



SKOLKOVO
Moscow School of Management

THE POLITICAL DIMENSION OF DOING GOOD: MANAGING THE STATE THROUGH CSR IN RUSSIA AND CHINA

 **ERNST & YOUNG**
Quality In Everything We Do

**SIEMENS MONTHLY
BRIEFING**

SKOLKOVO Institute for Emerging Market Studies
Moscow School of Management
August 2011 / Vol. 11-05

I. INTRODUCTION	2
II. DATA AND METHODS	4
III. A TYPOLOGY OF CSR-BASED STATE MANAGEMENT STRATEGIES	6
IV. HOW POLITICAL CONTEXTS INFLUENCE COMPANIES' STATE MANAGEMENT STRATEGIES	14
V. CONCLUSION	22

I. INTRODUCTION

Corporate social responsibility (CSR) is conventionally defined as the social involvement, responsiveness and accountability of companies in addition to their core profit activities and beyond the requirements of the law. However, CSR has never been isolated from the political context wherein the state deploys incentives and enforces policies to facilitate CSR. The state has instrumental reasons to promote CSR policies, which could be conducive to competing with other countries for foreign direct investment, enhancing the domestic companies' international competitiveness, as well as maintaining social stability.

Doing good does has potential to serve the business interest. The political dimension of this process in China and Russia is particularly important. States in China and Russia control crucial resources for the business, used to intervene in the business operation and maintain a regulatory system full of uncertainty. They are able to generate pressures for compliance through formal regulations, administrative requests and normative influence. How companies build, maintain and strengthen the relationship with the state to respond to and manage these pressures concerns their survival and growth. CSR in this context could be a useful tool for companies to access political resources and reduce political risks. This article moves on from this observation to examine the CSR's role in the business-state interaction in China and Russia.

A political dimension of doing socially and environmentally good highlights a company's strategic role of using corporate social responsibility (CSR) to deal with the state. This article proposes an idea of a CSR-based state management strategy. The CSR-based state management strategy refers to *the strategic action (not subject to the state's regulation or administrative request) that a company takes to influence the state's agenda or to seek various forms of resources from the state through social-environmental practices.*

This report provides a conceptual framework with empirical evidence to help managers and scholars to understand the following points. First, it explains how businesses use CSR in different ways to serve their need to manage their relationships with the state. Second, it reveals how CSR-active companies in China and Russia seek state resources through CSR. Finally, this report explores the difference between Chinese companies, Russian companies and multinational corporations (MNCs) from OECD countries in terms of their adoption of CSR-based state management strategies.

The CSR-based state management strategy refers to the strategic action (not subject to the state's regulation or administrative request) that a company takes to influence the state's agenda or to seek various forms of resources from the state through social-environmental practices.

II. DATA AND METHODS

We conducted a systematic content analysis of a majority of publicly available CSR-related reports (CSR reports, sustainability reports, social reports and non-financial reports) from China and Russia. We collected these reports from public databases and the companies' official websites. According to the estimated number of CSR reports in China and Russia¹, our database has covered 64% of all Russian companies and 95% of all Chinese companies that have released a CSR report as of the end of 2009². We also included all Chinese and Russian reports issued by foreign MNCs in the 2010 Fortune Global 500. Foreign MNCs in this report come from six OECD countries (France, Germany, Japan, South Korea, the UK and the US), which all rank similarly high in their income and their human development indices in contrast to China and Russia. These six countries are also similarly committed to the ideas of market economy and political democracy. We therefore treat them as one reference group to examine whether there is a systematic variance in the CSR-based state management strategies across companies originating from China, Russia and the OECD countries. This data collection process yielded 660 companies and 664 reports³, from which we analyzed 1,097 text segments⁴ for evidence of how companies strategically interact with the state in various CSR areas.

Through our content analysis, we identified a typology of CSR-based state management strategies⁵. We then used a linear regression analysis to study how Chinese companies, Russian companies and OECD MNCs differ through their strategy adoption. All regressions in this report control for the following variables: CSR report length, CSR report age, reporting standard, firm size, firm age, firm ownership type, firm total operation revenue, firm total asset, a dummy of manufacturing industry vs. service industry and a dummy of extracting industry vs. non-extracting industry. We use these controls because they may influence the company's reported choice of state management strategies.

¹ Russian Union of Industrialists and Entrepreneurs (RSPP) estimated that the number of non-financial reports in Russia reached 193 by October 2009, among which 112 were comprehensive social reports, 48 sustainability reports, and 33 environmental reports. The CSR Development Center at China WTO Tribune estimated that the number of CSR reports in China reached 582 in 2009.

² The actual proportion of Russian reports should be higher because we focused on business enterprises while the RSPP statistics includes nonprofit agencies such as labor unions, universities or charities.

³ Some OECD MNCs issued CSR reports in both China and Russia.

⁴ A "text segment" describes explicitly how a company claims to strategically (not under force) deal with the government or Party agencies in certain way. As the unit of analysis, one text segment needs to meet three criteria: 1) it clearly describes the reporting company's relationship with the state; 2) it includes at least one full sentence or an independent phrase; 3) it is about a unique case of business-state relationship that has never been mentioned elsewhere in the report. For example, if a company simply mentions twice that it develops a conference together with the state about the topic of alternative energy, we count the text segment as only once. It is important to note that a text segment on the business-state interaction is not equal to an event or a program. This means a report may use multiple text segments, with differences on interaction nuances, to describe the company's work with the state in one event or program. For example, a company may discuss how it negotiates with a government agency to initiate a conference and how it invites government officials to attend the conference. In this case, we count them as two text segments although they describe the same event.

⁵ We took four steps to do the content analysis: confirming the analytical framework based on a pilot analysis, identifying possible locations of interaction cases in CSR reports, identifying the text segment that indicate interaction cases, and categorizing interaction cases using the analytical scheme. The Cohen's kappa on all four strategies is larger than .8 which shows a strong inter-rater reliability.

III. A TYPOLOGY OF CSR-BASED STATE MANAGEMENT STRATEGIES

We used two frameworks to conduct a careful content analysis of 1,097 cases of the business-state interactions described in the CSR reports. The two frameworks respectively capture different aspects of the state system that the company deals with as well as the different approaches the company uses to do this. We based our first framework on our observation that when companies interact with the state through CSR, they either limit themselves within or try to break through the boundary of the formal policy arrangement and the public management capacity of the state. Indeed, the state prioritizes setting the rules of the game through formal policies and solving social-economic problems through public management. The business-state interaction covered in CSR reports actually describe how companies' CSR takes advantage of or influences the policy and the capacity aspects of the state. In addition to our focus on policy-capacity, the exploration-exploitation framework of organizational strategies⁶ is a useful tool to categorize the interaction cases. This framework suggests different ways a company can invest in social-environmental activities that may directly or indirectly reward the business with state resources.

The exploration-exploitation framework helps us to distinguish two types of strategy choices. Companies can either concentrate on currently available opportunities in the state system to improve present returns or they can invest in new opportunities to improve future returns. Accordingly, two alternatives are present for companies to handle CSR. First, companies can take CSR as an opportunity to change their state's policy arrangement or to provide innovative solutions that enable their state to address social-environmental issues in a more efficient or productive way. In return, companies could benefit in multiple ways, such as occupying a favorable competitive position under new regulations, exploring new market opportunities through CSR programs or deepening their partnerships with the state. Second, companies can also treat CSR as a socially desirable tool to appropriate state resources available in the existing policy arrangement. Alternatively, they can provide conventional solutions to strengthen the state's existing capacity to solve social-environmental problems. Investing money to build physical public infrastructures such as schools, hospitals or museums is a typical way that a company can facilitate the state's existing public policy efforts. Although this kind of solution does not address the substantive cause of social problems, it can help companies to build and maintain

Companies can either concentrate on currently available opportunities in the state system to improve present returns or they can invest in new opportunities to improve future returns.

⁶ See March, J. 1991. Exploration and exploitation in organizational learning. *Organization Science*, 2: 71-87.

a relationship with states. The exploitation strategy allows companies to deal with the state without challenging the incumbent rules of the game or challenging the public sector's capacity. Our analysis suggests that we can categorize companies' state management strategies according to how they explore or exploit state policies or capacities.

Through a content analysis, we identified four types of CSR-based state management strategies. They are state policy exploration, state policy exploitation, state capacity exploration and state capacity exploitation. When we analyzed each interaction case, we decomposed the case into four aspects: 1, whether the case relates to a state's policy or capacity; 2, the specific form of the policy or capacity; 3, whether the case involves exploration (policy change or innovative solution) or exploitation (policy appropriation or conventional solution); and 4, the specific form of the exploration or exploitation. We categorize an interaction case into one of the four strategies when the four aspects clearly fit into the theoretical understanding of that strategy. Table 1 shows the analytical framework of these strategies.

Each strategy applies a distinct form of business-state interaction, takes a specific approach to generate social-environmental values, expects specific business returns from the interaction and applies a unique nature of CSR. The policy exploration strategy aims to change the existing policy arrangement on social-environmental issues, which may directly or indirectly serve the business interest. Companies exploring the state policy can potentially cultivate a favorable socio-political environment for their business. They therefore explore long-term returns from the state beyond what are currently available. For example, a company may enjoy a competitive market position by lobbying for a strictly enforced greenhouse gas emission regulation in the industry. CSR in this case acts as an agenda to influence policies that relate to the value chain of the business. The policy exploitation strategy appropriates the existing policy arrangement in social-environmental areas to seek state resources. Companies adopting this strategy provide products or services to meet the state's need in areas of policy priority. For instance, a bank can develop financial products to serve small and medium sized enterprises (SMEs) in response

The policy exploration strategy aims to change the existing policy arrangement on social-environmental issues, which may directly or indirectly serve the business interest.

The policy exploitation strategy appropriates the existing policy arrangement in social-environmental areas to seek state resources.

to the government's call to support SMEs. CSR in this case helps companies to legitimize and access new business deals or business-related project opportunities with the state.

The capacity exploration strategy provides innovative solutions that create new capacities for the state to address social-environmental issues. This may directly or indirectly serve the companies' interests. Companies adopting this strategy are able to upgrade the state's operational or decision making capacity in public policy domains such as education and public health. They do this by drawing on their business or technological expertise to develop innovative CSR programs in targeted social-environmental areas. This may improve the context in which the company operates, boost the company's know-how and credibility in specific policy areas and ultimately contribute to a lasting partnership with the state. CSR is thus an agenda that extends core business expertise into the social-environmental realm. Finally, the capacity exploitation strategy seeks the state resources by utilizing conventional solutions that cater to and strengthen the state's existing capacity to manage social-environmental issues. Companies could strengthen their personal relationships with government officials or even win policy privileges by engaging in conventionally used and officially recognized social-environmental solutions. Commonly used approaches include giving donations to the government and working with the government to develop awareness-raising activities in the local community. CSR in this situation is unrelated or loosely related to the company's core business. CSR becomes an agenda for companies to do philanthropy or conduct short-term activities to take care of social-environmental welfare in exchange of state resources. Table 2 describes these strategies in detail. In the next part, we discuss how strategy adoption varies across Chinese companies, Russian companies and OECD MNCs.

The capacity exploration strategy provides innovative solutions that create new capacities for the state to address social-environmental issues.

The capacity exploitation strategy seeks the state resources by utilizing conventional solutions that cater to and strengthen the state's existing capacity to manage social-environmental issues.

TABLE 1: ANALYTICAL FRAMEWORK OF BUSINESS-STATE INTERACTION CASES

Strategy type	Company	Text quote	Framework 1: policy vs. capacity	Form of policy or social solution	Framework 2: exploration vs. exploitation	Form of exploration or exploitation	Social-environmental values/areas (self-claimed)
Policy Exploration	Mary Kay (US)	"We assist the provincial health & hygiene supervisory agency to draft a regulation on 'Good Production and Management Practice'..."	Industry policy	Regulation on "Good Production and Management Practice" about health and hygiene	Policy change	Providing professional advices on policy change	Health
	TCL (China)	"Our board chairman proposed to speed up the establishment of a regulation on the flat panel television's energy consumption standards..."	Industry policy	Regulation on the energy consumption standards of flat panel television.	Policy change	Appealing for policy change	Environment
	Unified Energy System (OAO RAO UES) (Russia)	"We have made propositions to the Ministry of Energy about 'Environmental Security in the Electric Power Industry'."	Industry policy	Policy on the environmental security in the electronic power industry	Policy change	Providing professional advices on policy change	Environment
Policy Exploitation	BASF (Germany)	"BASF provides insulation technology for the Nanjing city government's 'Energy-Efficient Building' project..."	Public policy	The local government's public policy on environment protection	Policy appropriation	Developing business deals with local governments in the area of policy priority	Environment
	National Development Bank of China (China)	"We signed disaster recovery agreements with governments of the Chengdu city, Mianyang city..."	Public policy	State's disaster recovery policy	Policy appropriation	Developing business deals with local governments in the area of policy priority	Disaster relief
	Federal Grid Company of Unified Energy System (FGC UES) (Russia)	"We are introduced in the Ministry of Energy's five-year investment program with total funding of ..."	Industry policy	State's industry policy on national energy security	Policy appropriation	Getting involved in state-sponsored projects in areas of policy priority	National Energy Security
Capacity Exploration	Coca Cola (US)	"We are working with the Chinese government to develop a sustainable post-consumption recycling mechanism..."	State capacity	State capacity in facilitating the recycling of post-consumption wastes.	Capacity innovation via new solution	Adopting new organizing mechanisms: Newly-developed post-consumption recycling mechanism	Environment

	Lenovo (China)	"Lenovo (China) partnered with the Communist Youth League to launch a "Rural Youth Startup Promotion" project. It provides trainings based on Lenovo's county-level suppliers..."	State capacity	State capacity in facilitating the employment and economic development in rural areas	Capacity innovation via new solution	Adopting new organizing mechanisms: Large-scaled technological training in rural areas based on the private business' supplier network	Employment, Rural development
Capacity Exploitation	Hitachi (Japan)	"Hitachi (China) works with the Wuhan city government to launch the 'Hitachi Exhibition 2008' to promote the idea of environment-friendly society..."	State capacity	State capacity of raising the public's environment awareness	Capacity reinforcement via conventional solution	Initiating short term activities to assist the state to raise the public's environment awareness	Environment
	China Machinery Industry Group Co., Ltd. (China)	"We donated 100,000 US dollars to assist the Burma government to recover from the tropical storm disaster..."	State capacity	State capacity of recovering from the damage caused by natural disasters	Capacity reinforcement via conventional solution	Making donations to add financial resources for the state's disaster recovery	Disaster relief
	Eurochem (Russia)	"We support hockey for children and youth through a public-private partnership model... The program is run jointly with the Ministry of Sport..."	State capacity	State capacity in facilitating the sport development	Capacity reinforcement via conventional solution	Conducting philanthropy to assist and add financial resources for the state to develop sport	Sport

TABLE 2. A TYPOLOGY OF CSR-BASED STATE MANAGEMENT STRATEGIES

Strategy type	Definition	How the company interacts with the state	How the company creates social-environmental values	How the business might be rewarded	What is the nature of CSR
Policy Exploration	Creating new policy arrangements on social-environmental issues, which may directly or indirectly serve the business interest	Policy change: 1. Appealing for policy change 2. Providing professional advices on policy change 3. Participating in the legislation process	Creating values by improving regulations and policies on social-environmental issues	Rewarding the business through a favorable competitive position under new policy arrangements or through strengthened state relationship that may enable access to state resources	CSR is an agenda to influence policies that relate to the value chain of the business
Policy Exploitation	Appropriating the existing policy arrangement in social-environmental areas to seek for business interests	Policy appropriation: 1. Developing business deals with the state in the social-environmental areas supported by existing policies 2. Getting involved in social-environmental projects sponsored by existing policies	Creating values by doing business with the state or carrying on state-sponsored projects that have social-environmental implications	Rewarding the business through accessing state resources such as business opportunities, trading income, subsidies, grants or tax benefits	CSR is byproduct of doing business with the state or carrying on state-sponsored projects in social-environmental areas that enjoy the policy support.
Capacity Exploration	Providing innovative solutions to create new capacities for the state to address social-environmental issues, which may directly or indirectly serve the business interest.	Capacity innovation: 1. CSR project based on technological innovation 2. CSR project using new organizing mechanisms	Creating values by providing new social-environmental solutions such as technological innovation or new intervention mechanisms	Rewarding the business through a better-performed public sector or through strengthened state relationship that may enable access to state resources	CSR is an agenda to utilize core business expertise to address social-environmental issues, through partnership with the state
Capacity Exploitation	Utilizing conventional solutions to reinforce the state's existing capacity of managing social-environmental issues to seek state resources.	Capacity reinforcement: 1. Making donations to the state 2. Initiating short term social-environmental activities with the state 3. Participating in government-run social-environmental activities 4. Conducting philanthropy through agreements with the government	Creating values by providing conventional social-environmental solutions such as donation or building schools	Rewarding the business through strengthened state relationship that may enable access to state resources	CSR is an agenda doing of philanthropy or short-term activities to take care of social-environmental interests in exchange of state resources. CSR is only loosely related to the core business.

IV. HOW POLITICAL CONTEXTS INFLUENCE COMPANIES' STATE MANAGEMENT STRATEGIES

POLICY EXPLORATION

We compared CSR-active companies in China and Russia with OECD MNCs that operate in China and/or Russia with regard to their adoption of the four strategies. We found that OECD MNCs are significantly more likely to explore policy boundaries of social-environmental issues than are Chinese companies, whereas Russian companies explore policy boundaries about as much as OECD MNCs do. The policy exploration strategy has the potential to change the rules of the game in certain social-environmental areas. The multinational energy giant Shell urges host countries to establish or improve their policy frameworks on CO₂ reduction. Shell makes it clear that their purpose is to become the leading CO₂ reducer as soon as the new policy is adopted. Celanese, the global chemical product producer, endeavors to lead the civic voice calling for changes in public and business policies that have the potential to impact the social-environmental issues in the industry.

Large MNCs have been practicing the policy exploration strategy for decades with the aim to get ahead of government regulation. This behavior reflects the business-government relationships in developed countries that feature an active role of the business in the transformation of public policies. An instrumental motivation for companies to take on this strategy is that it is more costly for them to take on responsible actions under force than to have a public policy that requires all firms to take similar action. An early example is DuPont aggressively pushing for new environmental policies in early 1990s under the pressure of environmental activists.

Russian companies actively exercise this strategy as well. RAO UES of Russia, SUEK, Rosatom and several other energy companies are involved in the environmental legislation of the industry. State-owned banks such as Vnesheconombank and Bank VTB make efforts to influence policies that could expand investment opportunities of the State Management Company, strengthen the bank's support for small and medium enterprises or expand investments into economic sectors with national priority. Unlike OECD MNCs, which utilize political activities to address the social-environmental impact of their core business, Russian companies' policy exploration focuses on national energy security and on the macro social-economic development of the country.

Policy exploration is an unfamiliar strategy for most CSR-active Chinese companies regardless of their ownership type. For Chinese companies who do engage in the legislation process, the ambition is different from OECD MNCs. While Chinese companies advance restrictive rules to reduce the negative social-environmental impact generated by all companies in the industry, they also explicitly use policy efforts to serve the macro-economic progress, such as industry upgrades and market competition. For example, Sinopec and COSCO proactively promote anti-trust legislation. TCL is ap-

peeling for the draft of a new regulation on the energy consumption standard of flat panel televisions. Tencent has been pushing forward the issue of regulations to protect intellectual property on the internet. Taking care of the macro market and industry development issues indicates a locally-defined scope of CSR for Chinese companies. The point is that Chinese companies, Russian companies and OECD MNCs differ in terms of the intensity of the strategy adoption and the policy area they explore.

POLICY EXPLOITATION

Unlike policy exploration, which potentially generates business returns through changes in the regulatory system, a company using the policy exploitation strategy looks for direct material resources. Companies adopting this strategy sell products or services to the state or get involved in state-sponsored projects in areas of policy priority. When the company secures business with the state or access to a state project, it will be rewarded with trading income, subsidies, grants or policy support. Correspondingly, there are two basic forms of this strategy: building business deals and carrying on government projects. This strategy does not try to change the rules of the game or create new state capacities to solve social-environmental problems. Since companies focus on policy areas concerning public interest, social-environmental values are inherent in their business deals or in project agreements with the state. For example, BASF provides insulation technology products to serve the Nanjing city government's policy of developing energy-efficient buildings. FGC UES Russia accesses the Ministry of Energy's five-year investment program, which aims to secure the national energy supply.

We found that Russian companies and Chinese SOEs are far more actively appropriating existing policy domains that contain social-environmental implications than are OECD MNCs. Russian companies and Chinese SOEs hold more extensive discussions about their businesses or project relationships with the state. Fifty-five percent of all Chinese SOEs and 83% of all Russian companies that have revealed their interactions with the state have described the activities they employed to obtain trading income or government sponsorship. Contrastingly, the percentage of all OECD MNCs involved in the state that have also revealed such activities is a mere 17%. Policy exploitation seems to be a much more popular state interaction strategy for Russian companies than for OECD MNCs, regardless of their ownership type. One reason for this could be that CSR-active private companies in Russia are often former SOEs that still have strong business connections with the state.

The particular form of policy exploitation varies by context as well. OECD MNCs' business trade with the state, as presented in their global CSR practices, characterizes technology-based products or services that explicit-

ly address the social-environmental needs of local contexts. DuPont provides training and consulting services to multiple governments to build more environmentally friendly and safer working spaces. OKI, the Japanese electronics manufacturer, sells a specially designed automatic ticket selling system that helps local transportation departments to more efficiently control transportation flow. In contrast, Chinese companies expect CSR in business relationships to contribute to national interests. For example, pharmacy companies seek contracted services for national medicine reservation. Banks make loans to national major construction projects and disaster recovery projects. Transportation companies take business from events of national importance such as the Olympic game. Additionally, Chinese companies seek the state's fiscal support by either carrying on established government projects or by turning their own projects into a national policy framework. For instance, steel companies apply for subsidies for their state-supported emission reduction programs. Banks receive exclusive business deals from the state by integrating financial services into the social welfare system. CSR-active companies in Russia are often SOEs or former SOEs that have traditionally strong business relationships with the state. Their products and services to the state have direct impacts on the local social-economic welfare, such as energy security, financial security or physical infrastructure construction. According to Russian SOEs, taking care of national interests and the general social-economic development seems to be exchangeable with social performance. For example, VTB bank argues that loaning to local governments is a social project, because the money will go to public services.

CAPACITY EXPLORATION

We found that OECD MNCs are far more active than Chinese and Russian companies in utilizing their business or technological expertise to develop innovative CSR projects. These projects are able to create new capacities for the state to address social, economic and environmental issues of policy priority. This is consistent with the existing observation that MNCs often need to build up local governmental capacity in order for their CSR efforts to take effect⁷. Companies adopting this strategy offer new solutions through technological or mechanism innovation for important public policy territories, such as education or public health. For example, IBM's Kidsmart program provides

According to Russian SOEs, taking care of national interests and the general social-economic development seems to be exchangeable with social performance

⁷ Ward, H. 2004. Public sector roles in strengthening corporate social responsibility: Taking stock. Report for Corporate Social Responsibility Practice of the World Bank Group.

comprehensive and innovative education services ranging from physical infrastructure to pedagogy to parent training for public schools in developing countries. The education authorities of multiple countries have incorporated this program into their national education reform policies. Unilever cooperates with local governments in China to develop a technological base for the manufacturing, processing and distribution of organic agricultural products. The project provides a model for governments to upgrade the work in two public policy spheres—environment and rural development. DSM, the global giant in bio-based products, has brought its nutrition facilitation project to China. DSM cooperates with the National Center for Disease Control and Prevention to provide comprehensive intervention activities in schools for children of migrant workers.

This strategy expands existing ways that the state has organized social-environmental activities. In addition, some projects also aim to build up the state's basic operational and decision-making capacities. For example, BP trains local government officials in Indonesia how to manage assets, how to conduct accurate accounting and how to plan their budgets. The capacity exploration strategy resembles the concept of corporate shared value⁸. This concept describes social or environmental programs that can enhance the business performance along the company's value chain and simultaneously create value for stakeholders. The difference is that companies exploring state capacity have a particular interest in obtaining state-related resources to sustain their growth, often in countries with less-developed regulatory and public management systems.

Although most Chinese companies active in CSR have not explicitly started a capacity exploration strategy, there have been a few recent cases of Chinese companies utilizing technological advantages to develop new approaches that facilitate the macro social-economic progress. For example, Alibaba launched multiple projects with local governments to assist hundreds of thousands of small and medium enterprises to use e-commerce. Lenovo works with the Ministry of Education to develop computer products specific to the needs of rural businesses. Their training programs have reached more than 20 millions farmers. In contrast, Russian companies almost uniformly skip this strategy in the report of their social-environmental efforts. MNC's high level of involvement in the policy and capacity exploration strategies helps them to lead the global emergence of CSR

OECD MNCs are far more active than Chinese and Russian companies in utilizing their business or technological expertise to develop innovative CSR projects.

⁸ See Porter M., Kramer M. 2011. Creating shared value: How to reinvent capitalism—and unleash a wave of innovation and growth. Harvard Business Review.

institutions⁹ in both policy and technology domains. Chinese and Russian companies are new to developing systematic CSR programs that closely align with the core business. In a global sense, they are lagging behind in contributing to the global and regional standard setting and the state capacity building on social-environmental issues.

CAPACITY EXPLOITATION

Companies are able to mobilize the state's resources through philanthropy or by investing in activities loosely related to their core business. Compared to capacity exploration, capacity exploitation does not provide new approaches or create new capacities for the state to solve social-environmental problems. These companies seek the state's resources or protect against political risk by assisting the state to use existing methods to address social-environmental problems.

Compared to OECD MNCs, Chinese and Russian companies operate in a context where the state has extensive control over domestic economic life and the level of uncertainty in the implementation and enforcement of laws is comparatively high. These companies often need to secure business survival or reduce regulatory uncertainty by accessing tangible or intangible state resources. Skillfully doing social good may open a door for companies to enter a deeper level of value-based or affection-based relationships with government officials. The state expects the business sector to invest more in social-environmental welfare. Some states promote CSR through guidance, while some more aggressively push it through regulatory or non-regulatory devices such as administrative requests or social-economic partnerships. The pressure often leads to symbolic compliance. Meanwhile, for government officials, philanthropy or nonprofit causes may be conducive to their political careers or may provide an attractive place for retirement. All this provides companies the option to adopt conventional and short-term social solutions that can provide extra resources for the state to handle social-environmental problems and meet the state's expectations regarding CSR. Building physical infrastructures, making donations or developing short-term advocacy activities are popular approaches. In return, the strengthened state relationship may grant a company prestigious policy status or protect it against the impact of an uncertain regulatory environment or even against direct political harassment.

Since OECD MNCs feel pressures to overcome the "liability of foreignness" in developing countries, we assume that their CSR marks a similar level of capacity exploitation compared to the levels of Chinese and Russian

⁹ See Waddock, S. 2008. Building a New Institutional Infrastructure for Corporate Responsibility. Academy of Management Perspective. 87-108.

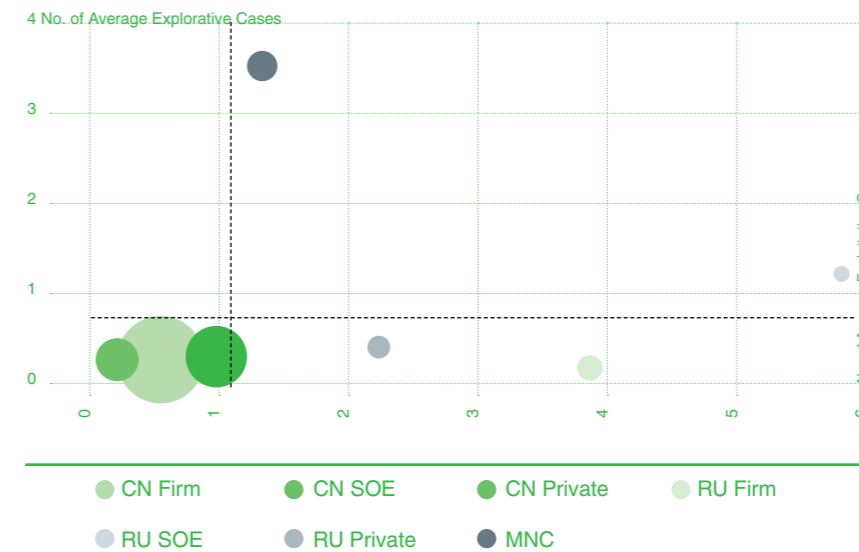
companies. We actually found that Chinese companies and OECD MNCs are similarly active in adopting the capacity exploitation strategy, while Russian companies are significantly more aggressive. Again, the particular form of practice varies. We found four basic ways that companies currently exercise this strategy. First, companies donate money, products or other materials to the state, especially for natural disasters, poverty reduction or national events. They are basically one-off activities that companies conduct in exchange for enhanced visibility and official recognition. Second, companies work with the state to initiate short-term activities such as conferences, tree planting activities or scholarship programs. Third, companies support or participate in short-term social activities run by the government. Chinese companies and OECD MNCs often get involved in government projects for environmental protection, health promotion or community services. The above activities are mainly undertaken by Chinese companies and OECD MNCs.

Russian companies use a unique form of capacity exploitation. Russian companies develop long-term social projects through formal agreements with the government that follow the government's social partnership policy framework. Under such an agreement, the company may provide a social insurance scheme for employees or conduct environment protection activities in the local community. The company's social investment is often long-term, because it wants to sustain its operation in the local area by gaining continuous support from the state. Several Russian companies have claimed that investing in social programs helps them to avoid political risks.

The large Russian companies in our dataset tend to integrate business relationships and continuous social programs in the same plan of cooperation with the state. A Russian company may promise to pay more taxes and invest in local social programs. In exchange, the government is likely to support the company through sharing local development plans and setting up favorable policies to expand the local demand for the company's products. Therefore, there are direct economic benefits of investing in social programs seemingly unrelated to the business. For instance, a coal mining company in Russia may set up an agreement with the government to resettle slums and shelters and to develop social housing programs. Like many other companies, Vyksunsky Metal Plant stresses a need to assist the government to build social infrastructures of the city. This work neither draws on their business expertise nor is directly related to their core business. This type of public-private partnership is rarely seen among Chinese companies or OECD MNCs. This public-private partnership is institutionalized in Russia through regulations associated with the state's support of investment activities in local regions. What many Russian companies expose in CSR reports is that how well a company can operate in the local region is to a large degree determined by how well it addresses the social and economic needs of local governments. In contrast, Chinese companies and OECD MNCs are character-

ized by a relatively informal connection between social activities for relationship building and business engagement with the state.

FIGURE 1/ How different groups of companies adopt explorative and exploitative strategies



Source: SIEMS calculation. Note: 1. The circle size in the figure refers to the no. of companies in the group. 2. The dotted lines refer to the average no. of explorative and exploitative case for all companies.

TABLE 3. PAIR-WISE COMPARISON OF COMPANY GROUPS' STRATEGY ADOPTION

Strategy type	OECD MNCs vs. Chinese companies	OECD MNCs vs. Russian companies	Russian companies vs. Chinese companies
Policy exploration	MNC more active*	Similarly active	Russian companies more active*
Policy exploitation	Chinese SOEs more active*	Russian companies more active*	Russian companies more active*
Capacity exploration	MNC more active*	MNC more active*	Similarly inactive
Capacity exploitation	Similarly active	Russian companies even more active*	Russian companies even more active*

Source: EMIS database, Orbis database, companies' annual reports and CSR reports

* The difference between the two groups of companies is significant at 10% level.

V. CONCLUSION

This report examines an under-studied aspect of the business-CSR-state relationship, which is the interconnection of the political context, the CSR and the business enterprise's state management strategy. We propose a concept of CSR-based state management strategy and provide evidence to show that the political context is able to influence what counts as socially and environmentally responsible for companies and shapes the particular form of business-state interaction. We found that: 1) CSR-based state management strategies take on four forms with regard to how they explore or exploit the state's policy or capacity; and 2) the adoption of these strategies varies systematically between Chinese companies, Russian companies and the OECD MNCs operating in these two countries.

CSR in the each strategy plays a distinctive role in the company's agenda to influence the state and to obtain state resources. A company can lobby for or participate in the change of the policy environment on social-environmental issues; appropriate the established policy support in certain social-environmental areas; create new capacities for the state to address social-environmental problems; or simply seek the state's recognition and trust by doing good to facilitate the state's public services. We argue that while the political contexts provide incentives and constraints for companies to behave in certain ways, companies retain the power to make choices. This report reveals the pattern of what companies are currently doing and the pattern of alternatives.

We also point out how Chinese and Russian companies are different from OECD MNCs in terms of their state relationship management through CSR. OECD MNCs are significantly more active than Chinese companies in lobbying for or participating in the draft of new policies regarding social-environmental issues. They are also far more active than Chinese and Russian companies in extending their business or technological expertise to develop lasting and innovative CSR projects. These projects provide a new set of approaches for the state to manage social-environmental issues. Russian companies and Chinese SOEs are significantly more active in areas locally defined as of social importance, such as rural development or national energy security. They are hence more active than OECD MNCs to seek tangible state resources such as trading income, subsidies, grants or tax benefits in these areas through doing business with the state or accessing state-sponsored projects. The regulatory restriction on foreign MNCs' industry entrance may account for this situation to some extent. Finally, both Chinese companies and OECD MNCs actively gain trust from and strengthen relationships with the state by making donations and initiating or participating in short-term social-environmental activities. Russian compa-

CSR in the each strategy plays a distinctive role in the company's agenda to influence the state and to obtain state resources.

nies are even more aggressive in dealing with the state through conventional social solutions, but in a unique way. They develop long-term social projects under formal agreements with the government. They tend to receive direct state support by investing in social activities seemingly unrelated to their core business.

The CSR-based state management strategy suggests that CSR is not simply a spectrum ranging from a philanthropic end to a strategic end. The first take-away from this report is that the approach through which companies use CSR to serve the business agenda varies in different political contexts. In China and Russia, the utility of CSR practice and the value of CSR's alignment with business activities will only be partially understood if we do not take into account the political context and the company's political strategy. Philanthropic activities seemingly unrelated to the business value chain could actually play a crucial role in mobilizing state resources to facilitate the business development. Another implication of our analysis is that neither a response to regulatory pressures nor voluntary philanthropy is able to capture the full picture of CSR in China and Russia. Chinese and Russian companies treat CSR as an extension of their conventional efforts to seek legitimacy with the state. The CSR-based state management in China and Russia is more "implicit" in the background of the political context, which is composed of a network of regulatory and non-regulatory forces¹⁰. In contrast, the CSR of OECD MNCs is more "explicit," considering their voluntary incorporation of the state relationship into their own CSR agendas to simultaneously address selected social and environmental issues and access the political capital.

Finally, this report shows that Chinese and Russian companies have not been proactively using state interaction as an opportunity to explore new institutional capacities for the social-environmental progress of the country. CSR-active companies in China and Russia are relatively inexperienced in developing a CSR agenda closely aligned with their core business. Even more rarely done for these companies is using CSR to deal with the state in a way that may reward the business with improved public

Philanthropic activities seemingly unrelated to the business value chain could actually play a crucial role in mobilizing state resources to facilitate the business development.

While OECD MNCs tend to act as rule changers and capacity builders to pursue long-term returns through CSR, the role of Chinese and Russian companies resembles the roles of business partners and resource traders who use CSR to seek a license of growth.

management and policy environment. While OECD MNCs tend to act as rule changers and capacity builders to pursue long-term returns through CSR, the role of Chinese and Russian companies resembles the roles of business partners and resource traders who use CSR to seek a license of growth. In other words, their CSR-based state management is characteristic of legitimacy building rather than of environment manipulation. In a global sense, Chinese and Russian companies are lagging behind in contributing to the global and regional standard setting and state capacity building on social-environmental issues.

AUTHOR:

Meng Zhao, Ph.D. (Research Fellow at SIEMS)

EDITOR-IN-CHIEF:

Sam Park, Ph.D. (President of SIEMS)

CONTACTS:

siems@skolkovo.ru

¹⁰ See Matten, D., & J. Moon. 2008. Implicit and explicit CSR: A conceptual framework for a comparative understanding of corporate social responsibility. *Academy of Management Review*. 33(2): 404-424.

SIEMS RESEARCH MONTHLY BRIEFINGS

- Vol. 09-01 "The global financial crisis: impact and responses in China and Russia" (February 2009).
- Vol. 09-02 "Managing through the global recession: Opportunities and strategic responses in China and Russia" (March 2009).
- Vol. 09-03 "Global expansion of emerging multinationals: postcrisis adjustment" (May 2009).
- Vol. 09-04 "Operational challenges facing emerging multinationals from Russia and China" (June 2009).
- Vol. 09-05 "MNC Operations in Emerging Markets: Post-Crisis Adjustments of FDI Inflows in China and Russia" (August 2009).
- Vol. 09-06 "Is Demographics Destiny? How Demographic Changes Will Alter the Economic Futures of the BRICs" (September 2009).
- Vol. 09-07 "Executive leadership structure in China and Russia" (December 2009).
- Vol. 10-01 "Size Matters: Just How Big Are The BRICs?" (January 2010).
- Vol. 10-02 "Decoupling Revisited: Can the BRICs Really Go Their Own Way?" (February 2010).
- Vol. 10-03 "The "New Geography" of International Trade "How the Emerging Markets are Rapidly Changing Global Trade" (March 2010).
- Vol. 10-04 "Chief Executive Officer Turnover in China and Russia: Implications for Corporate Governance and Strategic Management" (April 2010).
- Vol. 10-05 "Sovereign Wealth Funds and the New Era of BRIC Wealth" (July 2010).
- Vol. 10-06 "Corporate Giants and Economic Growth — A Case for China and Russia" (August 2010).
- Vol. 10-07 "Is Low Wage Manufacturing in China Disappearing? - Who will be the World's next Workshop?" (November 2010).
- Vol. 11-01 "The New Oil Paradigm: Can the Developing World Live with \$100 Plus Oil?" (January 2011).
- Vol. 11-02 "Beyond Business, Not Beyond Government: How Corporate Social Responsibility Leaders in China and Russia Do Philanthropy" (February 2011).
- Vol. 11-03 "All Roads Lead to Rome: High Performance Firms in China and Russia" (June 2011).
- Vol. 11-04 "Stock Market Development and Performance in the Emerging Economies" (July 2011).
- Vol. 11-05 "The Political Dimension Of Doing Good: Managing the State Through CSR In Russia And China" (August 2011).

SIEMS ISSUE REPORTS

- Vol. 10-01 "The World's Top Auto Markets in 2030: Emerging Markets Transforming the Global Automotive Industry" (May 2010).
- Vol. 10-02 "The Productivity Prize. Accounting for Recent Economic Growth among the BRICs: Miracle or Mirage?" (June 2010).
- Vol. 10-03 "The Great Equalizer. The Rise of the Emerging Market Global Middle Class" (September 2010).
- Vol. 10-04 "Central Bank Independence and the Global Financial Meltdown: A View from the Emerging Markets" (November 2010).
- Vol. 11-01 "Brave New World, Categorizing the Emerging Market Economies – A New Methodology, SKOLKOVO Emerging Market Index" (February 2011).
- Vol. 11-02 "The New Geography of Capital Flows" (March 2011).
- Vol. 11-03 "All That's Old is New Again: Capital Controls and the Macroeconomic Determinants of Entrepreneurship in Emerging Markets" (April 2011).

The Moscow School of Management SKOLKOVO

is a joint project of Russian and international business representatives, who joined their efforts to create a business new-generation school from scratch. Focusing on practical knowledge, the Moscow School of Management dedicates itself to training leaders, who intend to implement their professional knowledge in the conditions of rapidly developing markets. SKOLKOVO is defined by: leadership and business undertakings, rapidly developing markets focus, innovative approach towards educational methods.

The Moscow School of Management SKOLKOVO project is fulfilled by the governmental-private partnership within the framework of the Education Foreground National Project. The project is financed by private investors, and doesn't use governmental budget recourses. The President of the Russian Federation Dmitry Anatolyevich Medvedev is Chairman of the SKOLKOVO International Advisory Board.

Since 2006 SKOLKOVO conducts short educational Executive Education programmes for top and medium-level managers – open programmes and specialized, integrated modules based on the companies requests. SKOLKOVO launched Executive MBA programme in January 2009, first class of the international Full-time MBA programme – in September 2009.

The SKOLKOVO institute for Emerging Market studies (SIEMS)

is a knowledge centre at the Moscow School of Management SKOLKOVO that specializes in the research of the economies and businesses of the emerging markets. It provides a research platform that attracts and links leading thinkers and experts from around the world, who can collaborate on studying timely and critical issues in emerging markets. Its research is rigorous, field-driven, and comparative across emerging markets and offers practical, broadly applicable, and valuable guidelines and frameworks for business leaders, entrepreneurs, policy-makers, and academics with interests in emerging markets.

It currently has offices in Moscow and Beijing and plans to open the India office in the near future. Its researchers include several full-time and part-time research fellows who are leading scholars and experts in various fields. Its current research focus covers economic and financial development, firm growth and sustainability, CSR practices, and indigenous innovations in fast growing countries. Its research output is distributed through various forms of reports, publications, forums, and seminars. We welcome feedback and suggestions from our readers on the research findings and future research directions.

Moscow School of Management SKOLKOVO

Novaya ul. 100, Skolkovo village,
Odintsovsky district,
Moscow region, Russia
tel.: +7 495 580 30 03, fax: +7 495 994 46 68

SKOLKOVO Institute for Emerging Market Studies

Unit 1607-1608, North Star Times Tower
No. 8 Beichendong Road, Chaoyang District
Beijing, 100101, China
tel./fax: +86 10 6498 1634



Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 144,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

With the opening of our Moscow office in 1989, we were the first professional services firm to establish operations in the Commonwealth of Independent States. Ernst & Young expands its services and resources in accordance with clients' needs throughout the CIS. 3,400 professionals work at 16 offices throughout the CIS in Moscow, St. Petersburg, Novosibirsk, Ekaterinburg, Togliatti, Yuzhno-Sakhalinsk, Almaty, Astana, Atyrau, Baku, Kyiv, Donetsk, Tashkent, Tbilisi, Yerevan, and Minsk.

Across all industries, and at local and international levels, our professionals are recognized for their leadership, know-how, and delivery of accomplished results. We aim to help you identify and reduce business risks, find solutions that will work, and open new opportunities for your company. Through more than 20 years of our operations in the CIS, we have provided the critical information and the trusted resources to pave the way for improved business performance and profitability.

Ernst & Young
Sadovnicheskaya Nab. 77, bld. 1 | 115035 Moscow | Russia
Phone: +7 (495) 755 9700
Fax: +7 (495) 755 9701
E-mail: moscow@ru.ey.com
Website: www.ey.com

Moscow School of Management SKOLKOVO
Novaya ul. 100, Skolkovo village,
Odintsovsky district,
Moscow region, Russia
tel.: +7 495 580 30 03, fax: +7 495 994 46 68
info@skolkovo.ru
www.skolkovo.ru

SKOLKOVO Institute for Emerging Market Studies
Unit 1607-1608, North Star Times Tower
No. 8 Beichendong Road, Chaoyang District
Beijing, 100101, China
tel./fax: +86 10 6498 1634