004, RSPP adopted the ‘Social Charter of Russian Business’, the social activity prescribed to all firms. It is obvious that corporate reform went hand in hand with the introduction of CSR rules. At the same time, the government established a CSR forum. This forum engages in the investigation, introduction, and consultation of CSR, CSR promoting congress, and cooperation with global organizations. Both the government and business society are active in adopting the global management CSR standards.

### Chronicle of CSR evolution in Russia

1995: CSR Europe was established.

1996: ISO introduced its ISO 14000 environmental management systems series of standards.

1999: UN Secretary General Kofi Annan called on business to enact a set of core values in the area

of CSR.

2000: The Global Compact (more than 120 countries) was launched as a voluntary corporate citizenship initiative. Based on the Global Compact, some firms announced CSR. In 2009, more than 37 firms joined it and published non-financial reports.

2002: Lukoil announced CSR for the first time in Russia.

2002: Corporate Conduct Code, Corporative Business Ethics Charter by RSPP

February 2003: Forum on Social Investment: Interaction of Business and State; Social Programme by Managers' Association

March 2003: Social Strategy of Russian Business by Academy of Sciences

2004: RSPP adopted Social Charter of Russian Business.

2004: Prime Minister M. Fradkov supported RSPP.

2004: International Project Bureau adopted Business Culture for CSR rating.

2006: UN PRI, RSPP 'Non-financial Report'

2007: The National Forum of CSR was established by the State Federal House of Society and others.

December 2009: Meeting of 'Business and Society' was held, with the support of the government.

2010: RSPP 'Human resources as a means of modernization method'

Even though many firms paid attention to the RSPP Social Charter, actual participation was restricted. Many top managers did not understand that CSR investment affected long-term success. 845,112 employees participated in the charter and, for small enterprises, CSR only requires the observance of laws (<http://www.ksovok.com>, <http://www.csr-rspp.ru/social>, 28 May 2010). The CSR national forum was established in 2007 and carried out various kinds of consulting and cooperative actions.

The national forum strengthened CSR in the following directions during the global crisis (27 July 2009): job support to residents<sup>16</sup>; decision-making by local authorities (in agreement with regional authorities); and enlargement of government scope (<http://www.csrforum.ru>, 28 May 2010). CSR has become indispensable as an anti-crisis measure, and, in fact, we may take more CSR-related anti-crisis measures.

Then, why does Russia enthusiastically pay attention to CSR? Here, I will stress the following five aspects, and combined failures.

First of all, CSR came about as a response to abnormal privatization in the 1990s. Oligarchic businesses (integrated business organizations), transfer of state assets to private hands, and state-business relations (so-called grabbing hands) are considered to be part of this abnormal business society. CSR is intended as an atonement for the sins of big businesses, who believe that

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<sup>16</sup> Companies participated in drawing up a social programme. While in the pre-crisis period, they paid 1.5–2 billion dollars annually to philanthropy; after the crisis, they applied this money to employment support (retraining and adaptation of unemployed and others).

CSR normalizes their business activities. CSR is a result of 'policy failure'.

Secondly, despite marketization and liberalization, markets cannot provide social goods efficiently. In addition, the behaviour of many R firms, such as corruption, is a violation of laws and fairness. Russia's fragile market has also destabilized the social functions of actors. CSR is a result of 'market failure'.

Thirdly, instability of the state results in CSR initiatives. Corruption and unstable government institutions seem to weaken corporate governance and destabilize the provision of social welfare goods. Particularly in cases of concentration of federal authority and insufficient development of municipalities, CSR is believed to substitute the government (municipalities). CSR is a result of 'state failure'.

Fourthly, as the evolution of CSR suggests, globalization can be a driving force of the spread of CSR. Global standards (such as the UN Compact) are imported, and the growth of domestic companies into multinationals requires the adoption of global rules, including CSR standards. Particularly, the rapid development of mergers and acquisitions in domestic and foreign markets has forced Russian companies to adopt global rules. CSR is a response to external pressure.

Fifthly, the social functions of companies have been deeply embedded in Russian society. Traditionally, companies built their own schools and accommodation and, during the Soviet period, the concept of *sotsialka*, meaning labour protection and improvement of labour conditions, was popular. The company town (mono-city) was also considered to be a historical landmark of Imperial Russia and the Soviet Union. From this perspective, the deep-rooted Russian and Soviet legacy strongly affected CSR. CSR is a historical product.

### **3. Case study of Russian CSR**

We see many cases of CSR activities on the home pages and in the social reports of Gazprom, AvtoVAZ, Lukoil, Interros, Evrokhim, Norilsk Nickel, Mosenrgo, SUBR, COMSTAR, SUAL-Holding, MDM bank, former YUKOS, and others. Moreover, we can include some foreign affiliates in this line-up. For example, limited company TOYOTA (TMMR) and some other Japanese affiliates have made their social reports public.

Gazprom carried out a special scheme, 'Gazprom-children', and financed 4.5 billion rubles to 65 regions for youth support, cultural activity, charity, domestic education, and sports support. In addition, Gazprom made its environment and ecology report public. On its website, Gazprom claims that it budgets more than 1.5 billion rubles for CSR. Due to Gazprom's heavy influence, tax payment may be considered to be a main part of CSR. Moreover, as Gazprom's projects relate to natural resource development, environmental standards cannot be ignored. For example, special environmental standards (the Equator Principles) have been observed in the Sakhalin 2 project

(Odawara, 2010), based on the World Bank scheme.

Lukoil also publicized various kinds of social functions; its principles hold that there can be no CSR without high performance. The following functions are included: accommodation provision; social insurance; social investment; charity and philanthropy; in-house education; health care; environment protection; dialogue with the local community; cooperation agreement with the regional authorities; and others. The same activities can be illustrated in the case of Norilsk Nickel<sup>17</sup>.

The Russian railroad published various in-house CSR regulations, such as the CSR Code and Business Ethics Law in 2006. The CSR Code comprises general rules; aims; initial principles; the protection of nature and saving resource measures; responsible enterprises; local society; NPO and labour movement; state and regional organizations; and the mass media and others (<http://doc.rzd.ru>, 28 May 2010). COMSTAR-OTS adopted its own CSR policy (2008) and published a social report. This policy was harmonized with the RSPP Social Charter in 2009, and the activities were based on global reporting initiatives.

MDM bank decided that 1% of its profits would be spent on CSR in 2007 (CSR strategy). Not only CSR reports but also original CSR approaches were published (<http://mdm.ru>, 28 May 2010). MDM was merged with YRSA bank and the merged entity carried out united CSR activities. MDM is based on the stakeholder approach, in which the regional society becomes a crucial CSR player.

According to data from 'Business and Society' by RSPP on 10 December 2009, 75 companies published 198 non-financial reports: 33 environment reports, 115 social reports, and 50 stable development reports. The publication of these reports has improved financing in the domestic and foreign markets. Small and medium enterprises, however, are ignorant of CSR, and almost all companies adopting CSR are big businesses (70) that operate in global markets.

Data on non-financial reports by RSPP in 2006 also shows that one-third of companies have no web-site or non-financial reports that promote social investments. Many are biased towards social reports (65%). As a result, the Social Charter of 2004 became an outline of CSR, though many Russian firms used their own CSR indicators<sup>18</sup>.

Although CSR in Russia is concentrated in big businesses and companies that operate in global markets, it is immature, on the whole.

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<sup>17</sup> Norilsk Nickel has been called a social-effective company. See the paper 'CSR: myth and reality' <http://lib.molodinfoews.by>, 31 July 2007.

<sup>18</sup> In 2004, GRI was used in 30% companies and AA 1000 was 18%, Global contract was 9%. 43% used various kinds of original reports (Krichevsky and Goncharov, 2008, p.90).

#### 4. Size and scope of CSR in Russia

Evaluations of CSR in Russia are contradictory. On the one hand, CSR in Russian companies may be regarded as poor, because of poor knowledge and poor practice. Immature consciousness of people and companies and insufficient publication of non-financial reports testify to the poor level of CSR. Russian business has become irresponsible after the transition. On the other hand, Russia's CSR may be considered to be hyper, because the ratio of individual charity to company charity is extremely low and because companies excessively provide welfare goods (Polishchuk, 2009). Seventy companies participated in philanthropy, and more than 100 philanthropy funds have already been established (Beryaeva and Eskindarov eds., 2008, p.112).

Of these two extreme points of view, the latter seems to be puzzling, due to the contradiction of the normal and abnormal Russian market. At the very least, the non-transparent corporate governance of Russian companies proves that CSR in Russia is immature.

The following two factors, however, lead us to the 'hyper' (or 'limitless') point of view.

Firstly, the formalization of CSR in regions and cities strengthens the degree of CSR. The prototype of regional agreement (for socio-economic cooperation) was created in Kemerovo oblast, between the large companies and the regional authorities. This has spread to other regions in the second half of the 1990s (A. Oleinik, *Vedomosti*, 21 May 2010). For example, Severo-Ural city and SUBR agreed to establish a social partnership in 2001; the local government and the company improved regional socio-economic conditions and maintained company towns within the city. Regional agreements have already spread to various regions and levels of municipalities. For instance, SUAL-Holding agreed to a social partnership with 13 municipalities in 2001: okrug (district) (Kamensk-Ural'sky city), rayon (Shelekhov), and municipal settlement (Nadvoity). In some cases, representatives of holding companies and plural municipal authorities also participated in the agreement. The western model was similar to this local formalization. After the second half of the 1990s, local community partnership funds emerged in 22 areas at the end of 2008. Local governments stimulated NPO formation (Peregudov and Semenenko, 2008, 2009, pp.16–17)<sup>19</sup>.

Secondly, public-private partnership (PPP) is also included in CSR in Russia. PPP is a partnership among NPOs, municipalities, authorities, and enterprises. PPP covers health, education, accommodation and public road building, and culture. For example, 'Yasnaya polyana' in 2004 was based on the agreement between Tula oblast and the open joint stock company 'Shekinazot', and sought to develop regional society based on humanitarian resources. PPP has its own restrictions: administrative barriers, lack of tax benefits, lack of specialists, low trust of concerned players and others. Therefore, even though PPP has played an important role, this role has not been sufficient (Peregudov and Semenenko, 2009). Moreover, people continue to hope for the support of

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<sup>19</sup> Andre Yakovlev insists that assistance to local and regional authorities by the firms has been provided (28 July 2010, Sweden ICCEES conference).

companies in regions and municipalities. According to a questionnaire survey (HSE, 2010, p.63), three-quarters of firms have supported them independently of scale.

As a result, Russian business has diverted 10–30% of profits to social investment (Polishchuk, 2009). In 2003, the annual social investment per employee was 28,330 rubles, which was 1.96% of total sales and 11.25% of total profits. Among them, transportation, the chemical industry, and the steel industry were the sectors with the highest investment per employee (*Ekonomika i zhizn'*, No.1, 2005). The above amounts are not exceptions. According to the 'Raspadskoi' agreement in Kemerovo oblast in 2009, the expenditure of the company for the social programme was 3% of net profits (A. Oleinik, *Vedomosti*, 21 May 2010).

As shown in Table 3, each sector indicates its own expenditure composition in social investment. Here, we divide expenditure into two directions: inward motivation (measures for the companies' management) and outward motivation (measures for regional community). We observe an inverse relation between these two directions. In addition, almost all sectors prefer inward motivation to outward motivation.

Table 3 Social investment by expenditure direction (%)

	<b>Personnel training</b>	<b>Health</b>	<b>Resource reduction</b>	<b>Ethics</b>	<b>Local community</b>	<b>Others</b>
Fuel	37.0	6.1	35.5	5.5	10.9	4.9
Nonferrous	36.4	15.5	37.7	2.2	7.0	1.0
Steel	47.8	7.0	32.0	1.3	10.5	1.6
Electricity	40.7	9.1	42.0	1.3	4.9	1.8
Timber	48.4	9.7	15.9	1.7	16.9	7.2
Machinery	61.8	6.8	5.5	15.5	9.0	1.2
Consumer Goods	47.1	10.1	11.7	1.2	20.2	9.4
Chemical	42.9	11.2	35.1	1.2	5.5	3.8
Service	79.1	0.4	0.0	9.9	10.5	0.0
Communication	70.0	10.8	0.4	1.9	3.1	13.5
Transportation	58.4	33.0	2.9	1.5	2.8	1.1
Finance	75.9	0.0	0.0	6.9	17.0	0.0
Commerce	59.0	10.6	17.7	0.0	12.7	0.0
Holding company	31.7	13.8	18.6	0.9	20.9	14.0
Average	52.3	12.6	17.0	3.7	10.1	4.0

Source: Managers' Association, 2004b



Table 4 Recruiting method of qualified employees (% of 303 total responses)

They voluntarily join the company.	41.1
The personnel section of the company recruits them.	65.9
They come from the company.	42.0
They train in educational institutions.	20.9
The company concludes agreements with the educational institutions.	23.9
The company fails recruitment.	12.9

*Note:* Plural responses are permitted.

*Source:* Questionnaire in 2007

Both directions have their own motivation. Inward motivation requires personnel management and job training, business strategy, reputation, market adaptation, requirements of multinationals, PR, and good relations with stakeholders. Table 4 indicates that in-house training and recruitment become an important task. Outward motivation includes the following composition: obligatory norms and rules and administrative pressure. Even though firms are biased towards inward motivation, outward motivation is also important because of business-state relations. Administrative pressure is bigger than top-managers' voluntarism, and bureaucrats agree with this attitude.

Thus, although CSR in Russia is slightly under-developed, its influence is larger than it appears to be. Regional agreements and PPP characterize hypertrophy and limitlessness of authority. If authority and responsibility are not clearly determined, then the above hypertrophy and limitlessness result in non-responsibility and lust for power.

## 5. Features of Russian CSR

Russian CSR is based on stakeholders and institutional stability and has similarities with and differences from global experiences.

First, the narrow interests of stakeholders are central, and incomplete institutions have defined the particulars of Russian CSR. Specifically, companies have emphasized inward motivated investment and CSR has become a part of business strategy. In Russia, where minor stakeholders such as consumers, residents, and others do not have a defined way to promote their interests, CSR may be a substitute for incomplete laws and social institutions; companies will carry out operations of the state due to the failure of the state (Managers' Association, 2004a). CSR cannot satisfy the interests of various stakeholders, and when companies have sufficient resources, the state tries to apply pressure on companies.

Secondly, CSR is not a new condition in Russian companies, but its original and traditional

condition; at the very least, the Soviet legacy has determined the continuance of CSR. From this point of view, CSR has evolved path-dependently, and contemporary CSR may well be regarded as a transition from the Soviet paternalistic model to the market model (Peregudov and Semenenko, 2008, p.10).

In the evolution process of CSR, what is Russia's inheritance? First of all, many companies have assets on the side, such as accommodation, kindergarten schools, communist children's organizations, recreational facilities, sanatoriums, hospitals, clubs, and others. The above goods may be regarded as public or semi-public goods. While some of them were transferred to municipalities by presidential decree on 10 January 1993 (municipalization of social assets), and were privatized, commercialized, and reorganized, most were retained by companies due to a lack of municipal finance and ability. In practice, in 2000, both regular and temporary forms of assistance was provided by companies (*Ekonomika i zhizn'*, No.38, September 2002, p.2).

The second inheritance for CSR is industry-monopolistic companies and company towns in the following sectors: gas, petroleum, defence, automobiles, steel, timber processing industries, and others. This type of city includes 43 cities with populations of more than 100 thousand, 78 cities with populations of 50–100 thousand, 125 cities with populations of 25–50 thousand, and 221 cities with populations of less than 25 thousand.

There are some types of company town in Russia: (1) One company accounts for more than 50% of the employed population, and the payments of this company exceed 30% of the municipal budget; 25% of its employed population work there, and its production accounts for more than 50% of regional industrial production. (2) The 1998 bankruptcy law requires that more than half of the residents become employees of the company. (3) A 1994 government regulation determines more than 30% of the total labour force of companies that possess socio-cultural infrastructure. (4) The World Bank requires that the company guarantees jobs for more than 25% of residents, and that it account for more than half of the city's production. In general, the company town has dual functions: an enterprise function and a regional function. Specifically, many big businesses (energy, resources, steel, non-ferrous, timber, and others) have their own company towns throughout the nation.

As of 8 July 2009, 467 cities and 332 new subdivisions rank among company towns<sup>20</sup>. This accounts for 25% of the total urban population and 40% of GRP. They belong to the following sectors: timber processing, machinery, food processing, and energy. Among these company towns, big businesses operate and finance social infrastructure for municipalities in 147 cities. Economic crisis, however, has drastically changed this, and there have been cases of large-scale dismissal. Residents-employees lost their trust in the government and business. In 2010, the government support programme included 86 cities for subsidies. Pikalevo can also be counted as a critical

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<sup>20</sup> For statistical data on single-industry towns, see Pashintseva, 2009, pp.3–7.

company town case.

The third inheritance for CSR is intra-firm human relations based on family principles, which is similar to the Japanese type. This can be observed in vertically-integrated companies such as those in the oil and gas sector (Lukoil model): the company provides various kinds of welfare goods, including corporate pension, medical insurance, residence, corporate scholarship, and others. In this case, employees have power as stakeholders. CSR is identified from the perspective of employees, through collective agreement. Collective agreement (according to Article 41 of the Labour Code) determines labour relations and plays the role of CSR. Particularly in cases where the trade union is weak, its responsibility is transferred to CSR. The content of the agreement includes the following: general rules, wages, employment, working hours, health and vacation, labour conditions, social programs, control of enforcement, and others. This indicates the relatively strong influence of employees as stakeholders (Krichevsky and Goncharov, 2008).

The third characteristic is the state-led type of Russian CSR. Governments (federal, regional, and municipalities) are strongly influenced by CSR<sup>21</sup>. While the influence of NGOs and other actors in civil society is weak, state intervention is strong. Therefore, philanthropy has the dual character of both public policy and business strategy. Particularly, as far as the top-managers of big businesses become politicians or politically influential people, they are apt to combine inward motivation of CSR with outward motivation based on formal rules. As a result, stakeholders requested formalization (making agreements) and/or authorization of CSR. Within the government, bureaucrats increase their interests in CSR, resulting in corruption hazards. Obligatory social codes and social standardization have become typical in CSR. According to an investigation in 2003, one-third of companies regard CSR as Code or Regulations and only 12% has their own CSR principles. 13% of managers regarded CSR as a part of business strategy. The local Duma also affects CSR. For example, in Chelyabinsk city Duma, 40% of PMs are managers of big businesses, 20% are lower managers, 20% are representatives of municipalities, and 20% are doctors or teachers. CSR has an obligatory character and formal directive (Peregudov and Semenenko, 2008, p.289).

CSR became a kind of agreement or social policy between companies and local governments. For example, in Perm krai, a regional act on 'Social Partnership' was adopted for the realization of corporate citizen principles. Therefore, CSR has a quasi-obligatory form and illustrates the Russian CSR model, as is suggested in the case of PPP. The Ministry of Health and Social Development published a report on social partnership at the end of 2006, and at a Duma public hearing in March 2007, 'CSR: Object, Tasks, Problems, and Legal Restrictions' were carried out. The government stimulated CSR, and RSPP attached importance to the role of governments in the development of CSR. The Russian model is similar to the continental type of CSR with regard to the strong influence of the government (legalization) (Peregudov and Semenenko, 2008, pp.289–319).

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<sup>21</sup> A typical case of government intervention is Pikalevo (announcement of Prime Minister Putin, on 4 June 2009).

However, CSR agreements face the following risks: (1) the expenditure cannot be judged objectively, and an arbitrary choice may occur, based on mutual negotiation. (2) Agreements take priority over general rules. (3) As the financial flow of CSR expenditure is not directed to the budget, expenditure becomes opaque and there are risks of corruption (A. Oleinik, *Vedmosti*, 21 May 2010). If Russian business is deeply involved in corruption (Transparency International 2009) and if managers and politicians indicate duplication, authorization through agreements can injure CSR, although they can put pressure on the voluntarism of CSR.

Fourthly, CSR cannot reduce corporate scandals and corruption and has, in fact, worsened corruption in Russia. As the Transparency International 'Corruption Perception Index 2009' shows, Russia cannot escape corruption and distrust. In fact, CSR is utilized as a tool for corruption and many bureaucrats have gained money through CSR activities (*Profil*, No.27, 19 July 2010).

Finally, responsibility may be concentrated in a single, dominant owner-manager. As the ownership structure of Russian companies indicates a high share of insiders and a high degree of concentration of ownership, large owners have a responsibility to the firm. In short, corporate governance characterizes Russian CSR.

## **6. Comparison between Russian and Japanese CSR**

In order to clarify the characteristics of Russian CSR here, I will compare CSR between Russia and Japan. J firms traditionally contributed to social operations either through in-house welfare provision or through charity activity (philanthropy). In the 2000s, pressured by CSR in the US and Europe, J firms and business society turned their attention to CSR, and have participated in it with the development of NGOs as important stakeholders. Many firms have already tackled CSR and published non-financial reports. In addition, CSR covers not only core business, but also supplier chains and concerned companies. A typical J firm in CSR can be characterized by the following: sales are large; overseas sales and shareholding of foreigners are high; and manufacturing connected with ecology is relatively high. In 2005, 75.2% firms used CSR, according to the questionnaire survey by Nihon Keidanren (Tanimoto, 2006).

Japan Research Institute (2007) shows that more than 90% of firms determined ethical behaviour code and that 60% published it in reports. Japan Research Institute (2010)<sup>22</sup> concluded that ecology activity has increased. About 70% of firms have demonstrated an affirmative attitude towards the ambitious government policy, and non-manufacturing has drastically increased in ecology CSR. However, the attitude to social policy and human resource management is not so active.

Therefore, an understanding of and the practical measures of CSR in Japan have their own

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<sup>22</sup> Data from 361 companies both cases (2007, 2010).

specificities, even though J firms have improved in these measures (Ebashi, 2009). The main field has been ecological CSR in Japan, which has been based on civic movement and ecological NGOs. In contrast, the labour aspect of CSR seems to be insufficient, because of the high share of irregularly employed and the gender gaps in lifetime employment. Therefore, human rights in CSR are regarded as relatively inactive. Next, CSR is often mixed with compliance (observance of laws). Not only companies but also various stakeholders have sought to strengthen this regulation. Therefore, the domestic operations of CSR are more popular, and J firms challenge global CSR. Moreover, the relation between corporate scandals and CSR activity is riddled with contradictions. Even though CSR developed in the 2000s, and all companies were interested in it, corporate scandals have often occurred. These corporate scandals have enhanced the importance of CSR in Japan (*Nikkankougyou*, 22 February 2010). CSR in J firms is deeply affected by its own composition of stakeholders and the path-dependent evolution of companies' social functions.

Russia and Japan are both backward in comparison to European CSR, specificities, and global pressure. Above all, in both countries, business organizations actively promoted CSR in the 2000s. In Russia, RSPP and the Managers' Association aggressively promote the formalization of CSR. CSR was developed by firms and business society in Japan, of which Nippon Keidanren (Japan Business Federation) and Keizai Doyukai have been the most active.

Nippon Keidanren adopted the Charter for Good Corporate Behaviour to promote ethical behaviour, with revisions in 1996, 2002, and 2004. In 2003, Keidanren established the Subcommittee on socially responsible management, and determined ten items to supplement the original principles of corporate behaviour, with 'An outline for implementation of guidance for charter of corporate behaviour' in 2007.

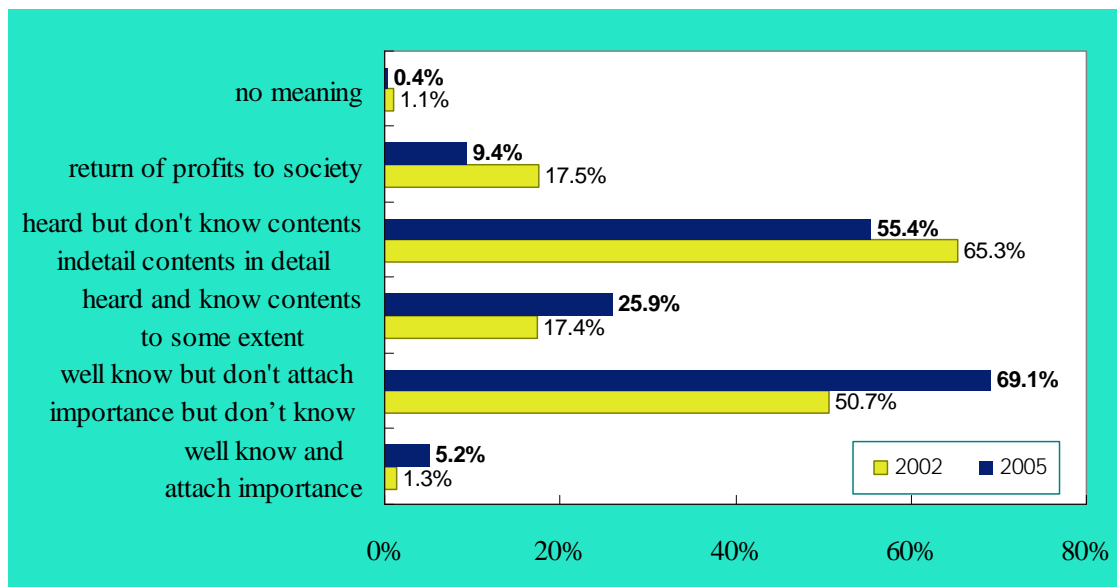
Keizai Doyukai has been more active in the CSR sphere. It published white papers in 2001, 2003, and 2007 and suggested various measures for environmental and social policies. The recent proposal, 'Creating a New Style of Japanese Management', considered a new style of Japanese management as a tool for strengthening international competitiveness in May 2008. In the new model, CSR management becomes the cornerstone of trust with stakeholders. Keizai Doyukai officially announced a new style of Japanese corporate management: 'it advocated the concept of "triple-mirror management" as the vision of ideal corporate management, which placed importance on capital markets (shareholders), employees (employment), and society. It positioned CSR as the basis of all the business activities related to corporate management and proposed "CSR that creates future value", where corporate managers fulfilled social responsibility with their entrepreneur spirit' (Keizai Doyukai, 2009).

However, the attitude of business towards the government is different between Russia and Japan. In Western countries and in Japan, CSR is voluntary in companies, and government commitment is marginal. In contrast, the role of the government in Russia is large. According to data from the

Managers' Association in 2005<sup>23</sup>, administrative pressure became the main motivation for companies (73% of respondents), whereas the voluntary action of top managers was relatively weak (55%). Bureaucrats also showed a similar attitude towards CSR (Belyaeva and Eskindarov, 2008, p.107). Moreover, in Russia, public and private partnership is now regarded as contingent on CSR. The intervention of the state is regarded as the basic difference between Japan and Russia and other countries. At the same time, the maturity level of NPOs and NGOs in Russia is low and the business society does not have sufficient monitoring potential. The varying influences of different stakeholders determine the acceptance of CSR in society.

With respect to the acceptance of CSR, J firms regard CSR not as a cost, but as a corporate strategy (Figure 4); bottom-up type management as well as market competitive pressure strongly influence CSR. Table 5 shows a sharp increase in the strategic approach of CSR and a sharp decline in obligatory burden and costs. In Russia, administrative pressure is strong, and R firms regard CSR as a social cost of survival. Therefore, CSR is determined by law and by legal precedent. In Russia, 58% of R firms put CSR into effect through collective contracts, 29% carry out both co-operative moral and ethical codes, and 22% implement the ethical code (*Ekonomika i Zhizn'*, No.2, January 2009). In Russia, CSR may require authorization for all stakeholders.

Figure 4 Meaning of CSR in Japan



Source: Keizai Doyukai, 2006

<sup>23</sup> The number of samples is 210 managers in 2005 September–October (Managers' Association, 2005).

Table 5 Understanding of CSR in Japan (%)

CSR understanding	2003	2006	2010	2010–2003
Core of business	51	69	71	+20
Costs	65	55	51	-14
Core business strategy	8	16	31	+23
Requirements of law and social norms	59	47	34	-25

Source: Keizai Doyukai, 2010

A hypertrophied role of state means the weakness of civil society (Polishchuk, 2009). This power creates institutional complementarities, and the state regards CSR as a path of intervention. In short, various official rules and institutions support CSR. Even though the state plays a relatively strong role in the continental type of CSR, Russia has demonstrated over-centralization of the state. Particularly, due to the weakness of NGOs, the state becomes more and more centralized. As a result, the strong state role of Russian CSR stimulates formalization, and CSR has a character of public policy. On the other hand, J firms try to link CSR with business strategy and management. In order to escape from the excessive legal burden, business society is reluctant to legalize CSR.

Moreover, a comparison of Russia and Japan shows that stakeholders and corporate governance have strongly affected CSR. According to Friedman (1962), in CSR activities, shareholders can be regarded as the main stakeholders. Japanese ownership drastically changed in the 1990s. Figure 4 indicates the percentage distribution of unit shares held by types of shareholders in listed companies. The following changes can be easily seen.

First, financial institutions sharply reduced their shareholdings after the 1990s. The banking crisis after the collapse of the bubble economy, and the Bank Shareholding Restriction Law, resulted in a decline in banks' holdings<sup>24</sup>. Major commercial banks began selling corporate shares to raise funds to dispose of non-performing loans and to meet capital adequacy regulations (Jackson and Miyajima, 2007, p.20). Secondly, although the number of individual shareholders has increased, the share of holdings is stagnating or declining. Thirdly, foreigners have significantly expanded their holdings: their shareholdings have increased from 3.9% in 1989 to 25.5% in 2007. Notably, foreigners increased their shareholdings in the following sectors: pharmaceuticals, insurance, security, electronics, real estate, and precision machines. Companies with a high share of foreign shareholders have a tendency to change corporate governance into a market-oriented, US type. We can observe an increase of institutional investors, a decline of cross-shareholdings, and an increase of insiders.

Traditional Japanese ownership is drastically changing. As a result, (1) J firms strengthen

<sup>24</sup> 'Major banks' shareholdings were 1.5 times Tier 1 capital in March 2001, so they were required to reduce their shareholdings by 10 trillion yen' (Miyajima and Kuroki, 2007, p.91).

transparency and increase corporate values through the release of social and environmental reports, (2) J firms raise dividend rates<sup>25</sup>, (3) J firms and shareholders attach greater importance to the role of IR, including ROE. J firms have changed their shareholder compositions; corporate scandals and the financial crisis have led to the re-evaluation of traditional Japanese corporate governance. As long as J firms maintain a high share of dividend payments<sup>26</sup>, CSR may be regarded as shareholder-oriented. However, promotion of managers within the firm has been maintained, and job security is said to have become the most important aspect of CSR<sup>27</sup>. On the other hand, in the process of diminishing stable shareholders (financial institutions and concerned companies), insiders (company's own holdings and holdings of managers and employees) have become relatively important shareholders. Thus, employees have become the main stakeholders and shareholders and the influence of other stakeholders is relatively moderate.

Table 6 Ownership structure in Russia (%)

	1995	1997	1999	2001	2003	2005	2007	2009	2011forecast
Insiders, total	54	52	50	50	50	48	51	52	50
Managers	11	15	15	19	25	31	35	42	42
Workers	43	37	34	28	22	16	13	8	5
Outsiders, total	37	42	42	42	45	45	40	35	38
Non-financial outsiders	27	31	33	34	36	38	31	27	25
Outside individuals	11	15	20	22	21	20	13	18	15
Other enterprises	16	16	13	12	15	18	18	9	10
Financial outsiders	9	9	7	8	8	5	8	6	10
State	9	7	7	7	4	7	9	13	12

Source: Aukutsionek, Dyomina, and Kapelyushnikov, 2009, p.5

In Russia, firms have a high share of insider ownership, as Table 6 indicates. Specifically, managers have retained their holdings, and cases in which ownership and management coincide can be observed. Outsiders occupy a third of holdings, although this does not necessarily indicate an increasing trend. After the start of the financial crisis, although the share of managers and employees has drastically reduced, the share of insiders and outsiders has become stable. Compared with the ownership of J firms, the government has maintained a strong influence. The R

<sup>25</sup> The ratio of dividends to profits increased from 3% in March 2003 to 9% in March 2008 (*Nihon Keizai Shinbun*).

<sup>26</sup> Mikiharu Noma insisted on a higher dividend ratio from dividend paying companies than those in the US and in European companies. He points out that Japanese managers have recognized the necessity of an increase of corporate value and have adopted a positive attitude towards shareholders (*Nihon Keizai Shinbun*, 5 August 2010).

<sup>27</sup> The president of Keidanren, Fujio Mitarai, stresses that the institutional preservation of an annual pay raise is necessary, even though some companies temporarily freeze it (*Nihon Keizai Shinbun*, 19 March 2009).



firm is entirely an owner firm, where functions of ownership and management are concentrated in the hands of owner-managers. Seen as the evolution of a company, the R firm may be regarded as a firm in its infancy<sup>28</sup>. Despite the immaturity of corporate governance in Russia, the quality of corporate governance has improved since 2002. The number of companies with relatively good governance is increasing and the number of those with weak governance is decreasing. Highly qualified company managements are eager to practice CSR based on the global standard. Qualified state management, competition and development of self-regulated organizations, adoption of code of corporate governance, recommendation code, and enhanced transparency have functioned positively for corporate governance and for CSR.

However, ownership does not simply affect CSR activities. Generally speaking, the trend towards concentration of ownership is strong in Russian corporate governance; concentration in the hands of individual shareholders is particularly intense. According to Dolgopyatova (2009), two-thirds of investigated companies have shareholders who held the control packet in 2005–2009, and 39% of companies held the control packet without any competitors. As a result, R firms are reluctant to share information, including financial statements, because information may determine the survival of the firm. Many major enterprises, independent of size, choose closed joint-stock companies or limited liabilities that are closed to the market. They do not publicize their owners, and their intention to publish social and environment reports is weak. Financing by internal accumulation also strengthens this trend. When individual ownership is large, dividends increase. CSR may be biased towards shareholders, and, in this regard, the R firm bears some resemblance to the Anglo-American model.

The Russian financial crisis in 2008 stimulated a turnover of owners and managers, and the government enhanced its power as a shareholder. The government increased its shares through capital injection and through the establishment of state corporations. Since CSR is influenced by the government, its unemployment support function is enhanced.

Companies have specific strong stakeholders, and dominant owners, employees, and the government are the most influential actors in Russia. CSR reform has been based on the voices of the main stakeholders. According to a questionnaire study on CSR reforms, the government has enforced an ineffective policy for the support of companies through CSR (47%); there is no legal base to create advantageous conditions for CSR (41%); the stable relationships among local society, regional governors, and municipal heads are indispensable to the development of CSR (*Kommersant*, 20 July 2006).

Finally, CSR institution building indicates the path dependent evolution of corporate business society. Japanese CSR is tied to the legacy of business principles. ‘The philosophy of business, typically family precepts, includes some idea of today’s CSR. Typical examples include “Intoku

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<sup>28</sup> See Osawa, 2004, Chapter 1.

Yoho<sup>29</sup>” and “Sanpo Yoshi<sup>30</sup>”. This tradition is often passed on to companies founded after World War II. A representative example is “A company is a public entity of society” (Panasonic)’ (Keizai Doyukai, 2010).

Russian CSR is also strongly affected by historical experiences. The tasks, contents, and stakeholders of CSR are strongly affected by the legacy of the Soviet institutions. Side business assets, company towns, and human relations within the firm may be regarded as the legacy of the Soviet system. The limitless extension of CSR also reminds us of the ‘Soviet enterprise’, which integrated economic and social functions under political power. Therefore, CSR has a dual meaning for Russian corporations: the continuation of the former system and the transplantation of global new institutions. In short, Russian CSR may be a hybrid or mixed type: on the one hand, CSR is a strategy for maintaining existing structures; on the other hand, CSR is transplanted from developed countries, and global standards have infiltrated Russia. As a result, Russian CSR is a mixture of the continental type and the path dependent type (paternalistic type). Therefore, ‘CSR in Russia differed from industrialized nations not only in its disproportionately high scale, but also in its patterns, mechanisms, and driving forces’ (Polishchuk, 2009). Path dependent institutions mitigated the costs of market failure.

## **7. Perspective of ‘varieties of CSR’**

We will first conclude the comparison of CSR in Russia and Japan. The following features are common to CSR in Russia and Japan: Responsibility is weak, and both are backward compared to Europe. The company city is a common problem in the crisis. Business circles are active in CSR promotion. Globalization and transnationalization have strongly affected CSR penetration. Specifically, foreign companies have drastically changed their attitudes towards CSR. As a result, there is a hybrid type of global and path-dependent CSR in both countries.

At the same time, we can observe the critical differences between Russia and Japan. CSR in R firms is premature because they concentrate on fundamental activities. Moreover, these firms are very interested in authorization and formalization as public policy, because of the strong stakeholder ‘government’. As a result, CSR cannot escape parasitic elements. As the main sectors of CSR are energy- and resource- related, the role of the state is amplified; with all the social policy that is included in CSR, CSR may well be regarded as hyper. On the other hand, however, J firms regard CSR to be management and strategy. Paradoxically speaking, this is why CSR develops after the corporate scandals. All companies have homogenized their measures. The main field of CSR is ecology, and other social fields are relatively weak. The Japanese case also shows weak pressure

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<sup>29</sup> Doing good secretly gives him/her obvious benefits.

<sup>30</sup> Business should satisfy society in general and give happiness to the seller and the buyer. This is the philosophy of the merchants in the Omi district, literally meaning good for seller, buyer, and society.

from stakeholders.

An investigation of Russian CSR and its comparison with the Japanese model leads to the varieties of CSR. This view suggests the following points.

First of all, the interests of stakeholders determine the variety. Considering the power of stakeholders in Japan and Russia, different stakeholders and different pressures on CSR produce varieties of CSR despite the general trend of convergence due to global pressures (Table 7).

In J firms, employees<sup>31</sup> are strongly motivated to preserve employment, while the stance of shareholders has increased after the importation of the US governance model. The influence of other stakeholders on CSR has also intensified, and philanthropy has become more important for a company's success. With regard to customers' interest, while insiders (managers and employees) give the highest priority to customers, customers (consumers) do not have enough power in companies. In R firms, the power of the regional government is strong and can authorize and legalize CSR. The communal nature of firms and Russian corporate governance clearly characterizes this trend. The responsibility of the company may be identified with that of the state, as in China. Even so, the following aspects may be emphasized as common to both. The firm does not downplay the communal character.

Table 7 Power of stakeholders in Japan and Russia

	Shareholders	Employees	Customers	Suppliers	Region /Society	Government
J firm	Intense	Very strong	Intense /Very strong	Moderate	Moderate /Moderate	Moderate
R firm	Very strong	Intense	Weak	Weak	Strong /Weak	Very strong

Source: author

In short, the composition and power of stakeholders determines the national characteristics of CSR. Stakeholders determine the distribution of CSR utilities, and the structure of corporate social capital (degree of relations between business and society) determines the stakeholders. When the government (municipalities) and the company cooperate in CSR activities, regional and sector gaps in CSR benefits may result (Russia).

The above observation tells us of the effectiveness of stakeholder biased CSR. Once again, we follow Drucker (Pearce, Maciariello, and Yamawaki, 2010). The cornerstone of business missions is the examination of stakeholders. Drucker concluded that the key stakeholder in business is not a

<sup>31</sup> Employees are restricted in regular employment. Irregular employees are relatively weak CSR players, and companies do not provide sufficient skill formation education to employees in the affiliated companies of foreign countries (Japan Research Institute, 2010).

parasite worm, and emphasized the order of stakeholders<sup>32</sup>. A comparison between Russia and Japan shows that there is no single model stakeholder and that each country has its own polestar stakeholder.

Secondly, CSR is regarded as a concept of public policy. By diminishing the role of the government, CSR contributes to policy formation (Fujii and Shintani, 2008). However, the method is different in each country. While, in Russia, authorization or legalization is indispensable to CSR, generally speaking, authorization is unnecessary. The boundaries of responsibility and authority of business and governments in Russia are more unclear than in Japan. The government demands voluntary operations. As long as companies ensure welfare provision for employees and artificially organize the company town (Toyota in Japan), the role of public policy will be enhancing.

Thirdly, CSR is a product of corporate governance, public policy, and the accumulation of social capital. In practice, stakeholders such as governments, shareholders, employees, and residents try to link their interests through CSR. 'CSR stakeholders bear the costs of corporate social giving in exchange for their own social payoffs' (Aoki, 2010, p.105). Then, institutional complementarities (re-coupling the social aspects and economic aspects) function in CSR activities. On the other hand, CSR is regarded as a tool for controlling stakeholders through legal methods (*Ekonomika i zhizn'*, No.2, 2009).

The 'varieties of CSR' approach can characterize capitalism from the perspective of the corporation, society, and the government. Even though excessive responsibility must not be given, CSR illustrates the relationship between responsibility and authority in business society.

## **Conclusion**

A comparative analysis of CSR (in Japan and Russia) allows the characterization of corporate (business) society. Japanese CSR is said to not last as long as the types of CSR found in Europe and the US (Tanimoto, 2008). Market evaluation is inactive and SRI is also on a relatively small scale. The lack of progressiveness stems from the characteristics of corporate governance and employment. In addition, the immaturity of markets and civil society exacerbates this backwardness. However, Japanese CSR has developed on its own 'quasi-community' organization (Dore, 2006). A CSR comparison reveals large differences between Japan and Russia, since Russia does not have as many CSR institutions as Japan. The backwardness of corporate governance and employment is also greater than that in Japan. The market and citizens cannot evaluate CSR and corporate values, and SRI is negligible; however, the government has a strong impact on CSR, and codified CSR influences have functioned in major companies. Moreover, the regional society has a

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<sup>32</sup> Drucker regards the core stakeholder as follows: customers in Asia, employees in France, and society in Scandinavia.

motivation to develop CSR due to the linkage of corporate welfare. In short, both countries have some CSR similarities. Namely, CSR is based on the communal relations of insiders in the firm. Specifically, 'in Russia the quiet revolution happens in the CSR sphere' (*Vedomosti*, 9 December 2008).

Russian CSR can be regarded as hyper as well as premature and small-scaled. These contradictory findings characterize Russian CSR. The interests of dominant shareholders and government-business relations are hypertrophied. However, under the influence of dominant shareholders and the government, various stakeholders have weakened their interests. From the stakeholder approach, Russian CSR may well be characterized as immature. It is natural for the stakeholders (polestar stakeholders) to determine the national specificities of CSR.

Russia has extraordinary stakeholders, and the government plays a specific role in CSR. Not only the traditional role of the government and regions but also an increase in state intervention and a response to the global crisis have become the source of state-led CSR. Apart from the government, employees also stimulate CSR. Thus, the state is concerned with concluding CSR agreements, and employees are concerned with collective agreement on CSR. Both actors require the formalization of CSR, and legalization may be similar to that of continental CSR. However, Russian formalization dampens voluntarism.

Russian CSR is deeply rooted in Russia's history, making it a product of path dependent development. Even though companies have already changed to the market-type, they cannot break free of their traditional tasks and network. However, we cannot ignore the new influences from abroad. CSR in Russia was stimulated by the UN Global Compact. In short, the globalization and multi-nationalization of Russian corporations and the market competition and diversification of the urban economy have facilitated the adoption of global CSR standards. However, the economic crisis has boosted state-led and public policy. As long as the interests of stakeholders are decisive in CSR, CSR seems to enhance its role as a public policy. This trend is common to Russia and Japan.

As far as the experiences of Russia and Japan show, both countries have created a hybrid CSR and have simultaneously brought about indicated path-dependent and global changes. Even though each country has kept its specificity, coincidence among economic tasks, social tasks, and management are necessary to the development of CSR in each country.

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